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### **DIRECTORS AS AT 14TH APRIL 2004**

Mr Wang Mingcai (*Executive Chairman*)

Mr Li Hualin

(Executive Vice-Chairman & Managing Director)

Mr Lin Jingao

Dr Lau Wah Sum, GBS, LL.D., DBA, JP

Mr Aubrey Li Kwok Sing

### **SECRETARY**

Mr 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

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### **PRINCIPAL REGISTRARS**

Bank of Bermuda Limited

6 Front Street

Hamilton HM11, Bermuda

### **REGISTRARS IN HONG KONG**

Secretaries Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be convened at the Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Central, Hong Kong on Monday 31st May 2004 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 2003,
2. To declare dividend,
3. To elect Director and to authorise directors 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 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."
6. 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;

## Notice of Annual General Meeting

- (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)."

7. 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 6 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 5 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."

### SPECIAL RESOLUTION

8. To amend the Bye-Laws of the Company by passing the following as a special resolution:

**“THAT** the Bye-Laws of the Company be amended as follows:

(a) By deleting the existing definition of “associate” in Bye-Law 1(A) and substituting therefor the following new definition:

““associate” has the meaning ascribed to it under the Listing Rules;”

(b) By deleting the existing definition of “Clearing House” in Bye-Law 1(A) and substituting therefor the following new definition:

““Clearing House” means a clearing house or authorized share depository recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;”

(c) By adding the following new definition after the definition for ““paid up” or “paid”” in Bye-Law 1(A):

““Registration Office” in respect of any class of share capital, means such place as the board of Directors may from time to time determine to keep a branch register of members in respect of that class of share capital and where (except in cases where the board of Directors otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered;”

(d) By adding the following new definition after the definition for “the Directors” in Bye-Law 1(A):

““the Listing Rules” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);”

(e) By adding the following two paragraphs as the fourth and fifth paragraphs under Bye-Law 1(B):

“Expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form, and including where the representation takes the form of electronic display, provided that both the mode of service of the relevant document or notice and the member’s election comply with all applicable Statutes, rules and regulations.

References to a document being executed include references to it being executed under hand or under seal or by electronic signature or by any other method and references to a notice or document include a notice or document recorded or stored in any digital, electronic, electrical, magnetic or other retrievable form or medium and information in visible form whether having physical substance or not.”

(f) By adding the following words immediately after the words “in any usual or common form” in Bye-Law 39(A):

“or in a form prescribed by the Designated Stock Exchange”

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- (g) By adding the following words immediately after the words “one leading Chinese language newspaper,” in Bye-Law 44:

“or by any means in such manner as may be accepted by the Designated Stock Exchange to that effect”

- (h) By adding the following words immediately before the words “any share premium account” in Bye-Law 53:

“, save for the use of share premium as expressly permitted by the Act,”

- (i) By deleting the existing Bye-Law 67 and substituting therefor the following as the new Bye-Law 67:

“67. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-Laws, at any general meeting on a show of hands every member present in person (or being a corporation, is present by a representative duly authorised under Section 78 of the Act), or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Bye-Laws, where more than one proxy is appointed by a member which is a Clearing House (or its nominee(s)), each such proxy shall have one vote on a show of hands.

A resolution put to the vote of a meeting shall be decided on a show of hands unless otherwise required under the Listing Rules or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person (or in the case of a member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member or in the case of a member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a member.

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Unless a poll is so demanded and the demand is not withdrawn or otherwise required under the Listing Rules, a declaration by the chairman that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or lost and an entry to that effect in the book of the proceedings of the Company shall be conclusive evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against that resolution.”

- (j) By adding the following new Bye-Law 75(A):

“75A. No member shall, unless the board of Directors otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any general meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.”

- (k) By adding the following new Bye-Law 75(B):

“75B. Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.”

- (l) By deleting the last sentence of the existing Bye-Law 84(B) and substituting therefor the following as the last sentence of the new Bye-Law 84(B):

“The person so authorised shall be deemed to have been duly authorised without further evidence of the facts and will be entitled to exercise the same power on behalf of the relevant Clearing House as that Clearing House (or its nominee(s)) could exercise if it were an individual shareholder of the Company.”

- (m) By deleting the words “at least 7 days before the date of the general meeting appointed for such election.” at the end of Bye-Law 87 and substituting therefor for the following words:

“and lodged at the head office or at the Registration Office provided that the minimum length of the period during which such notice(s) may be given shall be at least 7 days and that the period for lodgment of the above notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.”

- (n) By deleting the existing Bye-Laws 109(E) to (H) and substituting therefor the following:

“(E) A Director shall not vote (nor be counted in the quorum) on any resolution of the Directors approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest, but this prohibition shall not apply and a Director may vote (and be counted in the quorum) in respect of any resolution concerning any one or more of the following matters:

- (i) the giving to him or any of his associates of any guarantee, indemnity or security in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

## Notice of Annual General Meeting

- (ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself or any of his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
  - (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
  - (iv) any proposal concerning any other company in which he or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which he or his associate(s) is/are beneficially interested in shares of that company, provided that he and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
  - (v) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which he or his associate(s) may benefit; or (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to him, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of him, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;
  - (vi) any contract or arrangement in which he or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.
- (F) Where a company in which a Director and/or his associate(s) owns five (5) per cent. or more is materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction. A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s) (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

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- (G) If any question arises at any meeting as to the materiality of an interest of a Director (other than the chairman of the meeting) or any of his associates or as to the entitlement of any Director (other than the chairman of the meeting) to vote and the question is not resolved by his voluntarily agreeing to abstain from voting, the question shall be referred to the chairman of the meeting and his ruling in relation to the Director concerned shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or any of his associates concerned, so far as known to him, has not been fairly disclosed. If any question shall arise in respect of the chairman of the meeting or any of his associates and is not resolved by his voluntarily agreeing to abstain from voting, the question shall be decided by a resolution of the Directors (for which purpose the chairman shall be counted in the quorum but shall not vote on the matter) and the resolution shall be final and conclusive except in a case where the nature or extent of the interest of the chairman or any of his associates, so far as known to him, has not been fairly disclosed."
- (o) By deleting the existing Bye-Law 155 and substituting therefor the following:
- "155. Subject to Section 88 of the Act and Bye-Law 155A, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the annual general meeting and laid before the Company in annual general meeting in accordance with the requirements of the Act provided that this Bye-Law shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures."
- (p) By adding the following new Bye-Law 155(A):
- "155A. To the extent permitted by and subject to due compliance with all applicable Statutes, rules and regulations, including, without limitation, the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction and the rules of the Designated Stock Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Bye-Law 155 shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Statutes, a summary financial report derived from the Company's annual accounts and the Directors' report which shall be in the form and containing the information required by applicable laws and regulations, provided that any person who is otherwise entitled to the annual financial statements of the Company and the Directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial report, a complete printed copy of the Company's annual financial statement and the Directors' report thereon."

## Notice of Annual General Meeting

- (q) By adding the following new Bye-Law 155(B):

"155B. The requirement to send to a person referred to in Bye-Law 155 the documents referred to in that provision or a summary financial report in accordance with Bye-Law 155A shall be deemed satisfied where, subject to and in accordance with all applicable Statutes, rules and regulations, including, without limitation, the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction and the rules of the Designated Stock Exchange, the Company publishes copies of the documents referred to in Bye-Law 155 and, if applicable, a summary financial report complying with Bye-Law 155A, on the Company's computer network or in any other permitted manner (including by sending any form of electronic communication), and that person has agreed or is deemed to have agreed to treat the publication or receipt of such documents in such manner as discharging the Company's obligation to send to him a copy of such documents."

- (r) By deleting the existing Bye-Laws 160 and 161 and substituting therefor the following as the new Bye-Laws 160 and 161, respectively:

"160. Any notice or document (including any "corporate communication" within the meaning ascribed thereto under the Listing Rules) whether or not to be given or issued under these Bye-Laws from the Company to a member shall be in writing or by cable, telex or facsimile transmission message or other form of electronic transmission or communication and any such notice and document may be served or delivered by the Company on or to any member either personally or by sending it through the post in a prepaid envelope addressed to such member at his registered address as appearing in the register or at any other address supplied by him to the Company for the purpose or, as the case may be, by transmitting it to any such address or transmitting it to any telex or facsimile transmission number or electronic number or address or website supplied by him to the Company for the giving of notice to him or which the person transmitting the notice reasonably and bona fide believes at the relevant time will result in the notice being duly received by the member or may also be served by advertisement in appointed newspapers (as defined in the Act) or in newspapers published daily and circulating generally in the territory of and in accordance with the requirements of the Designated Stock Exchange or, to the extent permitted by the applicable laws, by placing it on the Company's website and giving to the member a notice stating that the notice or other document is available there (a "notice of availability"). The notice of availability may be given to the member by any of the means set out above. In the case of joint holders of a share all notices shall be given to that one of the joint holders whose name stands first in the register and notice so given shall be deemed a sufficient service on or delivery to all the joint holders.

161. Any notice or other document:

- (a) if served or delivered by post, shall where appropriate be sent by airmail and shall be deemed to have been served or delivered on the day following that on which the envelope containing the same, properly prepaid and addressed, is put into the post; in proving such service or delivery it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly addressed and put into the post and a certificate in writing signed by the secretary or other officer of the Company or other person appointed by the board of Directors that the envelope or wrapper containing the notice or other document was so addressed and put into the post shall be conclusive evidence thereof;

## Notice of Annual General Meeting

- (b) if sent by electronic communication, shall be deemed to be given on the day on which it is transmitted from the server of the Company or its agent. A notice placed on the Company's website is deemed given by the Company to a member on the day following that on which a notice of availability is deemed served on the member;
- (c) if served or delivered in any other manner contemplated by these Bye-Laws, shall be deemed to have been served or delivered at the time of personal service or delivery or, as the case may be, at the time of the relevant despatch, transmission or publication; and in proving such service or delivery a certificate in writing signed by the secretary or other officer of the Company or other person appointed by the board of Directors as to the fact and time of such service, delivery, despatch, transmission or publication shall be conclusive evidence thereof; and
- (d) may be given to a member either in the English language or the Chinese language, subject to due compliance with all applicable Statutes, rules and regulations.”

By Order of the Board

**Lau Hak Woon**

*Company Secretary*

Hong Kong, 14th April 2004

*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 3 above, in accordance with Articles 89 & 97 of the Company's Bye-laws, Mr. Lin Jingao and Dr. Liu Xiao Feng retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.
4. Concerning item 6 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.

## Chairman's Statement

I am pleased to announce to the shareholders on behalf of the Board that the Group's consolidated profit after taxation and minority interests for the year ended 31st December 2003 is HK\$516,403,000, representing an increase of 46.44% as compared with profit of HK\$352,641,000 for the previous year.

As compared with last year, crude oil sales volume increased by 14.56%, and turnover was up by 26.15%. The weighted average price of crude oil per barrel was approximately US\$24.31, representing an increase of approximately 19.45% compared with last year of US\$20.35. The overall profit attributable to shareholders increased by 46.44% as compared with last year. The increase in profit attributable to shareholders was mainly attributable to the Kursangi and Karabagli ("K&K") oil fields in the Azerbaijan Republic and oil field in the Sultanate of Oman.

### BUSINESS REVIEW

The Group continued to expand its overseas operations in 2003 and acquired partial interest in the Gobustan oil field situated in the Azerbaijan Republic and the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields situated in the Republic of Kazakhstan. The Group was also granted the right to explore oil field in the L21/43 concession area located in central Thailand by the Thailand Government. As at the end of 2003, the Group had ten oil exploration and production projects situated in seven different countries in total. Following the implementation of comprehensive exploration and development program, these oil fields are expected to make contribution to the Group in the future.

#### Liaoheng Leng Jiapu Oil Field in The People's Republic of China ("PRC")

The Liaoheng Leng Jiapu Contract Area sold a total of 1,291,000 tonnes of crude oil. The sales volume remained roughly the same as the previous year. On a 70% share basis, profit after tax attributable to the Group was HK\$296,578,000, or an increase of 20.01% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and thus a contribution of RMB336,420,000 (approximately HK\$317,198,000) was made by the Group during the year as part of the fund required for the drilling of new wells and construction of ground production facilities.

#### Xinjiang Karamay Oil Field in the PRC

The Xinjiang Karamay Contract Area produced a total of 730,000 tonnes of crude oil, of which 44,000 tonnes were kept for its own use in order to cut cost. In 2003, 680,000 tonnes of crude oil were sold, representing an increase of 8.54% compared with previous year. On a 54% share basis, profit after tax attributable to the Group was HK\$135,590,000, or an increase of approximately 41.23% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and thus a contribution of RMB21,082,000 (approximately HK\$19,878,000) was made by the Group during the year as part of the fund required for stabilizing the production.

#### Oil fields in Thailand (Sukhothai and L21/43)

As a result of the relentless effort of the Group in increasing efficiency as well as in reducing costs, the Sukhothai Concession in Thailand recorded a profit of HK\$27,682,000 in 2003, an increase of 58.99% compared with last year. The Company will continue to identify potential of the oil fields to improve efficiency.

In July 2003, the Group was granted the right to explore oil field in the L21/43 concession area located in central Thailand by the Thailand Government. Exploration will commence in 2004 and it is hoped that satisfactory result can be achieved as anticipated.

## Chairman's Statement

### Talara Oil Field in Peru

In 2003, the Talara oil field in Peru recorded HK\$21,410,000 profit after tax and minority interests for the Group.

### Oil field in the Union of Myanmar (Tetma Block IOR-3, Tuyintaung Block RSF-2 and Gwegyo-Ngashandauang Block RSF-3)

In November 2001, the Group entered into an agreement to acquire 35% interest in the rights to explore an oil field in the Union of Myanmar. The acquisition was approved by the government of the Union of Myanmar in March 2002. TG World Energy (Bahamas) Limited proposed to surrender its 30% interest in the oil field at no consideration in September 2003 and approval of the government has been obtained. After adjustment, the Group's interest in the oil field increased to 50%. Exploration work has commenced in the hope of fruitful results in the near future.

### Oil field in the Sultanate of Oman (Block 5)

The Group held 25% interest in an oil field located in the Sultanate of Oman. In 2003, the oil field sold 790,000 barrels of crude oil and recorded a profit of HK\$35,211,000 for the Group. Full Scale development of the oil field will commence in 2004.

### K&K Oil Field in the Azerbaijan Republic

The Group held 25% interest in the K&K oil fields in the Azerbaijan Republic, which recorded a profit of HK\$19,858,000 for the Group in 2003.

### Gobustan Oil Field in the Azerbaijan Republic

In March 2003, the procedure to acquire 31.41% equity interest in Commonwealth Gobustan Limited ("CGL") was completed. The company owns 80% participating interest in an oil field in the South-West of Gobustan, the Azerbaijan Republic. The Group has started to formulate future plans for exploration, development and operation, and participate in the management of the oil field. Exploration will commence in 2004.

### Steel pipes manufacturing

華油鋼管有限公司 ("North China"), which was set up by the Group together with 華北石油管理局 (the "Bureau"), has commenced production in full scale. Leveraging on the experience of the Bureau in the manufacture and sale of oil pipes and gas pipes, and the production of high quality steel pipes, North China can produce high quality steel pipes to satisfy the demand of the project for transportation of natural gas from West to East of the PRC and other pipe projects. In December 2002, the Group agreed to set up a branch factory in the Shanghai Pudong Economic Development Zone, the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. Due to market changes, North China decided to relocate the factory to Yangzhou Han Jiang Industrial Park, the PRC. In 2003, North China generated a profit of HK\$15,738,000 for the Group.

### Biaxially Oriented Polypropylene ("BOPP") project

The BOPP film factory jointly established with 大慶石油管理局 has completed its trial production with satisfactory results in 2003 and will have commercial production in 2004. With the PRC's accession to the World Trade Organisation, demand for packaging materials will gradually increase and this operation is expected to bring stable revenue to the Group.

### Oil field in the Republic of Kazakhstan (Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt))

In December 2003, the Group successfully acquired 40% equity interest in CNPC International (Caspian) Limited ("Caspian"), which owned 25.12% equity interest in CNPC International Aktobe Petroleum Joint-Stock Company ("Aktobe"). As a result of the acquisition, the Group indirectly owns 10.05% interest of Aktobe. The shares of which are listed and traded on the Kazakhstan Securities Exchange, Aktobe also owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields.

### BUSINESS PROSPECTS

The positioning of the Group's future development remains unchanged. It still focuses on investing in petroleum up-stream business as well as other petroleum-related businesses that stabilise income. The Group will continue to explore new business opportunities, increase oil reserves, invest in different regions on projects with lower risk and reasonable return and develop petroleum-related business in the PRC and overseas. With a sound financial position and supplemented with an appropriate level of leverage, the Group aims at expanding into an international petroleum corporation.

The future growth of the Group will rely on strengthening the management of the existing oil exploration and development projects, controlling costs, increasing efficiency, stabilising income and making new acquisitions with an aim to increase crude oil reserve and production, enhance revenue and increase shareholders' return.

### FINAL DIVIDEND

With satisfactory results for the year, the Board of Directors has recommended the payment of a final dividend of HK\$0.020 (2002: HK\$0.035) per share. The proposed dividend will be paid on or about 28th June 2004 to the shareholders whose names appear on the Register on 28th May 2004, following approval at the Annual General Meeting.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May 2004 to 28th May 2004 both days inclusive, during which period no transfers of shares will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Secretaries Ltd. at the Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21st May 2004 in order to qualify for the proposed final dividend.

### CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd at any time during the twelve months ended 31st December 2003.

### AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and principles adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the twelve months ended 31st December 2003.

By Order of the Board

**Wang Mingcai**

*Executive Chairman*

Hong Kong, 14th April 2004

### LIQUIDITY AND CAPITAL RESOURCES

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

The major changes of the assets are as follows:

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

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

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

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

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

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

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

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

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

## Management Discussion and Analysis

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

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

### USE OF PROCEEDS

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

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

### EMPLOYEE

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

### NEW INVESTMENTS

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

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

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

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are the exploration and production of crude oil and natural gas in the People's Republic of China ("PRC"), the Sultanate of Oman, Peru, the Azerbaijan Republic, and Thailand.

An analysis of the Group's performance for the year by geographical and business segment is set out in note 3 to the accounts.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated profit and loss account on page 28.

The directors recommend the payment of a final dividend of HK\$0.02 per share for the year ended 31st December 2003, totalling HK\$95,130,000.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the accounts.

### **DONATIONS**

Charitable and other donations made by the Group during the year amounted to HK\$10,000 (2002: HK\$10,000).

### **PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 12 to the accounts.

### **SHARE CAPITAL**

Details of the movements in share capital of the Company are set out in note 24 to the accounts.

### **FIVE YEAR 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 76.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 134,710,000 shares of HK\$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and cancelled, details of which are as follows:

Month	Number of shares repurchased	Price per share		Aggregate amount paid HK\$'000
		Highest price HK\$	Lowest price HK\$	
April	11,600,000	0.58	0.56	6,563
May	14,540,000	0.65	0.59	9,096
June	61,960,000	0.70	0.64	42,078
July	46,610,000	0.75	0.69	33,730
	<u>134,710,000</u>			<u>91,467</u>

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

### DIRECTORS

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

Mr Wang Mingcai

Mr Li Hualin

Mr Lin Jingao

Dr Lau Wah Sum

Mr Aubrey Li Kwok Sing

Mr Xu Tianshu

(resigned on 3rd January 2003)

In accordance with Article 89 & 97 of the Company's Bye-Laws, Mr Lin Jingao and Dr Liu Xiao Feng retire at the forthcoming Annual General Meeting and, being eligible, offer themselves 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 and Mr Aubrey Li Kwok Sing, Independent Non-Executive Directors, were appointed for a two-year term expiring on 31st December 2004 and 31st July 2004 respectively.

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 Wang Mingcai** *(Executive Chairman)*

Age 58, graduated from Petroleum University of Beijing in 1970 with Bachelor's Degree in Petroleum Geology and was awarded the Certificate of Mastery in English from Zhongshan University in 1987. Mr Wang has more than 30 years' experience in the petroleum industry. He has worked at Liaohe Oil Field as Engineer and Project Manager; Senior Engineer and Project Manager of China Offshore Oil Nanhai East Corp and Senior Oil Reservoir Engineer of the ACT (with Agip, Chevron and Texaco) Operation group. From 1993, Mr Wang has been assigned to be responsible for China National Petroleum Corporation ("CNPC") overseas projects. He was the President of CNPC International Venezuela Ltd. Mr Wang joined the Company as Executive Chairman in January 2001.

##### **Mr Li Hualin** *(Executive Vice-Chairman & Managing Director)*

Age 41, after graduated from South West Petroleum University in 1983 with Bachelor's Degree in Oil and Gas Exploration and Prospecting Engineering, Mr Li joined CNPC in the same year. He was the Deputy Director of CNPC office at Houston in the U.S.A.; Chairman & General Manager of CNPC Canada Ltd in Canada and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation. In 2000, Mr Li was awarded the degree of Master of Business Administration from The University of Nebraska. He joined the Company as Executive Vice-Chairman & Managing Director in January 2001.

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

Age 59, 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.

##### **Dr Lau Wah Sum**, GBS, LLD, DBA, JP *(Independent Non-Executive Director)*

Age 76, is a 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 Urban Renewal Authority, Court 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 54, was appointed as an Independent Non-Executive Director of the Company in 1998. He is a director of Management Capital Limited, a financial advisory and direct investment firm, and has over 25 years' experience in merchant banking and commercial banking. He is also a non-executive director of ABC Communications (Holdings) Limited, The Bank of East Asia, Limited, Cafe de Coral Holdings Limited, China Everbright International Limited, Chinney Alliance Group Limited, Kowloon Development Company Limited and Value Partners China Greenchip Fund Limited. He is non-executive chairman of Atlantis Asian Recovery Fund plc. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

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

#### Senior Management

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

Age 51, member of Hong Kong Society of Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 25 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the chief Financial Officer of several large companies in Hong Kong and Canada.

#### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group'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 2003, the interests of the directors and chief executive in the shares of the Company (within the meaning of the Securities and Future Ordinance (the "SFO")), as recorded in the register maintained under section 352 of the SFO or as notified to the Company were as follows:

- (a) Messrs Wang Mingcai and Li Hualin are directors of Sun World Limited ("Sun World") which beneficially owned 2,653,967,342 shares in the Company as at 31st December 2003. Sun World is a wholly owned subsidiary of CNPC, the Company's ultimate holding company incorporated in the PRC.
- (b) Share options are granted to directors under the executive share option scheme approved by the board of directors on 23rd October 1991 and 3rd June 2002 respectively. Details are set out in the section headed "Share Options" of this report.

Save for the above, at no time during the year was the Company, its 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.

### SHARE OPTIONS

Pursuant to a resolution passed on 23rd October 1991, an executive share option scheme (the "1991 Share Option Scheme") was adopted by the Company. 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 1991 Share Option Scheme. The 1991 Share Option Scheme was early terminated on 28th May 2001 with the share options granted under such scheme still valid until their respective expiry dates. On the same date, another share option scheme (the "2001 Share Option Scheme") was adopted.

On 3rd June 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the 2001 Share Option Scheme and the adoption of a new share option scheme (the "2002 Share Option Scheme"). No option was granted under the 2001 Share Option Scheme. As at 31st December 2003, options to subscribe for a total of 100,000,000 option shares were still outstanding under the 1991 Share Option Scheme.

The following is a summary of the principal terms of share option schemes of the Company (for the 1991 and 2002 Share Option Scheme, only those terms applying to the outstanding option shares are set out below):

#### (a) 1991 Share Option Scheme

The 1991 Share Option Scheme was designed to give executive directors and full-time employee of the Group equity interest in the Company in order to enhance long-term shareholder value. The granting of options will also help the Company to attract and motivate individuals with experience and ability and to reward individuals for past and future performance.

Options may be exercised at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by grantee. No amount shall be payable by the grantee to the Company in exercising the right to accept an offer of an option.

The total number of shares may be issued upon exercise of all outstanding options granted and yet to be exercised under the 1991 Share Option Scheme as at the date of the annual report is 100,000,000, representing approximately 2.1 % of the issued share capital of the Company as of that date. The maximum entitlement of any qualifying participant shall not exceed 25% of the aggregate number of shares subject to the scheme.

The 1991 Share Option Scheme was terminated on 3rd June 2002 such that thereafter no further options will be granted and the existing options shall continue to be valid and exercisable in accordance with their terms of issue.

### SHARE OPTIONS (continued)

#### (b) 2002 Share Option Scheme

The purpose of the 2002 Share Option Scheme is to provide incentives to the directors and full-time employees of the Company to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme shall not in aggregate exceed 10% of the shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit"), provided that the Company may, at any time as the board of directors of the Company may think fit, seek approval from its shareholders to refresh the Scheme Mandate Limit in accordance with the provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30% of the shares in issue from time to time.

Options may be exercised at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by grantee. No amount shall be payable by the grantee to the Company in exercising the right to accept an offer of an option.

The exercise price shall be fixed at such level as the board of directors may determine save that it shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant, and (iii) the par value of the shares for the time being.

The 2002 Share Option Scheme will expire on 2nd June 2012.

## SHARE OPTIONS (continued)

### (b) 2002 Share Option Scheme (continued)

The following shows the particulars of share options granted to directors and senior executive of the Company that are required to be disclosed under Rule 17.07 of the Listing Rules:

Name	Date of grant	Exercise price HK\$	Balance at 1st January 2003	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance at 31st December 2003	Exercisable period
<b>Directors:</b>									
Mr Wang Mingcai	8th March 2001	0.41	20,000,000	-	-	-	-	20,000,000	8th June 2001 to 7th March 2006
	26th April 2001	0.61	30,000,000	-	-	-	-	30,000,000	26th July 2001 to 25th April 2006
Mr Li Hualin	8th March 2001	0.41	20,000,000	-	-	-	-	20,000,000	8th June 2001 to 7th March 2006
	26th April 2001	0.61	20,000,000	-	-	-	-	20,000,000	26th July 2001 to 25th April 2006
Mr Lin Jingao	26th April 2001	0.61	10,000,000	-	-	-	-	10,000,000	26th July 2001 to 25th April 2006
Mr Xu Tianshu (resigned on 3rd January 2003, note)	12th May 1999	0.91	20,000,000	-	-	-	20,000,000	-	12th August 1999 to 11th May 2004
	26th April 2001	0.61	10,000,000	-	-	-	10,000,000	-	26th July 2001 to 25th April 2006
<b>Employee:</b>									
	3rd March 1998	1.61	5,000,000	-	-	5,000,000	-	-	3rd June 1998 to 3rd March 2003
	26th April 2001	0.61	5,000,000	-	5,000,000	-	-	-	26th July 2001 to 25th April 2006
	9th April 2003	0.574	-	5,000,000	5,000,000	-	-	-	9th April 2003 to 8th April 2008
			<u>140,000,000</u>	<u>5,000,000</u>	<u>10,000,000</u>	<u>5,000,000</u>	<u>30,000,000</u>	<u>100,000,000</u>	

Note: Mr Xu Tianshu resigned as a director of the Company on 3rd January 2003 and pursuant to the 1991 Share Option Scheme his share options were cancelled on the same day.

### SUBSTANTIAL SHAREHOLDERS

At 31st December 2003, the register of substantial shareholders maintained under section 336 of the SFO shows that the company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Name	Number of shares
Sun World	2,653,967,342 *

\* 2,304,502,468 shares are registered under the name of HKSCC Nominees Limited.

Sun World is a wholly owned subsidiary of CNPC and CNPC is accordingly deemed to have interest in the 2,653,967,342 shares held by Sun World.

Save as disclosed above, no person had any interest or short position in any shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

### PRE-EMPTIVE RIGHTS

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

### CONNECTED TRANSACTIONS

Pursuant to Chapter 14 of the Listing Rules, the following connected transactions of the Group require disclosure in the annual report of the Group.

- (a) On 24th January 2003, Smart Achieve Developments Limited ("Smart Achieve"), a wholly owned subsidiary of the Company, entered into a Sale and Purchase Agreement and a Novation Agreement with Rosco S.A. ("RSA") to acquire:
- 31.41% of the issued share capital of Commonwealth Gobustan Limited ("CGL") (the "Sale Shares") who has an undivided 80% participating interest in the right to explore, develop and produce crude oil in the Three Blocks of the South-West Gobustan in the Azerbaijan Republic; and
  - 30% of the loan advanced by RSA to CGL (the "Loan") under the Loan Agreement dated 26th March 2002 (the "Loan Agreement").

The consideration for the acquisition of Sale Shares is US\$10,500,000 (approximately HK\$81,900,000) and 30% of the aggregate amount of the Loan amounting to US\$6,000,000 (approximately HK\$46,800,000). During the year, the Group paid US\$5,100,000 (approximately HK\$39,780,000) in respect of the Loan, and the remaining US\$900,000 (approximately HK\$7,020,000) was paid in 2004.

### CONNECTED TRANSACTIONS (continued)

On the same date, CNPC International Limited ("CIL"), a wholly owned subsidiary of CNPC, entered into a separate Sale and Purchase Agreement to acquire RSA's another 31.41% interest in the issued share capital of CGL and remaining 70% of the outstanding loans advanced by RSA to CGL under the same Loan Agreement mentioned above. Upon completion of the above transactions, Smart Achieve and CIL will become shareholders of CGL and therefore, the Novation Agreement will constitute the granting of financial assistance by Smart Achieve to CGL, which constitutes a connected transaction for the Company.

- (b) On 10th December 2003, Bestory Company Inc., a wholly owned subsidiary of the Company, entered into a Sale and Purchase Agreement with CIL to acquire a 40% shareholding interest in CNPC International (Caspian) Ltd. ("Caspian") for a consideration of US\$10,950,000 (approximately HK\$85,191,000). Caspian owns approximately 25.12% interests in CNPC International Aktobe Petroleum Joint-Stock Company, a joint stock company listed on the Kazakhstan Stock Exchange, the principal activity of which is the exploration and production of petroleum in Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields located in the north-western region of the Republic of Kazakhstan.

In addition to the above, the Group entered into certain transactions with related parties as set out in note 28 to the accounts which also constitute connected transactions under Chapter 14 of the Listing Rules. The Independent Non-Executive Directors, Dr Lau Wah Sum and Mr Aubrey Li Kwok Sing, have reviewed the above transactions and those disclosed in note 28 to the accounts, and confirmed 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 Entrustment Contracts as mentioned in notes 31 and 32 to the accounts 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	28%
Percentage of purchases attributable to the Group's five largest suppliers	43%
Percentage of sales attributable to the Group's largest customer	54%
Percentage of sales attributable to the Group's five largest customers	99%

Liaohe Petroleum Exploration Bureau ("LPEB") is the Group's largest supplier.

PetroChina Company Limited, a listed subsidiary of CNPC, is the Group's largest customer.

LPEB is an operational entity owned and controlled by CNPC.

### MAJOR CUSTOMERS AND SUPPLIERS (continued)

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.

### AUDIT COMMITTEE

Pursuant to the Listing Rules, 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 directors 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.

### AUDITORS

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

On behalf of the Board

**Wang Mingcai**

*Executive Chairman*

Hong Kong, 14th April 2004



羅兵咸永道會計師事務所

### **AUDITORS' REPORT TO THE SHAREHOLDERS OF CNPC (HONG KONG) LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 28 to 75 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 solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **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 circumstances of the Company and the Group, 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 of the state of affairs of the Company and the Group as at 31st December 2003 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, 14th April 2004

## Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Turnover	3	2,098,686	1,663,591
Cost of sales		<u>(1,440,452)</u>	<u>(1,199,816)</u>
Gross profit		658,234	463,775
Other revenues	3	43,379	56,736
Administrative expenses		<u>(26,746)</u>	<u>(24,905)</u>
Operating profit	4	674,867	495,606
Finance costs	5	(7,495)	(5,757)
Share of profits less losses of			
Jointly controlled entities		45,254	9,011
An associated company		<u>(1,303)</u>	<u>–</u>
Profit before taxation		711,323	498,860
Taxation	6	<u>(175,993)</u>	<u>(136,704)</u>
Profit after taxation		535,330	362,156
Minority interests		<u>(18,927)</u>	<u>(9,515)</u>
Profit attributable to shareholders	7 & 25	<u>516,403</u>	<u>352,641</u>
Dividend	8	<u>95,130</u>	<u>170,842</u>
Earnings per share	9		
– Basic		<u>HK10.74cents</u>	<u>HK7.18cents</u>
– Fully diluted		<u>HK10.67cents</u>	<u>HK7.17cents</u>

# Consolidated Balance Sheet

As at 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>2,661,761</b>	2,700,235
Investments in jointly controlled entities	14	<b>556,566</b>	364,426
Investment in an associated company	15	<b>84,107</b>	–
Other non-current assets	16	<b>1,928</b>	1,928
Deferred tax assets	27	<b>23,119</b>	17,784
		<b>3,327,481</b>	3,084,373
<b>Current assets</b>			
Inventories	17	<b>29,329</b>	31,864
Trade receivables	18	<b>69,089</b>	48,407
Deposits, prepayments and other receivables		<b>35,741</b>	53,006
Bank balances and cash	19	<b>1,007,646</b>	950,640
		<b>1,141,805</b>	1,083,917
<b>Current liabilities</b>			
Trade payables	20	<b>92,064</b>	54,675
Other payables and accruals	21	<b>173,063</b>	162,308
Amount due to the ultimate holding company		<b>1,171</b>	1,171
Amount due to a minority shareholder		–	218
Taxation payable		<b>28,537</b>	59,539
Deferred charge	22	<b>51,311</b>	77,847
Current portion of long-term borrowings	26	<b>20,280</b>	–
Loan from a minority shareholder	23	–	54,608
		<b>366,426</b>	410,366
Net current assets		<b>775,379</b>	673,551
Total assets less current liabilities		<b>4,102,860</b>	3,757,924
<b>Financed by:</b>			
Share capital	24	<b>47,565</b>	48,812
Reserves	25	<b>3,252,849</b>	2,912,508
Proposed dividend	25	<b>95,130</b>	170,842
Shareholders' funds		<b>3,395,544</b>	3,132,162
Minority interests		<b>137,653</b>	118,726
Long term borrowings	26	<b>354,120</b>	319,800
Deferred tax liabilities	27	<b>215,543</b>	187,236
		<b>4,102,860</b>	3,757,924

**Wang Mingcai**  
Executive Chairman

**Li Hualin**  
Executive Vice-Chairman & Managing Director

## Balance Sheet

As at 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	12	116	348
Investments in subsidiaries	13	2,725,945	2,673,174
Investments in jointly controlled entities	14	194,604	161,575
		<u>2,920,665</u>	<u>2,835,097</u>
Current assets			
Deposits, prepayments and other receivables		565	600
Bank balances and cash		140,428	55,445
		<u>140,993</u>	<u>56,045</u>
Current liabilities			
Other payables and accruals		4,728	2,309
		<u>4,728</u>	<u>2,309</u>
Net current assets		<u>136,265</u>	<u>53,736</u>
Total assets less current liabilities		<u>3,056,930</u>	<u>2,888,833</u>
Financed by:			
Share capital	24	47,565	48,812
Reserves	25	2,914,235	2,669,179
Proposed dividend	25	95,130	170,842
Shareholders' funds		<u>3,056,930</u>	<u>2,888,833</u>

**Wang Mingcai**  
Executive Chairman

**Li Hualin**  
Executive Vice-Chairman & Managing Director

# Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Net cash inflow generated from operations	30(a)	<b>1,184,048</b>	852,005
Interest paid		<b>(7,495)</b>	(5,757)
Overseas taxes paid		<b>(184,023)</b>	(136,490)
Net cash from operating activities		<b>992,530</b>	709,758
Investing activities			
Purchase of property, plant and equipment		<b>(459,804)</b>	(646,504)
Increase in investments in jointly controlled entities		<b>(81,900)</b>	(298,224)
Increase in investment in an associated company		<b>(85,410)</b>	–
Increase in amounts due from jointly controlled entities		<b>(73,933)</b>	(9,919)
Dividend received from a jointly controlled entity		<b>8,947</b>	–
Deconsolidation of a subsidiary	30(b)	–	(390)
(Increase)/decrease in funds placed in deposits maturing after three months		<b>(44,695)</b>	237,386
Proceeds from sale of property, plant and equipment		–	1
Interest received		<b>15,041</b>	16,748
Net cash used in investing activities		<b>(721,754)</b>	(700,902)
Financing activities	30(c)		
Repurchase of own shares		<b>(91,467)</b>	(26,668)
Exercise of share option		<b>5,920</b>	–
New long-term loan		<b>54,600</b>	319,800
Decrease in amount due to a minority shareholder		<b>(218)</b>	(5,999)
Repayment of loan from a minority shareholder		<b>(54,608)</b>	(15,654)
Repayment of loan from a related company		–	(49,920)
Dividend paid		<b>(170,064)</b>	(98,601)
Net cash (used in)/from financing activities		<b>(255,837)</b>	122,958
Net increase in cash and cash equivalents		<b>14,939</b>	131,814
Cash and cash equivalents at 1st January		<b>653,638</b>	523,993
Effect of foreign exchange rate changes		<b>(2,628)</b>	(2,169)
Cash and cash equivalents at 31st December		<b>665,949</b>	653,638
Analysis of bank balances and cash			
Cash and cash equivalents at 31st December		<b>665,949</b>	653,638
Term deposits maturing after three months		<b>341,697</b>	297,002
Bank balances and cash at 31st December		<b>1,007,646</b>	950,640

## Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Note	2003 HK\$'000	2002 HK\$'000
Total equity as at 1st January		<b>3,132,162</b>	2,905,060
Exchange differences arising on translation of the financial statements of overseas operations	25	<b>2,590</b>	(270)
Gain/(loss) not recognised in the profit and loss account		<b>2,590</b>	(270)
Profit for the year	25	<b>516,403</b>	352,641
Exercise of share options	24 & 25	<b>5,920</b>	–
Repurchase of own shares for cancellation	24 & 25	<b>(91,467)</b>	(26,668)
Dividend paid	25	<b>(170,064)</b>	(98,601)
Total equity as at 31st December		<b>3,395,544</b>	3,132,162

## 1 PRINCIPAL ACTIVITIES

The principal activities of the Group are the exploration and production of crude oil and natural gas in the People's Republic of China ("PRC"), the Sultanate of Oman, Peru, the Azerbaijan Republic and Thailand.

The oil operation in the PRC is conducted through production sharing arrangements with PetroChina Company Limited ("PetroChina"), a listed subsidiary of China National Petroleum Corporation ("CNPC"), the Company's ultimate holding company, whereby the Group is entitled to a fixed percentage of production in accordance with the respective oil production sharing contracts entered into with PetroChina.

The Group presently has two production sharing arrangements in the PRC. On 1st July 1996, the Group entered into an oil production sharing contract (the "Xinjiang Contract") to develop and produce crude oil in Xinjiang Uygur Autonomous Region, the PRC. On 30th December 1997, the Group entered into another oil production sharing contract (the "Leng Jiapu Contract") to develop and produce crude oil in Liaohe, Liaoning Province, the PRC.

Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in notes 31 and 32.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts have been prepared under the historical cost convention.

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Group accounting

#### (i) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Jointly controlled entities

A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for any impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (b) Group accounting (continued)

#### (iii) *An associated company*

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

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

#### (iv) *Accounting for production sharing contracts*

Production sharing contracts constitute jointly controlled operations. The Group's interests in production sharing contracts are accounted for in the consolidated accounts on the following bases:

- (1) the assets that the Group controls and the liabilities that the Group incurs; and
- (2) the share of expenses that the Group incurs and its share of revenue from the production according to the terms stipulated in these contracts.

### (c) Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, furniture and fixtures, motor vehicles and construction in progress.

#### (i) *Oil and gas properties*

Oil and gas properties are accounted for using the successful efforts costing method whereby costs including lease acquisition costs, lease of equipment and drilling costs associated with exploration efforts which result in the discovery of proved reserves and costs associated with production wells are capitalised. Exploration costs are capitalised when incurred pending determination of commercial reserves. Should the efforts be determined unsuccessful, such costs are then taken to the profit and loss account.

Depletion and depreciation of capitalised costs of productive oil and gas properties is calculated on the unit-of-production basis over the total proved reserves of the relevant area. Depreciation of other equipment, furniture and fixtures (capitalised in oil and gas properties) is provided on a straight-line basis at annual rates of between 16.67% and 20%.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (c) Property, plant and equipment (continued)

#### (i) Oil and gas properties (continued)

Major costs incurred in restoring oil and gas properties to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the total proved reserves of the relevant area. The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current regulations governing such activities.

#### (ii) Furniture and fixtures and motor vehicles

Furniture and fixtures and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture and fixtures	20% to 25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their estimated useful lives to the Group.

#### (iii) Construction in progress

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

#### (iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in oil and gas properties, furniture and fixtures and motor vehicles are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

### (d) Other non-current assets

Other non-current assets held for the long-term are stated at cost less provision for any impairment losses.

### 2 PRINCIPAL ACCOUNTING POLICIES (continued)

#### (e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

#### (f) Inventories

Inventories consist of crude oil and marina club debentures and wet berths held for sales. Inventories are stated at the lower of cost and net realisable value. Cost of crude oil, calculated on a weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (g) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

#### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

#### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

#### (j) Deferred taxation

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

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

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

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) Deferred taxation (continued)

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 represents a change in accounting policy, and there is no material impact to the financial statements except for certain presentational changes.

### (k) Revenue recognition

Revenue from the sale of crude oil and natural gas is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the sale of marina club debentures and wet berths is recognised at the time the transfer of marina club debentures and wet berths is approved by the relevant issuing organisation.

Rental income is recognised on a straight-line accrual basis over the terms of the respective leases.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (l) Employee benefits

#### (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) *Equity compensation benefits*

Share options are granted to directors and employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on the discount.

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

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Employee benefits (continued)

#### (iii) Pension obligation

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

### (m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

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

### (n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments in jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segments reporting, turnover are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### (o) Related parties

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

## 3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the exploration and production of crude oil and natural gas in the PRC, the Sultanate of Oman, Peru, the Azerbaijan Republic and Thailand. Revenues recognised during the year are as follows:

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

## 3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

### Primary reporting format – geographical segments

#### For the year ended 31st December 2003

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

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

For the year ended 31st December 2002

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	1,263,217	259,158	141,216	–	1,663,591
Segment results	450,142	36,794	13,565	(331)	500,170
Interest income					16,748
Unallocated costs					(21,312)
Operating profit					495,606
Finance costs					(5,757)
Share of profits less losses of					
Jointly controlled entities	9,036	–	(25)	–	9,011
An associated company	–	–	–	–	–
Profit before taxation					498,860
Taxation					(136,704)
Profit after taxation					362,156
Minority interests					(9,515)
Profit attributable to shareholders					352,641
Segment assets	2,818,933	359,148	535,162	19,500	3,732,743
Investments in jointly controlled entities	159,337	–	10,089	195,000	364,426
Investment in an associated company	–	–	–	–	–
Unallocated assets					71,121
Total assets					4,168,290
Segment liabilities	231,935	82,729	31,350	–	346,014
Unallocated liabilities					690,114
Total liabilities					1,036,128
Capital expenditure	304,486	6,502	335,448	–	646,436
Depletion and depreciation	311,666	37,987	27,656	–	377,309

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

For the year ended 31st December 2003

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

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

For the year ended 31st December 2002

	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Sale of crude oil and natural gas	1,663,409	502,044	3,710,418	646,436
Others	182	(1,874)	22,325	–
	<u>1,663,591</u>	<u>500,170</u>	<u>3,732,743</u>	<u>646,436</u>
Interest income		16,748		
Unallocated costs		(21,312)		
Operating profit		<u>495,606</u>		
Investments in jointly controlled entities			364,426	
Investment in an associated company			–	
Unallocated assets			<u>71,121</u>	
Total assets			<u>4,168,290</u>	

**4 OPERATING PROFIT**

Operating profit is stated after crediting and charging the following:

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

## 5 FINANCE COSTS

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

## 6 TAXATION

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

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2002: nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

Pursuant to an approval from Karamay Tax Bureau on 9th February 2001, the taxable income in respect of the oil production under the Xinjiang Contract is entitled to preferential PRC income tax rate of 15% (2002: 15%) for three years from 1st January 2000 to 31st December 2002. The tax rate is under review and the preferential tax rate is still applicable in current year.

## 6 TAXATION (continued)

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

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

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

## 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

## 8 DIVIDEND

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

At a meeting held on 14th April 2004, the directors proposed a final dividend of HK\$0.02 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profit for the year ending 31st December 2004.

## 9 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$516,403,000 (2002: HK\$352,641,000).

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

## 10 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

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

With effect from 1st December 2000, a Mandatory Provident Fund scheme ("MPF Scheme") has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance. Under the MPF Scheme, the Group's contributions are at 7.5% of employees' relevant income for non-executive staff and 12.5% of employees' relevant income for executive staff. The employees also contribute 5% of relevant income to the MPF Scheme from 31st December 2000. The MPF contributions, excluding the voluntary contributions from employer, are fully and immediately vested in the employees as accrued benefits once they are paid, while the MPF voluntary portion of contributions from employer is vested based on the vesting scales as stated in the Participation Agreement.

The Group also contributes to employee pension schemes established by municipal and provincial governments in respect of operations in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees of these operations in the PRC. Contributions to these schemes are charged to the profit and loss account as incurred. For overseas operations, the Group made contributions to pension schemes in accordance with the schemes set up by the overseas entities and/or as required by statutory requirements.

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

**11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**

**(a) Directors' emoluments**

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

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

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

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

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

During the year, no option (2002: nil) was granted to directors under the Group's executive share option scheme.

None of the directors has waived the right to receive their emoluments for the years ended 31st December 2003 and 2002.

## 11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (b) Five highest paid individuals

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

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

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

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

Emolument bands	<b>Number of individuals</b>	
	<b>2003</b>	2002
Nil – HK\$1,000,000	<b>1</b>	1
HK\$1,000,001 – HK\$1,500,000	<b>–</b>	1
HK\$6,000,001 – HK\$6,500,000	<b>1</b>	–
	<b>2</b>	2

## 12 PROPERTY, PLANT AND EQUIPMENT

## Group

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

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

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

## 13 INVESTMENTS IN SUBSIDIARIES

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

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

## 14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

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

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Details of principal jointly controlled entities, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31st December 2003 are given in note 36.

## 15 INVESTMENT IN AN ASSOCIATED COMPANY

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

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

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

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

Details of the associated company are given in note 37.

## 16 OTHER NON-CURRENT ASSETS

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

## 17 INVENTORIES

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

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

## 18 TRADE RECEIVABLES

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

Notes:

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

## 19 BANK BALANCES AND CASH

As at 31st December 2003, the bank balances of the Group of RMB193,203,000 (approximately HK\$182,164,000) (2002: RMB153,773,000, approximately HK\$144,977,000) and RMB618,338,000 (approximately HK\$583,008,000) (2002: RMB755,824,000, approximately HK\$712,638,000) were deposited in the bank accounts of the PRC operating entities of the Xinjiang Contract and the Leng Jiapu Contract, respectively. These amounts can be remitted to the Group's bank accounts in Hong Kong through the application of remittance of foreign exchange with The State Administration for Exchange Control.

## 20 TRADE PAYABLES

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

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

The ageing analysis of trade payables is as follows:

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

## 21 OTHER PAYABLES AND ACCRUALS

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

**22 DEFERRED CHARGE**

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

In accordance with the Xinjiang Contract, with effect from 1st September 1996, the Group is entitled to a 54% share of revenue and expenses arising from the operations recorded by the JDD including a 54% share of the depletion and depreciation of oil properties charged for the year in the accounts of JDD. However, pursuant to the terms of the Xinjiang Contract, CNPC contributed all its share of the oil property assets at the commencement of the Xinjiang Contract whereas the Group contributed its share over a period of two years. Due to the timing difference in their respective contributions, the Group has an investment recovery in excess of the depletion and depreciation charge incurred by the Group, resulting in a deferred charge which is carried forward.

**23 LOAN FROM A MINORITY SHAREHOLDER**

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

## 24 SHARE CAPITAL

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

During the year, 134,710,000 shares of HK\$0.01 each were repurchased by the Company through the Stock Exchange of Hong Kong Limited and all of these shares were cancelled during the year.

On 3rd June 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the 2001 Share Option Scheme and the adoption of a new share option scheme (the "2002 Share Options Scheme"). As at 31st December 2003, options to subscribe for a total of 100,000,000 option shares were still outstanding under the 1991 Share Option Scheme. No option has been granted under the 2001 Share Option Scheme.

Under the 2002 Share Option Scheme, share options may be granted to the directors and full-time employees of the Company. No amount shall be payable by the grantee to the Company in exercising the right to accept an offer of the option. Options may be exercised at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee. The 2002 Share Option Scheme will expire on 2nd June 2012.

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

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

## 24 SHARE CAPITAL (CONTINUED)

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

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

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

Exercisable period	Exercise price	Number of options	
		2003	2002
Directors:			
12th August 1999 to 11th May 2004	0.91	–	20,000,000
8th June 2001 to 7th March 2006	0.41	40,000,000	40,000,000
26th July 2001 to 25th April 2006	0.61	60,000,000	70,000,000
		<b>100,000,000</b>	<b>130,000,000</b>
Employee:			
3rd June 1998 to 3rd March 2003	1.61	–	5,000,000
26th July 2001 to 25th April 2006	0.61	–	5,000,000
		–	10,000,000
		<b>100,000,000</b>	<b>140,000,000</b>

## Notes to the Accounts

For the year ended 31st December 2003

### 25 RESERVES

	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
<b>Group</b>					
At 1st January 2002	134,323	1,423,559	(5,850)	1,303,728	2,855,760
Translation differences	–	–	(270)	–	(270)
Repurchase of own shares	–	(26,180)	–	–	(26,180)
Profit for the year	–	–	–	352,641	352,641
2001 final dividend paid	–	–	–	(98,601)	(98,601)
At 31st December 2002	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>
Representing:					
2002 final dividend proposed					170,842
Reserves at 31st December 2002					<u>2,912,508</u>
At 31st December 2002					<u>3,083,350</u>
Company and subsidiaries	134,323	1,397,379	(6,120)	1,549,918	3,075,500
Jointly controlled entities	–	–	–	7,850	7,850
An associated company	–	–	–	–	–
At 31st December 2002	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>
At 1st January 2003	<b>134,323</b>	<b>1,397,379</b>	<b>(6,120)</b>	<b>1,557,768</b>	<b>3,083,350</b>
Translation differences	–	–	<b>2,590</b>	–	<b>2,590</b>
Repurchase of own shares	–	<b>(90,120)</b>	–	–	<b>(90,120)</b>
Exercise of share options	–	<b>5,820</b>	–	–	<b>5,820</b>
Profit for the year	–	–	–	<b>516,403</b>	<b>516,403</b>
2002 final dividend paid	–	–	–	<b>(170,064)</b>	<b>(170,064)</b>
At 31st December 2003	<u><b>134,323</b></u>	<u><b>1,313,079</b></u>	<u><b>(3,530)</b></u>	<u><b>1,904,107</b></u>	<u><b>3,347,979</b></u>
Representing:					
2003 final dividend proposed					<b>95,130</b>
Reserves at 31st December 2003					<u><b>3,252,849</b></u>
At 31st December 2003					<u><b>3,347,979</b></u>
Company and subsidiaries	<b>134,323</b>	<b>1,313,079</b>	<b>(3,530)</b>	<b>1,861,253</b>	<b>3,305,125</b>
Jointly controlled entities	–	–	–	<b>44,157</b>	<b>44,157</b>
An associated company	–	–	–	<b>(1,303)</b>	<b>(1,303)</b>
At 31st December 2003	<u><b>134,323</b></u>	<u><b>1,313,079</b></u>	<u><b>(3,530)</b></u>	<u><b>1,904,107</b></u>	<u><b>3,347,979</b></u>

## 25 RESERVES (continued)

	<b>Contributed surplus HK\$'000</b>	<b>Share premium HK\$'000</b>	<b>Retained profit HK\$'000</b>	<b>Total HK\$'000</b>
<b>Company</b>				
At 1st January 2002	133,795	1,423,559	1,095,886	2,653,240
Repurchase of own shares	–	(26,180)	–	(26,180)
Profit for the year	–	–	311,562	311,562
2001 final dividend paid	–	–	(98,601)	(98,601)
	<u>133,795</u>	<u>1,397,379</u>	<u>1,308,847</u>	<u>2,840,021</u>
At 31st December 2002	<u>133,795</u>	<u>1,397,379</u>	<u>1,308,847</u>	<u>2,840,021</u>
Representing:				
2002 final dividend proposed				170,842
Reserves at 31st December 2002				<u>2,669,179</u>
At 31st December 2002				<u>2,840,021</u>
At 1st January 2003	<b>133,795</b>	<b>1,397,379</b>	<b>1,308,847</b>	<b>2,840,021</b>
Repurchase of own shares	–	<b>(90,120)</b>	–	<b>(90,120)</b>
Exercise of share options	–	<b>5,820</b>	–	<b>5,820</b>
Profit for the year	–	–	<b>423,708</b>	<b>423,708</b>
2002 final dividend paid	–	–	<b>(170,064)</b>	<b>(170,064)</b>
	<u>133,795</u>	<u>1,313,079</u>	<u>1,562,491</u>	<u>3,009,365</u>
At 31st December 2003	<u>133,795</u>	<u>1,313,079</u>	<u>1,562,491</u>	<u>3,009,365</u>
Representing:				
2003 final dividend proposed				<b>95,130</b>
Reserves at 31st December 2003				<u><b>2,914,235</b></u>
At 31st December 2003				<u><b>3,009,365</b></u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders. Accordingly, total distributable reserves of the Company amounted to HK\$1,696,286,000 (2002: HK\$1,442,642,000) as at 31st December 2003.

## Notes to the Accounts

For the year ended 31st December 2003

### 26 LONG TERM BORROWINGS

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

Notes:

- (a) The bank loan, denominated in US dollars, bears interest at London Interbank Offered Rate ("LIBOR") plus 0.4% per annum payable semi-annually in arrears. The bank loan is unsecured and repayable in full on 18th July 2005.
- (b) The loan is borrowed from a related company in 2003 for working capital purpose. The loan is unsecured, bears interest at LIBOR plus 6.5% per annum and is repayable in full in 2006.

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

### 27 DEFERRED TAXATION

The movement in net deferred tax liabilities is as follows:

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

**27 DEFERRED TAXATION (continued)**

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

**Deferred tax assets**

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

**Deferred tax liabilities**

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

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

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

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

## 28 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the year carried out in the normal course of the Group's business:

- (a) In connection with the Xinjiang Contract entered into in July 1996, the Group has entered into the following transactions with related parties:

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

Notes:

- (i) The oil price was set by CNPC with reference to the trend of the international oil price.
- (ii) Various fees were paid for the provision of operating crews, purchase of materials and supplies, provision of utilities and repair and maintenance services. The provision of the above was partly governed by contracts. The pricing of principal transactions, including those with contracts, was set with reference to the rates used in the region.
- (iii) The perforation fees were charged at RMB2,051 (approximately HK\$1,934) (2002: RMB2,051) per standard shoot metre which was in accordance with the terms of the perforation contract.
- (iv) The fees paid for construction services in respect of the construction of oil pipes were governed by contracts which were set with reference to the rates used in the region.

In accordance with the Xinjiang Contract, all of the above amounts represent the Group's 54% share of oil production and the respective cost items.

## 28 RELATED PARTY TRANSACTIONS (continued)

- (b) In connection with the Leng Jiapu Contract entered into in December 1997, the Group has entered into the following transactions with related parties:

	Note	2003 HK\$'000	2002 HK\$'000
Sale of crude oil	(i)	<b>1,133,273</b>	948,220
Operating management	(ii)	<b>262,246</b>	234,310
Drilling fees	(iii)	<b>187,876</b>	112,310
Surveying fees	(iv)	<b>12,629</b>	10,320
Perforation fees	(v)	<b>3,201</b>	9,191
Quantifying fees	(vi)	<b>4,546</b>	3,932
Construction work	(vii)	<b>8,192</b>	8,224
Purchases of equipment	(viii)	<b>46,545</b>	25,008
Operations and support services fee		<b>1,845</b>	1,010
Assistance fee		<b>272</b>	272
Training fee		<b>272</b>	272

Notes:

- (i) The oil price was set by CNPC with reference to the trend of the international oil price.
- (ii) Various fees were paid for the provision of operating crews, purchase of materials and supplies, provision of utilities and repair and maintenance services. The provision of the above was partly governed by contracts. The pricing of principal transactions, including those with contracts, was set with reference to the rates used in the region.
- (iii) The drilling fees were charged in accordance with the terms of the oil drilling contracts which ranged from RMB863 (approximately HK\$814) to RMB3,998 (approximately HK\$3,770) (2002: RMB640 to RMB2,570) per metre.
- (iv) The surveying fees were paid at RMB0.82 (approximately HK\$0.77) (2002: RMB0.82) per conditioned metre which was in accordance with the terms of the surveying contracts.
- (v) The perforation fees were charged at RMB279 (approximately HK\$263) (2002: RMB278) per standard shot which was in accordance with the terms of the perforation contract.
- (vi) The quantifying fees were charged at RMB25.9 (approximately HK\$24.4) (2002: ranged from RMB23.3 to RMB27.7) per metre which was in accordance with the terms of the quantifying contracts.

## 28 RELATED PARTY TRANSACTIONS (continued)

- (vii) The fees paid for construction services in respect of the construction of oil pipes were governed by contracts which were set with reference to the rates used in the region.
- (viii) Purchases of equipment, such as oil pumps and steam injection machines, were made for the development of oil properties in the contract area. The prices charged were governed by contracts which were set with reference to the rates used in the region.

In accordance with the Leng Jiapu Contract, all of the above amounts represent the Group's 70% share of oil production and the respective cost items.

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Lease rental of rig and logging equipment	-	5,118
Lease rental of cementing equipment	-	629
	<b>—</b>	<b>5,747</b>

- (d) Rental expense amounting to HK\$498,000 (2002: HK\$560,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$46,650 until August 2003, and HK\$31,100 from September 2003 onwards.
- (e) Interest expense amounting to HK\$2,527,000 (2002: HK\$1,287,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 26).
- (f) Technical services fees amounting to HK\$3,863,000 (2002: HK\$4,009,000) was paid to CPTDC by SAPET Development Corporation for the year. Such fee was charged in accordance with the terms stipulated in the technical services contract.

## 29 COMMITMENTS

## (a) Capital commitments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	316,802	317,198	—	—
Development cost under the Xinjiang Contract	53,887	19,878	—	—
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	102,492	—	—	—
Development cost for the Azerbaijan Republic Kursangi and Karabagli oil field	84,138	—	—	—
	<b>557,319</b>	337,076	<b>—</b>	—

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

## 29 COMMITMENTS (continued)

### (b) Operating lease commitments

At 31st December 2003, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Not later than one year	867	743	373	373
Later than one year and not later than five years	2,224	400	1,369	—
Later than five years	1,056	170	—	—
	<b>4,147</b>	1,313	<b>1,742</b>	373

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Deconsolidation of a subsidiary

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net assets deconsolidated:		
Other non-current assets	-	1,950
Bank balances and cash	-	390
Other payables and accruals	-	(15)
Minority interests	-	(1,164)
	<u>-</u>	<u>1,161</u>
	<u>-</u>	<u>1,161</u>
Net outflow of cash and cash equivalents in respect of deconsolidation of a subsidiary	-	(390)
	<u>-</u>	<u>(390)</u>

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

## (c) Analysis of changes in financing during the year

	Share capital including share premium HK\$'000	Long term borrowings HK\$'000	Minority interests HK\$'000	Balance with a minority shareholder HK\$'000	Short term loan from a related company HK\$'000	Dividend payable HK\$'000
As 1st January 2002	1,472,859	–	109,400	77,454	49,920	–
Minority interests' share of profits less losses	–	–	9,515	–	–	–
Deconsolidation of a subsidiary	–	–	(189)	(975)	–	–
Dividends	–	–	–	–	–	98,601
Cash inflows/(outflows) from financing	(26,668)	319,800	–	(21,653)	(49,920)	(98,601)
As 31st December 2002	<u>1,446,191</u>	<u>319,800</u>	<u>118,726</u>	<u>54,826</u>	<u>–</u>	<u>–</u>
As 1st January 2003	<b>1,446,191</b>	<b>319,800</b>	<b>118,726</b>	<b>54,826</b>	<b>–</b>	<b>–</b>
Minority interests' share of profits less losses	–	–	18,927	–	–	–
Dividends	–	–	–	–	–	170,842
Effect of share repurchase	–	–	–	–	–	(778)
Cash inflows/(outflows) from financing	(85,547)	54,600	–	(54,826)	–	(170,064)
As 31st December 2003	<u><b>1,360,644</b></u>	<u><b>374,400</b></u>	<u><b>137,653</b></u>	<u><b>–</b></u>	<u><b>–</b></u>	<u><b>–</b></u>

## 31 OIL PRODUCTION SHARING CONTRACT – XINJIANG CONTRACT

Pursuant to the Xinjiang Contract, the Group agreed to fund an enhanced oil recovery programme (the "Infill Development Programme") to be implemented under the Xinjiang Contract thereby reducing the inter-well spacing and improving oil recovery in the area as defined in the Xinjiang Contract (the "Contract Area"), at an estimated cost of US\$66,000,000 (approximately HK\$510,000,000), in exchange for a 54% share in the oil production from the Contract Area.

Pursuant to the Xinjiang Contract, the Group shall bear all the costs required for the Infill Development Programme and share in the production from the Contract Area which shall be allocated (after deduction of local taxes and corporate income tax) firstly towards operating costs recovery and thereafter in the proportion of 54% to the Group and 46% to PetroChina towards investment recovery and profit.

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

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the “JMC”) set up by the Group and PetroChina pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1st September 1996.

In connection with the Xinjiang Contract, the Group has also entered into an Entrustment Contract with an operational entity wholly owned and operated by CNPC, whereby the latter was entrusted to take up the responsibility as an operator.

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

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

## 32 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT

Pursuant to the Leng Jiapu Contract, the Group agreed to acquire 70% of the production sharing interest for RMB1,008,000,000 (approximately HK\$942,000,000) and to fund its share of cost of the development carried out for the realisation of oil production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "Contract Area"), at an estimated cost of US\$65,500,000 (approximately HK\$506,000,000) in the first two years of the development period and be further responsible for 70% of the development costs after the first two years, in exchange for a 70% share in the oil production from the Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the Contract Area which shall be allocated (after deduction of local taxes and corporate income tax) firstly towards operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to PetroChina towards investment recovery and profit.

The Leng Jiapu Contract provides twenty consecutive years of production sharing commencing from the completion of the Development Operations. The production sharing period commenced on 1st March 1998.

In connection with the Leng Jiapu Contract, the Group has also entered into an Entrustment Contract with an operational entity owned and operated by CNPC, whereby the latter is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, a Joint Development Management Organisation was established for the performance of the contractual responsibilities under the operatorship. The Entrustment Contract expired on 20th March 2003 and further extended for 3 years to 20th March 2005.

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

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

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

	2003 HK\$'000	2002 HK\$'000
(c) <b>Capital commitments</b>		
Authorised but not contracted for	<b>316,802</b>	317,198

### 33 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The Directors of the Company consider Sun World Limited and China National Petroleum Corporation, companies incorporated in the British Virgin Islands and the PRC respectively, as being the Company's immediate and ultimate holding company, respectively.

### 34 APPROVAL OF ACCOUNTS

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

### 35 PRINCIPAL SUBSIDIARIES

As at 31st December 2003

Name	Place of incorporation and type of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
<b>(a) Investment holding</b>				
<b>Operated in Hong Kong</b>				
FSC (B.V.I.) Limited	British Virgin Islands, limited liability company	50,000 ordinary shares of US\$1 each	100	100
FSC Investment Holdings Limited	Hong Kong, limited liability company	2,223,966,170 ordinary shares of HK\$0.10 each	–	100
<b>Operated in Peru</b>				
Goldstein International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100

## 35 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
<b>(a) Investment holding (continued)</b>				
<b>Operated in Thailand</b>				
Thai Offshore Petroleum Limited	Thailand, limited liability company	1,750,000 ordinary shares of Baht100 each (fully paid up) 1,250,000 ordinary shares of Baht100 each (25% paid up)	–	74
<b>(b) Oil and gas exploration and production</b>				
<b>Operated in the PRC</b>				
Hafnium Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
Beckbury International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
<b>Operated in Peru</b>				
SAPET Development Corporation	United States of America, limited liability company	100 ordinary shares of US\$50 each	–	50
SAPET Development Peru Inc	United States of America, limited liability company	100 ordinary shares no par value	–	50

## 35 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
<b>(b) Oil and gas exploration and production (continued)</b>				
<b>Operated in Thailand</b>				
Central Place Company Limited	Hong Kong, limited liability company	160 ordinary shares of HK\$10 each	–	100
Sino-Thai Energy Limited	Thailand, limited liability company	1,200,000 ordinary shares of Baht 100 each	–	100
Sino-U.S. Petroleum Inc.	United States of America, limited liability company	1,000 ordinary shares of US\$1 each	–	100
Thai Energy Resources Limited	Thailand, limited liability company	1,000 ordinary shares of Baht 100 each	–	74
CNPCHK (Thailand) Limited	Thailand, limited liability company	100,000 ordinary shares of Baht 1,000 each	–	100
<b>Operated in the Azerbaijan Republic</b>				
Fortunemate Assets Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
<b>(c) Marina club debentures and wet berths holding</b>				
<b>Operated in Hong Kong</b>				
Marina Ventures Hong Kong Limited	Hong Kong, limited liability company	1,000 ordinary share of HK\$1 each	–	65

**36 JOINTLY CONTROLLED ENTITIES**

As at 31st December 2003

Name	Place of incorporation and type of legal entity	Principal activities and place of operation	Percentage of interest in ownership and profit sharing
華油鋼管有限公司	PRC, equity joint venture	Manufacturing of steel pipe in the PRC	50%
北京中油聯合信息技術有限公司	PRC, equity joint venture	Operation of a web portal in the PRC	32%
青島慶昕塑料有限公司	PRC, equity joint venture	Production of petro-chemical products in the PRC	25%
Chinnery Assets Limited	British Virgin Islands, limited liability company	Crude oil exploration and production in the Union of Myanmar	50%
Mazoon Petrogas (BVI) Limited	British Virgin Islands, limited liability company	Crude oil exploration and production in the Sultanate of Oman	50%
Commonwealth Gobustan Limited	Anguilla, limited liability company	Crude oil exploration and production in the Azerbaijan Republic	31.41%

**37 ASSOCIATED COMPANY**

As at 31st December 2003

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

## Five Year Financial Summary

	2003 HK\$'000	Year ended 31st December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Results</b>					
Turnover	<b>2,098,686</b>	1,663,591	1,477,763	1,790,448	1,083,948
Profit before taxation	<b>711,323</b>	498,860	607,082	929,609	340,157
Taxation	<b>(175,993)</b>	(136,704)	(149,161)	(249,879)	(118,323)
Profit after taxation	<b>535,330</b>	362,156	457,921	679,730	221,834
Minority interests	<b>(18,927)</b>	(9,515)	(545)	–	–
Profit attributable to shareholders	<b>516,403</b>	352,641	457,376	679,730	221,834
Earnings per share					
– Basic	<b>HK10.74¢</b>	HK7.18¢	HK9.06¢	HK12.87¢	HK4.19¢
– Fully diluted	<b>HK10.67¢</b>	HK7.17¢	HK9.03¢	–	–

	2003 HK\$'000	As at 31st December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<b>4,469,286</b>	4,168,290	3,620,611	3,498,732	2,701,336
Total liabilities	<b>(1,073,742)</b>	(1,036,128)	(715,551)	(680,678)	(515,002)
Shareholders' funds	<b>3,395,544</b>	3,132,162	2,905,060	2,818,054	2,186,334

## Reserve Quantities Information

### PROVED RESERVES (ESTIMATION)

	<b>PRC</b>	<b>Mid Asia and South East Asia</b>	<b>South America</b>	<b>Middle East</b>	<b>Total</b>
	<b>(million barrels)</b>	<b>(million barrels)</b>	<b>(million barrels)</b>	<b>(million barrels)</b>	<b>(million barrels)</b>
As at 1st January 2003	81.7	39.2	9.5	–	130.4
Revaluation	(2.2)	–	–	–	(2.2)
New acquisition	–	–	–	29.3	29.3
Production for the year	(9.6)	(1.5)	(1.2)	(0.8)	(13.1)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
As at 31st December 2003	<u>69.9</u>	<u>37.7</u>	<u>8.3</u>	<u>28.5</u>	<u>144.4</u>

Note: Based on the Group's share of participated interest in the oil field through subsidiaries and jointly controlled entity.