



CNPC (HONG KONG) LIMITED

Incorporated in Bermuda with limited liability

中國(香港)石油有限公司



*Annual Report 1997*

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## ***CORPORATE INFORMATION***

### **Directors as at 8th May 1998**

Zhang Ruchun (*Executive Chairman*)  
Zhang Linsheng (*Executive Vice-Chairman*)  
Xu Xiaolu  
Jin De-Qin  
Lau Wah Sum, *OBE, JP*  
Lin Jingao

### **Secretary**

Lau Hak Woon

### **Bermuda Resident Representative**

Codan Services Limited  
Clarendon House  
Church Street  
Hamilton HM11, Bermuda

### **Auditors**

Price Waterhouse

### **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 2902-3, Tower One  
Lippo Centre  
89 Queensway  
Hong Kong  
Telephone: 2522 2282  
E-mail : [cnpchk@hk.china.com](mailto:cnpchk@hk.china.com)  
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 OF ANNUAL GENERAL MEETING***

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be convened at the McKinley Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Central, Hong Kong on Wednesday, 10th June 1998 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 1997.
2. To elect Directors.
3. To fix the remuneration of the Directors.
4. To appoint auditors for the ensuing year and to authorise directors to fix their remuneration.
5. To consider and, if thought fit, pass with or without amendment, the following Ordinary Resolution by way of special business:-

### **ORDINARY RESOLUTION**

“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;

## **NOTICE OF ANNUAL GENERAL MEETING** *(continued)*

- (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).”

By Order of the Board

**Lau Hak Woon**

*Company Secretary*

Hong Kong, 8th May 1998

*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 2902-3, Tower One, Lippo Centre, 89 Queensway, 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, Messrs. Lau Wah Sum and Jin De-Qin retire at the forthcoming Annual General Meeting, and Mr Lau Wah Sum offers himself for re-election.
4. Concerning item 5 above, the directors have no present intention to issue any new shares of the Company other than shares which may fall to be issued pursuant to the Subscription Agreement with Sun World Limited for the subscription by Sun World Limited of new shares in the Company up to HK\$386.5 million in aggregate as per announcement made on 4th February 1998.

## ***CHAIRMAN'S STATEMENT***

### **RESULTS**

1997 was the first full year in which the Company (the Group) participated in the development and operations of Xinjing Karamay Oil Field and that the output and progress of operation were basically on schedule. For the year ended 31st December 1997, the Group's audited consolidated operating profit after taxation and minority interests was HK\$63.11 million, an increase of 188% compared with the corresponding figure of HK\$21.93 million in 1996.

### **DIVIDEND**

In view of the Group's limited operating profit for the year and appropriation of cash for further business development, the directors do not recommend the payment of a dividend for the year.

### **BUSINESS REVIEW**

#### **Xinjiang Karamay Oil Field**

Hafnium Limited ("Hafnium"), a wholly owned subsidiary of the Company entered the Xinjiang Karamay Oil Field Production Sharing Contract ("Xinjiang Contract") with China National Petroleum Corporation ("CNPC") on 1st July 1996. The above contract was formally approved by the Ministry of Foreign Trade and Economic Cooperation of China on 29th August 1996 and was effective from 1st September 1996. Pursuant to the Xinjiang Contract, Hafnium started sharing the crude oil output in the contract area according to the sharing proportion of both parties as from 1st September 1996.

1997 was a year in which the contract area was developed on a full scale according to the development plan. A total of 600,018 tons of crude oil from the contract area were sold, accomplishing the target of 600,000 tons set by the Joint Management Committee ("JMC"). The Group shared a production volume of 324,000 tons at the proportion of 54% and earned a pre-tax profit of HK\$94.82 million.

Pursuant to the Xinjiang Contract, the Group injected a total of US\$30.00 million in three instalments during 1997, together with the 1996 profit after taxation and investment recovery of US\$5.53 million, a total capital contribution of US\$35.53 million were made for the procurement of materials and ordering high pressure boilers for the drilling of infill wells. Taking into account the US\$25.00 million injected during 1996, the total capital contribution for the project amounted to US\$60.53 million.

During 1997, a total of 452 wells were drilled, 3 new heating stations were built and an existing heating station was expanded, 17 steam generators were installed, 37 metering stations were under construction of which 24 were completed. In addition, a water despatch station was constructed and an electricity transformation project to increase capacity was implemented. All these works were accomplished within the set target.

## **CHAIRMAN'S STATEMENT** *(continued)*

The JMC which was set up to supervise and co-ordinate the smooth implementation of the Xinjiang Contract functioned well. The Joint Development Department, a permanent establishment under the JMC, has already set up its own production and operating unit, financial planning unit, sales unit and administration office. The present management system has achieved expected results and recognition, and shall serve as an example of management for future participation in the development, investment and production of other oil fields.

### **The Sukhothai Concession in Thailand**

By utilizing the newly acquired work-over equipment to drill and repair wells, the Company has already repaired 8 wells at a direct cost of approximately US\$8,000 for each well. If outside companies were employed to undertake the task, the cost of each well would be approximately US\$40,000. The Company therefore saved around US\$250,000 and also minimized the stoppage time.

Due to the delay in the import of shape charge (bullet) for the production wells, all the 4 newly-drilled wells failed to commence production as scheduled, two of these wells began production for only 1 month and consequently, the production of crude oil fell short of the planned target.

Based on an analysis of the information of the 4 newly-drilled wells, the thickness of the oil layer in the production area does not vary much, and the drilling of production wells can be carried on. With the cumulative management and production experience, the investment costs in drilling new wells can be reduced, thus it is decided that 6 new wells will be drilled in 1998. If all the 6 wells could commence production as planned, the initial production volume is expected to reach 1,000 barrels per day.

### **Marina Venture**

The sale of club debentures and wet berths together with rental of wet berths of the Clearwater Bay Golf and Country Club Marina continued to be affected by the adverse market condition. Revenue from the sale of wet berths and club debentures in 1997 was HK\$1.29 million and HK\$0.90 million from the rental of wet berths, making a total of HK\$2.19 million which represents a decrease of 2.2% when compared with HK\$2.24 million in 1996.

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 1998**

The directors consider 1998 as a year for further expansion and development of the Group. Focusing on the management of the existing oil development projects and enhancing the economic benefits, the Group will broaden the scale of new cooperative projects with a view to increasing both the Group's strength and the current year's revenue.

## **CHAIRMAN'S STATEMENT** *(continued)*

### **Xinjiang Contract**

It may be an arduous task to complete the development within two years pursuant to the Xinjiang Contract. Enormous efforts should be made to the preparation of implementation scheme, ordering of equipment, organization of well drilling, construction of oil field and carrying out of actual works. After numerous meetings of the JMC, Xinjiang Petroleum Administration Bureau (the entrusted party) and all the staff of the Company have committed to exert all their efforts to complete the development in 1998.

Upon completion of the development, production and construction of the oil field, the Company will then focus on expediting the production of new wells so as to ensure that oil production for the current year will increase substantially from that of the previous year.

### **Liaohe Leng Jiapu Oil Field**

On 30th December 1997, Beckbury International Limited ("Beckbury"), a wholly owned subsidiary of the Group, entered into a production sharing contract for the development of Liaohe Leng Jiapu Oilfield ("Liaohe Contract") with CNPC. The above contract was formally approved by the Ministry of Foreign Trade and Economic Cooperation of China on 13th February 1998 and went into effect from 1st March 1998. Pursuant to the Liaohe Contract, Beckbury can share the crude oil production in the contract area according to the sharing proportion of both parties with effect from 1st March 1998.

Pursuant to the Liaohe Contract, the minimum investment committed by the Group is 70% of the development cost for the first two years. In 1998, a total investment of Rmb350 million is required for the drilling of wells and the setting up of ground construction facilities.

In order to supervise and coordinate the implementation of the Liaohe Contract, the Group has adopted the management model under the Xinjiang Contract, and a JMC comprising 8 members was formed by representatives from both the Group and CNPC. Each party appointed 4 representatives to join the Committee. The Group was represented by its executive chairman Zhang Ruchun, executive director Xu Xiaolu and the financial controller and technical controller of the project. They are mainly responsible for supervising the implementation of the Liaohe Contract and discussing major issues relating to the policies.

In order to facilitate a smooth implementation of the Liaohe Contract and to capitalize on the competitive edge of Liaohe Oil Exploration Bureau with respect to the development technology and production management in the contract area, Beckbury has entered into an Entrustment Contract with Liaohe Oil Exploration Bureau (The term of the contract is 3 years which can be extended upon mutual agreement by both parties under the same terms and conditions), entrusting Liaohe Oil Exploration Bureau for the overall management over development and production in the contract area. The Bureau shall exercise the rights and obligations of an operator in the contract area in accordance with the relevant provisions in the contract, and undertake the development and production operations pursuant to the working plan and budget approved by JMC with a view to increasing the production of crude oil and enhancing economic benefit.

## **CHAIRMAN'S STATEMENT** *(continued)*

In order to perform the obligation of the entrusted party, Liaohe Oil Exploration Bureau shall set up the Joint Development Management Organization. The Group appointed a financial controller and a technical controller to oversee the organization, which shall set up its own production unit, financial planning unit, sales unit and administration office, with an establishment initially of 50 persons. A joint account will be established for administering and checking the development and production costs in the contract area in accordance with the accounting procedures stipulated in the Liaohe Contract.

With its set objective in mind, the Group will strengthen its oil assets foundation and enhance its profitability through aggressive yet steady expansion. In China, the Group will selectively participate in petroleum projects with high profitability; while in other countries, the Group will seek for suitable partners to jointly study the feasibility of oil exploration and development projects as well as projects in other respects. With the support of the parent company in the provision of technology, equipment and experience, the Group is at a favourable position in expanding its oil operations and is ready to develop into a large-scale international oil exploration and production enterprise.

**Zhang Ruchun**

*Executive Chairman*

Hong Kong, 8th May 1998

## **MANAGEMENT DISCUSSIONS AND ANALYSIS**

### **RESULTS OF OPERATIONS**

The turnover for the Group of HK\$323 million for the year ended 31st December 1997 reflected an increase of 198% when compared to the previous year of HK\$109 million. The notable increase in turnover was a direct result of our full year participation in the development and production of crude oil in Karamay.

The profit after taxation for the current year was HK\$63 million as compared to HK\$22 million for the previous year, an increase of HK\$41 million or 188%. The increase in profit was mainly attributable to the share of crude oil production from the Xinjiang Karamay project.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at 31st December 1997, the Group's total assets amounted to HK\$1,000 million, an increase of HK\$379 million or 61% over that of last year.

The major changes are summarized below:-

	<b>Increase/ (decrease) HK\$'000</b>
Oil property	401,878
Net amount due from XPAB	(204,077)
Cash & bank balances	186,136
	<hr/>
	<b>383,937</b>
	<hr/>

Up to 31st December 1997, a total of US\$60 million (approximately HK\$465 million) (1996: US\$25 million) was injected into Karamay for the Infill Development Programme. As at 31st December 1997, HK\$450 million was capitalised.

As at 31st December 1997, the Group was in a net cash position and its total liabilities represented 0.2 times of the Group's shareholders' funds.

## **MANAGEMENT DISCUSSIONS AND ANALYSIS** *(continued)*

### **USE OF PROCEEDS**

In January 1997, 297 million new ordinary shares of the Company were subscribed by Sun World Limited at a price of HK\$0.7319 per share, generating a net proceeds of HK\$217 million to the Company. As of today, HK\$100 million had been used to meet the funding obligations under the Infill Development Programme of the Xinjiang Karamay project. The remaining HK\$117 million were placed at fixed deposit to be used for general working capital purposes in the future.

After taking into account the cashflow from operating activities, cash and bank balances of HK\$343 million were retained in the Group as at 31st December 1997.

### **THE YEAR 2000 COMPUTER PROGRAM**

The management acknowledge the impact to the Company arising from the year 2000 computer program issue. After review of our situation, it was concluded that the impact to our operation is minimal. Professional advice would be sought to take appropriate steps to ensure that the issue would not pose a threat to the operation.

### **RECENT ECONOMIC DEVELOPMENTS**

Recent economic developments in the region, including significant declines in stock market values, increase in interest rates and fluctuation in exchange rates did not have significant adverse impact on the operations or financial performance of the Group.

During the year, the Group was in a net cash position and did not involve in the purchase and sales of listed securities. The decline in stock market did not have any significant impact to the Group. But, on the other hand, the Group benefited from the higher interest rate on the short term surplus cash on hand placed at fixed deposits with local banks in Hong Kong. Our sales of crude oil in Thailand was first priced at U.S. dollars and received in Thai Baht at the prevailing exchange rate. As a result, the impact of fluctuation in exchange rates did not have significant adverse impact to the Group.

## ***REPORT OF THE DIRECTORS***

The directors submit their report together with the audited accounts for the year ended 31st December 1997.

### **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 Thailand and the People's Republic of China ("PRC"), 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 1997 are set out in the consolidated profit and loss account on page 23.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 1997.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 18 to the accounts.

### **DONATIONS**

During the year, the Group made charitable and other donations of HK\$11,000 (1996: HK\$2,000).

### **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 58.

### **FIXED ASSETS**

Details of the movements in fixed assets and oil property are shown in notes 10 and 11 to the accounts.

### **SHARE CAPITAL**

Details of the movements in share capital of the Company are shown in note 17 to the accounts.

## **REPORT OF THE DIRECTORS** *(continued)*

### **DIRECTORS**

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

Mr Zhang Ruchun	(appointed on 28th May 1997)
Mr Zhang Linsheng	
Mr Xu Xiaolu	
Mr Jin De-Qin	
Mr Lau Wah Sum	
Mr Lin Jingao	(appointed on 28th May 1997)
Mr Li Changlin	(resigned on 16th June 1997)
Mr Lu Shouchun	(resigned on 16th June 1997)
Mr Harry Choi Yun Yee	(resigned on 30th June 1997)

In accordance with Article 97 of the Company's Bye-Laws, Messrs Jin De-Qin and Lau Wah Sum retire at the forthcoming annual general meeting and, Mr Lau Wah Sum 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.

Mr Lau Wah Sum, non-executive director, was appointed for a two-year term expiring on 31st December 1998.

Mr Jin De-Qin, non-executive director, was appointed for a one-year term expired on 20th February 1998. The appointment was further extended for another two years to 20th February 2000 upon expiry in February 1998.

The terms of office of the non-executive directors are subject to retirement as required by the Company's Bye-Laws.

## **REPORT OF THE DIRECTORS** *(continued)*

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

#### **Directors**

##### **Mr Zhang Ruchun** *(Executive Chairman)*

Age 57, 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 as 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 Zhang Linsheng** *(Executive Vice-Chairman)*

Age 63, graduated from the Beijing College of Geology. Mr Zhang has more than 35 years' experience in the petroleum industry. He is currently the president of Sino-Asia Company and a director of Sino-Mit Hong Kong Limited which are joint venture companies of CNPC. He joined the Company as Executive Vice-Chairman in 1993.

##### **Mr Lin Jingao** *(Non-Executive Director)*

Age 53, 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.

##### **Mr Jin De-Qin** *(Independent Non-Executive Director)*

Age 77, is Honorary Chairman of The Ka Wah Bank Limited and Vice Chairman of International Financial Association, Beijing. Former Chairman of Bank of China, Vice President of China International Trust & Investment Corporation and Chairman of Citic Industrial Bank. Appointed as a Non-executive Director of the Company in February 1995.

## **REPORT OF THE DIRECTORS** *(continued)*

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

#### **Mr Lau Wah Sum, OBE, JP** *(Independent Non-Executive Director)*

Age 70, 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 Land Development Corporation, Chairman of Hong Kong Baptist University and 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 a Non-executive Director in August 1994.

#### **Mr Xu Xiaolu** *(Executive Director)*

Age 42, graduated from the Beijing Economic College. Mr Xu joined the Ministry of Petroleum Industry in 1982 and is currently the chief executive of the Loan and Corporation Division of CNPC. He has over 10 years' experience in corporate finance. He joined the Company in 1993 as an Executive Director.

### **Senior Management**

#### **Mr Lau Hak Woon** *(General Manager - Finance and Company Secretary)*

Age 45, 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.

## REPORT OF THE DIRECTORS *(continued)*

### DIRECTORS' INTERESTS IN SHARES

At 31st December 1997, 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 2,230,692,468 shares in the Company as at 31st December 1997. Sun World is a wholly owned subsidiary of CNPC, the Company's ultimate holding company incorporated in the PRC.
- (b) Mr Zhang Linsheng held 5,000,000 shares in the Company after the exercise of the 20,000,000 options (note (c)) of which 15,000,000 shares were disposed of during the year.
- (c) 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.

Details of options granted by the Company are as follows:

Name	Date of issue	Exercise price HK\$	Options exercised during the year	Options outstanding at year end	Expiry date
Xu Xiaolu	16th March 1994	0.35	–	20,000,000	15th March 1999
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
Zhang Linsheng	16th March 1994	0.35	20,000,000	–	
Li Changlin (resigned in June 1997)	16th March 1994	0.35	20,000,000	–	
Lu Shouchun (resigned in June 1997)	16th March 1994	0.35	20,000,000	–	
Harry Choi Yun Yee (resigned in June 1997)	16th March 1994	0.375	10,000,000	–	
Jasjit Singh Gill (ex-director)	16th March 1994	0.35	8,000,000	–	

Mr Lau Hak Woon has been granted an additional 5,000,000 options at an exercise price of HK\$1.61 expiring on 3rd March 2003 subsequent to the year end.

## **REPORT OF THE DIRECTORS** *(continued)*

### **DIRECTORS' INTERESTS IN SHARES** (continued)

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 1997, 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:

<b>Name</b>	<b>Number of shares</b>
Sun World	2,230,692,468*

\* 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 2,230,692,468 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 the following transactions on normal commercial terms, and in the ordinary and usual course of the Group's activities:

- (a) In connection with an oil production sharing contract ("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:

## **REPORT OF THE DIRECTORS** *(continued)*

### CONNECTED TRANSACTIONS *(continued)*

- (i) 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 fee shall be payable by the Group to XPAB on the basis of 30% of the aggregate remuneration (salaries and welfare fees) for JDD’s employees.

A fee of RMB234,000 (approximately HK\$220,000), representing 54% of the cost shared by the Group, was paid to XPAB in respect of the year ended 31st December 1997.

- (ii) Sale of crude oil of RMB336,970,000 (approximately HK\$314,393,000) (1996:RMB97,576,000) (gross of value-added tax), representing 54% of oil production shared by the Group, was made to XPAB’s refineries during the year. 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.

- (iii) Upon expiry on 31st December 1996, an operating contract between the Group and XPAB was renewed whereby XPAB continues to be appointed to manage the oil property in the contract area and monitor the oil production. Under the new contract, XPAB is responsible for all the operating costs in return for a fee of RMB509 (approximately HK\$475) (1996:RMB423) per tonne of oil produced and a bonus of RMB10 (approximately HK\$9) for each tonne of crude oil produced in excess of 600,000 tonnes.

A fee of RMB165,000,000 (approximately HK\$154,000,000) (1996:RMB40,155,000), representing 54% of the cost shared by the Group, was paid to XPAB in respect of the year ended 31st December 1997.

- (iv) An oil drilling contract was entered into with an operational entity wholly owned and operated by XPAB to drill a total of 300 wells by the end of November 1997 at a fee of RMB1,135 (approximately HK\$1,059) (1996:RMB1,295) per metre.

A fee of RMB112,978,000 (approximately HK\$105,400,000) (1996:RMB31,584,000) was paid to this entity in respect of the year ended 31st December 1997.

- (v) A construction contract was entered into with an operational entity wholly owned and operated by XPAB to construct 3 ground stations in the contract area.

A fee of RMB78,929,000 (approximately HK\$73,641,000) was paid to this entity in respect of the year ended 31st December 1997.

## **REPORT OF THE DIRECTORS** *(continued)*

### **CONNECTED TRANSACTIONS** (continued)

- (vi) An engineering contract was entered into with an operational entity wholly owned and operated by XPAB to perforate holes in 450 wells of 10 metres each at RMB2,051 (approximately HK\$1,914) per metre.

A fee of RMB6,265,000 (approximately HK\$5,845,000) was paid to this entity in respect of the year ended 31st December 1997.

- (vii) A surveying contract was entered into with an operational entity wholly owned and operated by XPAB to obtain geological data for 450 wells at RMB22,000 (approximately HK\$21,000) per well.

A fee of RMB10,098,000 (approximately HK\$9,420,000) was paid to this entity in respect of the year ended 31st December 1997.

- (viii) Two installation contracts were entered into with two operational entities wholly owned and operated by XPAB to install 37 oil tanks and related equipment at RMB81,000 (approximately HK\$76,000) per oil tank.

An aggregate fee of RMB2,969,000 (approximately HK\$2,770,000) was paid to these entities in respect of the year ended 31st December 1997.

- (ix) 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.

An aggregate fee of RMB3,648,000 (approximately HK\$3,404,000) was paid to these entities in respect of the year ended 31st December 1997.

## **REPORT OF THE DIRECTORS** (continued)

### CONNECTED TRANSACTIONS (continued)

- (b) An agreement dated 28th June 1994 was entered into with Great Wall Drilling Company, a wholly owned subsidiary of CNPC, to lease a complete set of drilling rig and logging equipment for operations in the oil concession in Thailand and to purchase any consumables required under the continued operation of such equipment. The agreement was initially set for a term of six months and is extendable automatically on a monthly basis until termination by mutual consent with one month prior notice.

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

	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Great Wall Drilling Company		
Lease rental of rig and logging equipment	<b>2,112</b>	4,474
Other entities owned by CNPC		
Purchase of consumables	<b>679</b>	7,100

The independent non-executive director, Mr Lau Wah Sum, has 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, 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	89%
Percentage of purchases attributable to the Group's five largest suppliers	99%
Percentage of sales attributable to the Group's largest customer	93%
Percentage of sales attributable to the Group's five largest customers	99%

## **REPORT OF THE DIRECTORS** *(continued)*

### **MAJOR CUSTOMERS AND SUPPLIERS** (continued)

XPAB is the Group's largest supplier and 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.

### **SUBSEQUENT EVENTS**

- (a) On 20th February 1998, the Company issued 260,000,000 shares to Sun World for cash at HK\$2.35 per share following the placement of the same number of shares by Sun World at the same price.

The net proceeds were used to strengthen the capital base of the Company and to partly fund the acquisition of an interest in the Liaohe oilfield mentioned in (b) below.

- (b) On 30th December 1997, the Group, through Beckbury International Limited, a wholly owned subsidiary incorporated in the British Virgin Islands, entered into an oil production sharing contract (the "Leng Jiapu Area Petroleum Contract") with CNPC, to develop and produce crude oil from the Leng Jiapu oilfield in Liaohe, Liaoning Province, the PRC (the "Leng Jiapu Project"). Pursuant to the Leng Jiapu Area Petroleum Contract, the Group agreed to acquire 70% of the production sharing interest in the Leng Jiapu Project for RMB1,008 million (approximately HK\$942 million), equivalent to 70% of the development costs and exploration costs hitherto incurred in the contract area, and to fund its share of the cost of the development in 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 to be responsible for 70% of the development cost after such first two years.

The Leng Jiapu Area Petroleum Contract took effect from 1st March 1998 following the approval by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 13th February 1998 and shareholders at a Special General Meeting on 23rd February 1998.

## **REPORT OF THE DIRECTORS** *(continued)*

### **SUBSEQUENT EVENTS** *(continued)*

- (c) On 4th February 1998, the Company entered into a subscription agreement with Sun World whereby Sun World has undertaken to subscribe for additional new shares up to HK\$386.5 million in aggregate upon demand made by the Company in writing on or before 31st December 1998.

The net proceeds will be used to fund the Leng Jiapu Project mentioned in (b) above.

### **AUDITORS**

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

On behalf of the Board

**Zhang Ruchun**

*Executive Chairman*

HONG KONG, 8th May 1998

## ***REPORT OF THE AUDITORS***

***PriceWaterhouse***



**TO THE SHAREHOLDERS OF CNPC (HONG KONG) LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 23 to 57 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 judgments 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 1997 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.

**PRICE WATERHOUSE**

*Certified Public Accountants*

HONG KONG, 8th May 1998

## **CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*For the year ended 31st December 1997*

	<i>Note</i>	<b>1997</b> <b>HKS'000</b>	1996 HKS'000
TURNOVER	3	<b>323,239</b>	108,650
OPERATING PROFIT	4	<b>85,549</b>	16,662
EXCEPTIONAL ITEMS	6	<b>3,909</b>	16,025
PROFIT FROM ORDINARY ACTIVITIES		<b>89,458</b>	32,687
SHARE OF LOSS OF ASSOCIATED COMPANY		-	(3)
PROFIT BEFORE TAXATION		<b>89,458</b>	32,684
TAXATION	7	<b>26,351</b>	10,753
PROFIT FOR THE YEAR RETAINED	8 & 18	<b>63,107</b>	21,931
RETAINED BY:			
Company and subsidiaries		<b>63,107</b>	21,934
Associated company		-	(3)
		<b>63,107</b>	21,931
EARNINGS PER SHARE	9	<b>1.37 cents</b>	0.72 cent

**CONSOLIDATED BALANCE SHEET***As at 31st December 1997*

	<i>Note</i>	<b>1997</b> <b>HKS'000</b>	1996 HKS'000
FIXED ASSETS	<i>10</i>	<b>298</b>	680
OIL PROPERTY	<i>11</i>	<b>593,594</b>	191,716
ASSOCIATED COMPANY	<i>13</i>	-	(17)
OTHER INVESTMENTS	<i>14</i>	<b>3,252</b>	13,193
DEFERRED EXPENDITURE	<i>15</i>	<b>8,498</b>	7,566
NET CURRENT ASSETS	<i>16</i>	<b>224,778</b>	339,780
EMPLOYMENT OF FUNDS		<b>830,420</b>	552,918
Financed by:			
SHARE CAPITAL	<i>17</i>	<b>46,708</b>	42,958
RESERVES	<i>18</i>	<b>782,041</b>	508,289
SHAREHOLDERS' FUNDS		<b>828,749</b>	551,247
MINORITY INTERESTS		<b>1,671</b>	1,671
FUNDS EMPLOYED		<b>830,420</b>	552,918

**Zhang Ruchun**  
*Executive Chairman*

**Xu Xiaolu**  
*Executive Director*

***BALANCE SHEET****As at 31st December 1997*

	<i>Note</i>	<b>1997</b> <b>HKS'000</b>	1996 HKS'000
FIXED ASSETS	<i>10</i>	<b>107</b>	156
SUBSIDIARIES	<i>12</i>	<b>486,888</b>	278,413
DEFERRED EXPENDITURE	<i>15</i>	<b>8,498</b>	7,566
NET CURRENT ASSETS	<i>16</i>	<b>152,686</b>	149,017
NET ASSETS		<b>648,179</b>	435,152
Financed by:			
SHARE CAPITAL	<i>17</i>	<b>46,708</b>	42,958
RESERVES	<i>18</i>	<b>601,471</b>	392,194
SHAREHOLDERS' FUNDS		<b>648,179</b>	435,152

**Zhang Ruchun**  
*Executive Chairman*

**Xu Xiaolu**  
*Executive Director*

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 1997

	Note	1997 HK\$'000	1996 HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23(a)	382,787	(175,397)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		15,190	4,125
Interest paid		(17)	(1,221)
Interest element of finance lease rental payments		-	(6)
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		15,173	2,898
TAXATION			
Overseas profits tax paid		(9,774)	-
INVESTING ACTIVITIES			
Purchases of fixed assets		(34)	(22)
Additions to deferred expenditure		(2,562)	(6,092)
Additions to oil property		(446,109)	(49,187)
Proceeds on disposal of subsidiaries	23(b)	1,775	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(446,930)	(55,301)
NET CASH OUTFLOW BEFORE FINANCING		(58,744)	(227,800)
FINANCING			
Issue of shares for cash, net of share issue expenses		244,880	398,472
Repayment of short term bank loan		-	(14,135)
Capital element of finance lease rental payments		-	(29)
NET CASH INFLOW FROM FINANCING		244,880	384,308
Increase in cash and bank balances		186,136	156,508
Cash and bank balances at beginning of year		156,577	69
CASH AND BANK BALANCES AT END OF YEAR		342,713	156,577

# NOTES TO THE ACCOUNT.

## 1 PRINCIPAL ACTIVITIES

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

On 1st July 1996, the Group entered into an oil production sharing contract (the "Xinjiang Contract") with China National Petroleum Corporation ("CNPC"), the Company's ultimate holding company, to develop and produce crude oil in Xinjiang Uygur Autonomous Region, the PRC. 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 Xinjiang Petroleum Administration Bureau ("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 a Joint Development Department ("JDD") for the performance of its contractual responsibilities under the operatorship.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts, which conform with the accounting principles generally accepted in Hong Kong, are as follows:

### (a) Consolidation

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

## **NOTES TO THE ACCOUNTS** *(continued)*

### **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

#### **(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.

#### **(d) Associated company**

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

The Group's investment in associated company is included in the consolidated balance sheet at the Group's share of net assets.

#### **(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%

## **NOTES TO THE ACCOUNTS** *(continued)*

### **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

#### **(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 an annual rate of 20%.

#### **(g) Deferred expenditure**

Deferred expenditure represents expenses incurred in respect of the valuation of oil properties, commitment fees and professional fees in connection with the Xinjiang Contract and the Leng Jiapu Area Petroleum Contract (note 25(b)) and is amortised on a straight line basis over a period of five years from the commencement of the respective operations.

#### **(h) Other investments**

Listed and unlisted investments held for the long term are stated at cost less provision for any permanent diminution in value.

#### **(i) Stocks**

Stocks 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.

## **NOTES TO THE ACCOUNTS** *(continued)*

### **2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

#### **(j) 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.

#### **(k) 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 receivable in the foreseeable future.

#### **(l) 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.

#### **(m) Revenue recognition**

Revenue from sale of crude oil is recognised when delivered to customers.

Revenue from 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.

#### **(n) Related parties**

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

## NOTES TO THE ACCOUNTS *(continued)*

### 3 TURNOVER AND CONTRIBUTION TO OPERATING PROFIT

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

An analysis of the Group's turnover and contribution to operating profit by principal activity and by geographical segment are as follows:

	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
<b>(a) Analysis by principal activity</b>		
<b>(i) Turnover</b>		
Sale of crude oil	<b>321,044</b>	106,413
Sale of marina club debentures and wet berths	<b>1,295</b>	1,193
Leasing of wet berths	<b>900</b>	1,044
	<b>323,239</b>	108,650
<b>(ii) Contribution to operating profit</b>		
Sale of crude oil	<b>86,121</b>	27,216
Sale of marina club debentures and wet berths	<b>310</b>	87
Leasing of wet berths	<b>567</b>	783
	<b>86,998</b>	28,086
Net interest and corporate expenses	<b>(1,449)</b>	(11,424)
	<b>85,549</b>	16,662

**NOTES TO THE ACCOUNTS** (continued)**3 TURNOVER AND CONTRIBUTION TO OPERATING PROFIT** (continued)

	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
<b>(b) Analysis by geographical segment</b>		
<b>(i) Turnover</b>		
PRC	<b>298,508</b>	86,324
Thailand	<b>22,536</b>	20,089
Hong Kong	<b>2,195</b>	2,237
	<b>323,239</b>	108,650
<b>(ii) Contribution to operating profit before net interest and corporate expenses</b>		
PRC	<b>90,914</b>	32,655
Thailand	<b>(4,793)</b>	(5,439)
Hong Kong	<b>877</b>	870
	<b>86,998</b>	28,086

**NOTES TO THE ACCOUNTS** (continued)**4 OPERATING PROFIT**

	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating profit is arrived at after crediting and charging the following:		
Crediting:		
Interest income on bank deposits	15,485	4,408
Rental income on wet berths	<u>900</u>	<u>1,044</u>
Charging:		
Interest expense		
Advance from immediate holding company	17	278
Bank loans and overdrafts	-	1,092
Auditors' remuneration		
Charge for the year	1,559	1,019
Underprovision for previous year	162	-
Depreciation of fixed assets	416	497
Depletion and depreciation of oil property	15,088	12,277
Amortisation of deferred expenditure	1,630	540
Operating lease rental expense in respect of land and buildings	1,572	2,405
Fees paid to XPAB under operating contract (note 20(a)(iii))	154,000	36,952
Provision for diminution in value of other investments	<u>-</u>	<u>1,453</u>

**5 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT****(a) Directors' emoluments**

	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Fees		
Charge for the year	400	300
Underprovision for previous year	200	-
Salaries and other emoluments	<u>89,013</u>	<u>4,589</u>
	<u><b>89,613</b></u>	<u><b>4,889</b></u>

## NOTES TO THE ACCOUNTS *(continued)*

### 5 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

The emoluments were paid to the directors as follows:

Emolument bands (HK\$)	Number of individual	
	1997	1996
Nil - 1,000,000	4	5
1,000,001 - 1,500,000	1	-
1,500,001 - 2,000,000	-	1
2,000,001 - 2,500,000	-	1
8,500,001 - 9,000,000	1	-
23,500,001 - 24,000,000	2	-
31,000,001 - 31,500,000	1	-
	9	7

Mr Zhang Linsheng exercised all his options to purchase 20,000,000 shares in the Company on 19th June 1997 when the Company's share price was HK\$1.860.

Mr Li Changlin and Mr Lu Shouchun exercised all their options to purchase 20,000,000 shares each in the Company on 20th May 1997 when the Company's share price was HK\$1.525.

Mr Harry Choi Yun Yee exercised all his options to purchase 5,000,000 shares each in the Company on 1st April 1997 and 13th May 1997 when the Company's share price was HK\$0.715 and HK\$1.695 respectively.

The differences between the exercise price of the options and the market value of the shares on the dates they were exercised have been included in the directors' emoluments.

Remuneration paid to non-executive directors for the year represents fees amounting to HK\$0.4 million (1996: HK\$0.1 million). None of the directors has waived the right to receive their emoluments.

## NOTES TO THE ACCOUNTS (continued)

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

#### (b) Senior management emoluments

Details of the emoluments paid to the five individuals, all being directors (1996: 3 directors), whose emoluments were the highest in the Group are as follows:

	1997 HK\$'000	1996 HK\$'000
Salaries and other emoluments	<u>88,355</u>	<u>8,072</u>
	Number of individual	
Emolument bands (HK\$)	1997	1996
Nil - 1,000,000	-	2
1,000,001 - 1,500,000	1	-
1,500,001 - 2,000,000	-	1
2,000,001 - 2,500,000	-	1
3,000,001 - 3,500,000	-	1
8,500,001 - 9,000,000	1	-
23,500,001 - 24,000,000	2	-
31,000,001 - 31,500,000	<u>1</u>	<u>-</u>
	<u>5</u>	<u>5</u>

### 6 EXCEPTIONAL ITEMS

	1997 HK\$'000	1996 HK\$'000
Refund of PRC income tax as a result of reinvestment of profit generated from the Xinjiang Contract	3,909	-
Recovery of amounts due from fellow subsidiaries previously written off	-	12,200
Write-back of overprovision for settlement sum in connection with a court case	<u>-</u>	<u>3,825</u>
	<u>3,909</u>	<u>16,025</u>

**NOTES TO THE ACCOUNTS** (continued)**7 TAXATION**

	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Current taxation		
PRC taxation		
Provision for the year	<b>27,330</b>	10,753
Overprovision in previous year	<b>(979)</b>	–
	<b>26,351</b>	10,753

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (1996: Nil).

PRC taxation has been calculated at the rate of 30% on the estimated assessable profit for the year in respect of the oil production under the Xinjiang Contract. In 1996, PRC income tax was provided at the rate of 33% which was subsequently reduced to 30% with the approval of the PRC tax authority.

**8 PROFIT FOR THE YEAR**

The profit for the year is dealt with in the accounts of the Company to the extent of a loss of HK\$31,853,000 (1996: loss of HK\$40,889,000).

**9 EARNINGS PER SHARE**

The calculation of earnings per share is based on the profit for the year of HK\$63,107,000 (1996: HK\$21,931,000) and the weighted average number of 4,606,543,980 shares in issue (1996: 3,031,075,118 shares) during the year.

Fully diluted earnings per share is not presented as the exercise of the options granted under the Company's executive share option scheme would not have a material diluting effect on the earnings per share.

**NOTES TO THE ACCOUNTS** (continued)**10 FIXED ASSETS**

	<b>Furniture and fixtures HK\$'000</b>	<b>Group Motor vehicles HK\$'000</b>	<b>Total HK\$'000</b>	<b>Company Furniture and fixtures HK\$'000</b>
<b>Cost</b>				
At 1st January 1997	582	1,668	2,250	356
Additions	34	-	34	34
Disposals	(32)	-	(32)	(32)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 1997	584	1,668	2,252	358
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 1st January 1997	420	1,150	1,570	200
Charge for the year	89	327	416	83
Written back on disposals	(32)	-	(32)	(32)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 1997	477	1,477	1,954	251
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31st December 1997	107	191	298	107
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 1996	162	518	680	156
	<hr/>	<hr/>	<hr/>	<hr/>

**NOTES TO THE ACCOUNTS** (continued)**11 OIL PROPERTY****Group**

HK\$'000

## Cost

At 1st January 1997	279,026
Translation differences	(70,307)
Additions	446,109
Disposals	(117)
	<hr/>

At 31st December 1997	654,711
	<hr style="border-top: 1px dashed black;"/>

## Accumulated depletion and depreciation

At 1st January 1997	87,310
Translation differences	(41,196)
Charge for the year	15,088
Written back on disposals	(85)
	<hr/>

At 31st December 1997	61,117
	<hr style="border-top: 1px dashed black;"/>

## Net book value

At 31st December 1997	593,594
	<hr style="border-top: 3px double black;"/>

At 31st December 1996	191,716
	<hr style="border-top: 3px double black;"/>

**NOTES TO THE ACCOUNTS** (continued)**12 SUBSIDIARIES**

	<b>Company</b>	
	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at 1991 directors' valuation	<b>156,034</b>	156,034
Provision for diminution in value	<b>(105,517)</b>	(105,517)
	<b>50,517</b>	50,517
Amounts due from subsidiaries less provision	<b>436,646</b>	228,623
Amounts due to subsidiaries	<b>(275)</b>	(727)
	<b>486,888</b>	278,413

Details of principal subsidiaries, which in the directors' opinion, materially affect the results or net assets of the Group are given in note 28.

**13 ASSOCIATED COMPANY**

	<b>Group</b>	
	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net liabilities	-	(17)

The 1996 balance represented the Group's 50% equity interest in Seacrown Enterprises Limited, incorporated in Hong Kong. The associated company was liquidated during the year.

**NOTES TO THE ACCOUNTS** (continued)**14 OTHER INVESTMENTS**

	<b>Group</b>	
	<b>1997</b>	1996
	<b>HKS'000</b>	HKS'000
Overseas listed investment		
At cost	<b>44,341</b>	44,341
Provision for diminution in value	<b>(44,341)</b>	(44,341)
	-----	-----
	-	-
Unlisted investments, at cost	<b>11,565</b>	11,565
Provision for diminution in value	<b>(10,069)</b>	(10,069)
	-----	-----
	<b>1,496</b>	1,496
Marina club debentures and wet berths (note a)	-----	-----
	-	9,941
Club debentures	<b>1,756</b>	1,756
	-----	-----
	<b>3,252</b>	13,193
Market value of overseas listed investment (note b)	<b>489</b>	N/A
	-----	-----

(a) In December 1997, the directors decided to dispose of the marina club debentures and wet berths which were previously held for the long term. Accordingly, these investments were reclassified as stocks (note 16(a)) and included under current assets in 1997.

(b) The market value of the overseas listed investment was not available in 1996 as the investee company was suspended from trading at 31st December 1996.

**NOTES TO THE ACCOUNTS** (continued)**15 DEFERRED EXPENDITURE**

	<b>Group and Company</b> <b>HK\$'000</b>
Cost	
At 1st January 1997	8,106
Additions	<u>2,562</u>
At 31st December 1997	----- 10,668
Accumulated amortisation	
At 1st January 1997	540
Charge for the year	<u>1,630</u>
At 31st December 1997	----- 2,170
Net book value	
At 31st December 1997	<u>8,498</u>
At 31st December 1996	<u>7,566</u>

**NOTES TO THE ACCOUNTS** (continued)**16 NET CURRENT ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>1997</b>	<b>1996</b>	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current assets</b>				
Stocks (note a)	<b>18,304</b>	10,369	-	-
Debtors and prepayments	<b>21,587</b>	24,961	<b>1,394</b>	908
Net amount due from XPAB (note b)	<b>11,821</b>	215,898	-	-
Cash and bank balances	<b>342,713</b>	156,577	<b>153,885</b>	151,769
	<b>394,425</b>	407,805	<b>155,279</b>	152,677
<b>Current liabilities</b>				
Creditors and accruals (note c)	<b>69,379</b>	38,680	<b>2,593</b>	1,026
Advance from immediate holding company	-	2,634	-	2,634
Amounts due to related parties (note d)	<b>7,912</b>	-	-	-
Deferred charge (note e)	<b>65,026</b>	15,958	-	-
Tax payable	<b>27,330</b>	10,753	-	-
	<b>169,647</b>	68,025	<b>2,593</b>	3,660
	<b>224,778</b>	339,780	<b>152,686</b>	149,017

## (a) Analysis of stocks

	<b>Group</b>	
	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Crude oil	<b>542</b>	453
Marina club debentures and wet berths (note 14(a))	<b>17,762</b>	9,916
	<b>18,304</b>	10,369

**NOTES TO THE ACCOUNTS** (continued)**16 NET CURRENT ASSETS** (continued)

- (b) The net amount due from XPAB comprises the following:

	<b>Group</b>	
	<b>1997</b>	<b>1996</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Prepayment for well drilling	<b>15,445</b>	163,694
Trade receivable	<b>21,130</b>	89,862
Trade payable	<b>(24,754)</b>	(37,658)
	<b>11,821</b>	215,898

All the above balances are transacted on commercial trade terms.

- (c) Included in creditors and accruals is an amount of HK\$9.4 million (1996:HK\$18.8 million) payable to Astron Resources Limited ("ASL").

On 10th July 1990, the Group entered into an agreement with ASL whereby ASL sold its entire shareholding in Central Place Company Limited which owns an effective interest of 62.37% in an oil concession in Thailand (the "Sukhothai Concession") to the Group. Pursuant to the agreement, a remaining portion of the consideration amounting to HK\$18.8 million is payable upon the commencement of commercial production of the Sukhothai Concession. Commercial production, in the context of the agreement, refers to the production of crude oil of commercially marketable grade and in quantities not less than 500 barrels per day over any consecutive 30 days period. Such condition has been fulfilled with effect from 1st July 1997 and partial payment of HK\$9.4 million was made to ASL during the year. The remaining balance of HK\$9.4 million was subsequently paid by the Group in January 1998.

- (d) The amounts due to related parties represent trade balances which are transacted on commercial trade terms.

**NOTES TO THE ACCOUNTS** (continued)**16 NET CURRENT ASSETS** (continued)

(e) Analysis of deferred charge	<b>Group</b>	
	<b>1997</b>	1996
	<b>HKS'000</b>	HKS'000
At 1st January	<b>15,958</b>	–
Addition (note 24(a))	<b>49,068</b>	15,958
	<hr/>	<hr/>
At 31st December	<b>65,026</b>	15,958
	<hr/>	<hr/>
Representing:		
Group's share of investment recovery of oil property recorded by JDD	<b>67,890</b>	15,965
Depletion and depreciation charge incurred by the Group	<b>(2,864)</b>	(7)
	<hr/>	<hr/>
	<b>65,026</b>	15,958
	<hr/>	<hr/>

As set out in note 1, the Group is entitled to oil production sharing as from 1st September 1996. As a result, the Group is entitled to a 54% share of income 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 to the oil property all its share of 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.

As the current year's balance represents a significant portion of the Group's net assets, the deferred charge is disclosed separately. Accordingly, the 1996 balance has been restated to conform with the current year's presentation.

## NOTES TO THE ACCOUNTS *(continued)*

### 17 SHARE CAPITAL

	1997 HK'000	1996 HK\$'000
<i>Authorised:</i>		
8,000,000,000 shares (1996: 5,000,000,000 shares) of HK\$0.01 each (note a)	<b>80,000</b>	50,000
<i>Issued and fully paid:</i>		
At 1st January	<b>42,958</b>	27,148
Subscription (note b)	<b>2,970</b>	15,159
Exercise of share options (note c)	<b>780</b>	320
Private placement	–	331
At 31st December		
4,670,768,638 (1995: 4,295,768,638) shares of HK\$0.01 each	<b>46,708</b>	42,958

- (a) By an ordinary resolution passed on 30th May 1997, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$80,000,000 by the creation of 3,000,000,000 shares of HK\$0.01 each.
- (b) In accordance with a placing and subscription agreement between Sun World Limited (“Sun World”), the Company’s immediate holding company, and a placing manager entered into on 20th January 1997, the placing manager agreed to purchase 297,000,000 shares at a price of HK\$0.75 each for a total consideration of HK\$222.8 million from Sun World. Sun World then subscribed the same number of shares at HK\$0.7319 per share for a total consideration of HK\$217.4 million. The net proceeds were used to partly meet the funding obligations under the Infill Development Programme and for general working capital purposes.

The issue of the new shares under the placing and subscription agreement mentioned above has been approved by the board of directors and was pursuant to the general mandate granted to the directors of the Company at the Company’s annual general meeting held on 28th June 1996. The difference between the issue price and the nominal value of each share is recorded as share premium, against which costs of HK\$0.1 million related to the issue have been offset.

The new shares rank *pari passu* in all respects with the existing issued shares of the Company.

- (c) During the year, certain directors (including a former director) exercised options to subscribe for 78,000,000 shares of the Company at various exercise prices for a total consideration of HK\$27.6 million. At 31st December 1997, 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 65,000,000 shares of the Company of which 20,000,000 options are exercisable at HK\$0.35 per share at any time prior to 15th March 1999 and the remaining 45,000,000 options are exercisable at HK\$1.31 and HK\$1.39 per share at any time prior to 15th June 2002.

**NOTES TO THE ACCOUNTS** (continued)**18 RESERVES**

	<b>Contributed surplus</b>	<b>Share premium</b>	<b>Exchange reserve</b>	<b>Retained profit/ (loss)</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>					
Company and subsidiaries	134,323	422,306	(268)	(48,055)	508,306
Associated company	-	-	-	(17)	(17)
At 1st January 1997	134,323	422,306	(268)	(48,072)	508,289
Translation differences	-	-	(30,485)		(30,485)
Premium on shares issued, net of share issue expenses	-	241,130	-	-	241,130
Profit for the year retained	-	-	-	63,107	63,107
At 31st December 1997	<u>134,323</u>	<u>663,436</u>	<u>(30,753)</u>	<u>15,035</u>	<u>782,041</u>
Company and subsidiaries	134,323	663,436	(30,753)	15,035	782,041
Associated company	-	-	-	-	-
	<u>134,323</u>	<u>663,436</u>	<u>(30,753)</u>	<u>15,035</u>	<u>782,041</u>
<b>Company</b>					
At 1st January 1997	133,795	422,306	-	(163,907)	392,194
Premium on shares issued, net of share issue expenses	-	241,130	-	-	241,130
Profit for the year	-	-	-	(31,853)	(31,853)
At 31st December 1997	<u>133,795</u>	<u>663,436</u>	<u>-</u>	<u>(195,760)</u>	<u>601,471</u>

Under the Companies Act of Bermuda, the contributed surplus is currently not distributable. Accordingly, the Company had no reserves available for distribution as at 31st December 1997.

## NOTES TO THE ACCOUNTS *(continued)*

### 19 DEFERRED TAXATION

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

	<b>Group</b>	
	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Taxation losses	<b>70,000</b>	97,000
Excess of depletion and depreciation of oil property charged in the accounts over depreciation allowances claimed for tax purposes in Thailand	<b>9,000</b>	12,000
	<b>79,000</b>	109,000

### 20 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 an oil production sharing contract (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 and certain entities wholly owned and operated by XPAB:

- (i) 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 fee shall be payable by the Group to XPAB on the basis of 30% of the aggregate remuneration (salaries and welfare fees) for JDD's employees.

A fee of RMB234,000 (approximately HK\$220,000), representing 54% of the cost shared by the Group, was paid to XPAB in respect of the year ended 31st December 1997.

- (ii) Sale of crude oil of RMB336,970,000 (approximately HK\$314,393,000) (1996:RMB97,576,000) (gross of value-added tax), representing 54% of oil production shared by the Group, was made to XPAB's refineries during the year. 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.

## NOTES TO THE ACCOUNTS *(continued)*

### 20 RELATED PARTY TRANSACTIONS *(continued)*

- (iii) Upon expiry on 31st December 1996, an operating contract between the Group and XPAB was renewed whereby XPAB continues to be appointed to manage the oil property in the contract area and monitor the oil production. Under the new contract, XPAB is responsible for all the operating costs in return for a fee of RMB509 (approximately HK\$475) (1996:RMB423) per tonne of oil produced and a bonus of RMB10 (approximately HK\$9) for each tonne of crude oil produced in excess of 600,000 tonnes.

A fee of RMB165,000,000 (approximately HK\$154,000,000) (1996:RMB40,155,000), representing 54% of the cost shared by the Group, was paid to XPAB in respect of the year ended 31st December 1997.

- (iv) An oil drilling contract was entered into with an operational entity wholly owned and operated by XPAB to drill a total of 300 wells by the end of November 1997 at a fee of RMB1,135 (approximately HK\$1,059) (1996:RMB1,295) per metre.

A fee of RMB112,978,000 (approximately HK\$105,400,000) (1996:RMB31,584,000) was paid to this entity in respect of the year ended 31st December 1997.

- (v) A construction contract was entered into with an operational entity wholly owned and operated by XPAB to construct 3 ground stations in the contract area.

A fee of RMB78,929,000 (approximately HK\$73,641,000) was paid to this entity in respect of the year ended 31st December 1997.

- (vi) An engineering contract was entered into with an operational entity wholly owned and operated by XPAB to perforate holes in 450 wells of 10 metres each at RMB2,051 (approximately HK\$1,914) per metre.

A fee of RMB6,265,000 (approximately HK\$5,845,000) was paid to this entity in respect of the year ended 31st December 1997.

- (vii) A surveying contract was entered into with an operational entity wholly owned and operated by XPAB to obtain geological data for 450 wells at RMB22,000 (approximately HK\$21,000) per well.

A fee of RMB10,098,000 (approximately HK\$9,420,000) was paid to this entity in respect of the year ended 31st December 1997.

## NOTES TO THE ACCOUNTS *(continued)*

### 20 RELATED PARTY TRANSACTIONS *(continued)*

- (viii) Two installation contracts were entered into with two operational entities wholly owned and operated by XPAB to install 37 oil tanks and related equipment at RMB81,000 (approximately HK\$76,000) per oil tank.

An aggregate fee of RMB2,969,000 (approximately HK\$2,770,000) were paid to these entities in respect of the year ended 31st December 1997.

- (ix) 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.

An aggregate fee of RMB3,648,000 (approximately HK\$3,404,000) were paid to these entities in respect of the year ended 31st December 1997.

- (b) An agreement dated 28th June 1994 was entered into with Great Wall Drilling Company, a wholly owned subsidiary of CNPC, to lease a complete set of drilling rig and logging equipment for operations in the oil concession in Thailand and to purchase any consumables required under the continued operation of such equipment. The agreement was initially set for a term of six months and is extendable automatically on a monthly basis until termination by mutual consent with one month prior notice.

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

	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Great Wall Drilling Company		
Lease rental of rig and logging equipment	<b>2,112</b>	4,474
Other entities owned by CNPC		
Purchase of consumables	<b>679</b>	7,100

## NOTES TO THE ACCOUNTS *(continued)*

### 21 CONTINGENCIES

(a)	<b>Group</b>	
	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Claims from contractors for additional costs incurred on a marina project due to suspension of work and interest on delayed payment	<b>1,979</b>	1,979

- (b) The Company was a 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.

### 22 COMMITMENTS

#### (a) Capital commitments

	<b>Group</b>	
	<b>1997</b>	1996
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for		
Payment for the Infill Development Programme under the Xinjiang Contract	<b>42,000</b>	316,930

## NOTES TO THE ACCOUNTS *(continued)*

### 22 COMMITMENTS *(continued)*

#### (b) Lease commitments

	Group		Company	
	1997 HK\$'000	1996 HK\$'000	1997 HK\$'000	1996 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	1,396	–	1,396	–
Expiring in the second to fifth years inclusive	245	1,740	245	1,740
	<u>1,641</u>	<u>1,740</u>	<u>1,641</u>	<u>1,740</u>

Pursuant to a drilling rig lease agreement entered into with Great Wall Drilling Company dated 28th June 1994, 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. The lease payment is calculated on the basis of actual usage of this equipment.

- (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-US Petroleum Inc.) which owns a one-third interest in the Sukhothai Concession. 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.

## NOTES TO THE ACCOUNTS *(continued)*

### 23 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities

	1997 HK\$'000	1996 HK\$'000
Profit before taxation	89,458	32,684
Depletion and depreciation of oil property	15,088	12,277
Depreciation of fixed assets	416	497
Amortisation of deferred expenditure	1,630	540
Provision for diminution in value of other investments	–	1,453
Loss on disposal of furniture and equipment (capitalised in oil property)	32	–
Gain on liquidation of associated company	(17)	–
Share of loss of associated company	–	3
Profit on disposal of subsidiaries	(434)	–
Net interest income	(15,468)	(3,032)
Decrease/(increase) in debtors and prepayments	3,669	(15,096)
Decrease in stocks	755	535
Decrease in short-term securities	–	12
Increase/(decrease) in creditors and accruals	30,699	(10,250)
Decrease/(increase) in net amount due from XPAB	204,077	(215,898)
(Decrease)/increase in advance from immediate holding company	(2,634)	2,634
Increase in amounts due to related parties	7,912	–
Increase in deferred charge	49,068	15,958
Exchange difference	(1,464)	2,286
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<b>382,787</b>	<b>(175,397)</b>

#### (b) Disposal of subsidiaries

	HK\$'000	HK\$'000
Net assets disposed of		
Other investments	1,341	–
Profit on disposal	434	–
	<hr/>	<hr/>
Satisfied by cash	<b>1,775</b>	–

The subsidiaries disposed of did not contribute nor utilise any significant cash flows of the Group during the period up to the date of disposal.

## NOTES TO THE ACCOUNTS *(continued)*

### 24 OIL PRODUCTION SHARING CONTRACT - XINJIANG CONTRACT

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

	1997 HK\$'000	1996 HK\$'000
<b>(a) Results</b>		
Turnover	<u>298,508</u>	<u>86,324</u>
Operating profit	<u>90,914</u>	<u>32,655</u>
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil property	2,857	7
Deferred charge (note 16(e))	<u>49,068</u>	<u>15,958</u>
<b>(b) Assets and liabilities</b>		
Oil property	446,660	29,133
Current assets	202,486	217,459
Current liabilities	<u>(133,102)</u>	<u>(31,510)</u>
Net assets	<u>516,044</u>	<u>215,082</u>

### 25 SUBSEQUENT EVENTS

- (a) On 20th February 1998, the Company issued 260,000,000 shares to Sun World for cash at HK\$2.35 per share following the placement of the same number of shares by Sun World at the same price.

The net proceeds were used to strengthen the capital base of the Company and to partly fund the acquisition of an interest in the Liaohe oilfield mentioned in (b) below.

## **NOTES TO THE ACCOUNTS** *(continued)*

### **25 SUBSEQUENT EVENTS** (continued)

- (b) On 30th December 1997, the Group, through Beckbury International Limited, a wholly owned subsidiary incorporated in the British Virgin Islands, entered into an oil production sharing contract (the “Leng Jiapu Area Petroleum Contract”) with CNPC, to develop and produce crude oil from the Leng Jiapu oilfield in Liaohe, Liaoning Province, the PRC (the “Leng Jiapu Project”). Pursuant to the Leng Jiapu Area Petroleum Contract, the Group agreed to acquire 70% of the production sharing interest in the Leng Jiapu Project for RMB1,008 million (approximately HK\$942 million), equivalent to 70% of the development costs and exploration costs hitherto incurred in the contract area, and to fund its share of the cost of the development in 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 to be responsible for 70% of the development cost after such first two years.

The Leng Jiapu Area Petroleum Contract took effect from 1st March 1998 following the approval by the Ministry of Foreign Trade and Economic Co-operation of the PRC on 13th February 1998 and shareholders at a Special General Meeting on 23rd February 1998.

- (c) On 4th February 1998, the Company entered into a subscription agreement with Sun World whereby Sun World has undertaken to subscribe for additional new shares up to HK\$386.5 million in aggregate upon demand made by the Company in writing on or before 31st December 1998.

The net proceeds will be used to fund the Leng Jiapu Project mentioned in (b) above.

### **26 ULTIMATE HOLDING COMPANY**

The directors of the Company consider China National Petroleum Corporation, a company incorporated in the PRC, as being the ultimate holding company.

### **27 APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 8th May 1998.

## NOTES TO THE ACCOUNTS *(continued)*

### 28 PRINCIPAL SUBSIDIARIES

As at 31st December 1997

	Place of incorporation	Ordinary share capital issued	Percentage of equity shares held	
			By the Company	By the Group
<b>Investment holding</b>				
<b>Operated in Hong Kong</b>				
First South China Capital Limited	Hong Kong	HK\$2	–	100
Fore-Tech Company Limited	Hong Kong	HK\$2	–	100
FSC (B.V.I.) Limited	British Virgin Islands	US\$50,000	100	100
FSC Investment Holdings Limited	Hong Kong	HK\$222,396,617	–	100
<b>Operated in Thailand</b>				
Thai Offshore Petroleum Limited	Thailand	BHT175,000,000 (fully paid up) BHT31,250,000 (25% paid up)	–	74
<b>Oil exploration and production</b>				
<b>Operated in Thailand</b>				
Central Place Company Limited	Hong Kong	HK\$1,600	–	100
Sino-Thai Energy Limited	Thailand	BHT120,000,000	–	100
Sino-U.S. Petroleum Inc.	United States of America	US\$1,000	–	100
Thai Energy Resources Limited	Thailand	BHT100,000	–	74

**NOTES TO THE ACCOUNTS** (continued)**28 PRINCIPAL SUBSIDIARIES** (continued)

As at 31st December 1997

	Place of incorporation	Ordinary share capital issued	Percentage of equity shares held	
			By the Company	By the Group
<b>Operated in the PRC</b>				
Hafnium Limited	British Virgin Islands	US\$1	100	100
<b>Marina club debentures and wet berths holding</b>				
<b>Operated in Hong Kong</b>				
Breener Holdings Limited	Hong Kong	HK\$2	–	65
Clavell Limited	Hong Kong	HK\$2	–	65
Cumberland Trading Limited	Hong Kong	HK\$2	–	65
Halcon Limited	Hong Kong	HK\$2	–	65
Helium Holdings Limited	Hong Kong	HK\$2	–	65
Henden Limited	Hong Kong	HK\$2	–	65
Linsan Limited	Hong Kong	HK\$2	–	65
Marina Ventures Hong Kong Limited	Hong Kong	HK\$1,000	–	65
Mindel Investments Limited	Hong Kong	HK\$2	–	65
Osaba Holdings Limited	Hong Kong	HK\$2	–	65
Stolt Investments Limited	Hong Kong	HK\$2	–	65
Tensor Limited	Hong Kong	HK\$2	–	65

**NOTES TO THE ACCOUNTS** (continued)**28 PRINCIPAL SUBSIDIARIES** (continued)

As at 31st December 1997

	Place of incorporation	Ordinary share capital issued	Percentage of equity shares held	
			By the Company	By the Group
Tradeair Investments Limited	Hong Kong	HK\$2	–	65
Visck Limited	Hong Kong	HK\$2	–	65
Wade Limited	Hong Kong	HK\$2	–	65
York Hire Investments Limited	Hong Kong	HK\$2	–	65

## FIVE YEAR SUMMARY

	Year ended 31st December				
	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000	1993 HK\$'000
<b>RESULTS</b>					
Turnover	<b>323,239</b>	108,650	11,756	38,064	20,242
Profit/(loss) from ordinary activities	<b>89,458</b>	32,687	(20,647)	(14,585)	(14,310)
Share of losses of associated companies	-	(3)	(5)	(33)	(69)
Profit/(loss) before taxation	<b>89,458</b>	32,684	(20,652)	(14,618)	(14,379)
Taxation	<b>26,351</b>	10,753	65	2	-
Profit/(loss) after taxation	<b>63,107</b>	21,931	(20,717)	(14,620)	(14,379)
Minority interests	-	-	64	(195)	(125)
Profit/(loss) for the year	<b>63,107</b>	21,931	(20,781)	(14,425)	(14,254)
Earnings/(loss) per share	<b>1.37c</b>	0.72c	(0.77c)	(0.53c)	(0.56c)

	As at 31st December				
	1997 HK\$'000	1996 HK\$'000	1995 HK\$'000	1994 HK\$'000	1993 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>1,000,067</b>	620,943	199,505	197,551	221,224
Total liabilities	<b>(171,318)</b>	(69,696)	(67,648)	(46,498)	(55,211)
Shareholders' funds	<b>828,749</b>	551,247	131,857	151,053	166,013

## RESERVE QUANTITIES INFORMATION

Proved reserves	PRC	Thailand (million barrels)	Total
As at 1st January 1997	44	5*	49
Adjustment to opening reserves	(8)	-	(8)
	36	5	41
Production for the year	(2)	-	(2)
As at 31st December 1997	<b>34</b>	<b>5</b>	<b>39</b>

\* 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 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 the McKinley Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Central, Hong Kong on Wednesday, 10th June 1998 at 11:00 a.m. and at any adjournment thereof on the resolutions as hereunder indicated:-

Table with 3 columns: RESOLUTIONS (note 4), FOR, and AGAINST. It lists five resolutions regarding accounts, director elections, fees, auditors, and general mandates.

Dated this ... day of ..., 1998 Signature: .....

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).
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.
4. Please indicate with a "x" in the space provided how you wish your vote(s) to be cast on a poll.
5. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, 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 2902-3, Tower one, Lippo Centre, 89 Queensway, 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.