



CNPC (HONG KONG) LIMITED

(於百慕達註冊成立之有限公司)

中國(香港)石油有限公司

(Stock Code: 0135)



2006 INTERIM REPORT

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CONTENTS

	Pages
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	8
Independent Review Report	13
Condensed Consolidated Income Statement	14
Condensed Consolidated Balance Sheet	15
Condensed Consolidated Statement of Changes in Equity	16
Condensed Consolidated Cash Flow Statement	17
Notes to the Condensed Consolidated Financial Information	17

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Wang Mingcai (*Chairman*)
 Mr Li Hualin (*Chief Executive Officer*)
 Mr Cheng Cheng
 Dr Lau Wah Sum, GBS, LLD, DBA, JP
 Mr Aubrey Li Kwok Sing
 Dr Liu Xiao Feng

COMPANY SECRETARY

Mr Lau Hak Woon

BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
 Clarendon House
 Church Street
 Hamilton HM11, Bermuda

AUDITORS

Deloitte Touche Tohmatsu

BANKERS

Bank of Bermuda Limited
 Standard Chartered Bank
 Bank of China
 Fubon Bank (Hong Kong) Limited

STOCK CODE

The Stock Exchange of Hong Kong Limited
 135.HK

WEBSITE

<http://www.cnpc.com.hk>

PRINCIPAL BOARD COMMITTEES

Audit Committee
 Dr Lau Wah Sum, GBS, LLD, DBA, JP (*Chairman*)
 Mr Aubrey Li Kwok Sing
 Dr Liu Xiao Feng

Remuneration Committee
 Mr Aubrey Li Kwok Sing (*Chairman*)
 Dr Lau Wah Sum, GBS, LLD, DBA, JP
 Dr Liu Xiao Feng

SOLICITORS

Baker & McKenzie
 Clifford Chance

REGISTERED OFFICE

Clarendon House
 Church Street
 Hamilton HM11, Bermuda

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PRINCIPAL REGISTRARS

Bank of Bermuda Limited
 6 Front Street
 Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG

Secretaries Limited
 26/F., Tesbury Centre,
 28, Queen's Road East,
 Hong Kong

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Sales of the Group for the six months ended 30 June 2006 (the "Period") amounted to HK\$1,966,611,000, representing an increase of 30.90% as compared with the corresponding period of last year. The Group's unaudited profit attributable to shareholders for the Period was HK\$1,156,611,000, representing an increase of 59.30% over the restated profit of HK\$726,070,000 for the same period of last year.

The shared sales volume of crude oil by the Group for the Period was 8,746,000 barrels, representing an increase of 9.49% over 7,988,000 barrels (restated) for the same period of last year. With the surge of the international crude oil price in the Period, the weighted average price of crude oil per barrel was approximately US\$51.34, increased by 39.33% over US\$36.85 per barrel for the same period of last year.

In accordance with the Group's accounting policy, exploration cost which cannot generate commercial reserve within one year shall be treated as expenses. During the Period, exploration cost incurred in new oil fields amounted to HK\$19,325,000 (corresponding period of last year: HK\$26,158,000), of which HK\$9,115,000 (corresponding period of last year: HK\$1,715,000) was accounted for as cost of sales and HK\$10,210,000 (corresponding period of last year: HK\$24,443,000) as decrease in investment in our share of results of jointly controlled entities.

Petroleum Businesses

The People's Republic of China (the "PRC")

Liaohe Leng Jiapu Oil Field

A total of 530,000 tonnes (corresponding period of last year: 601,000 tonnes) of crude oil from the Liaohe Leng Jiapu Contract Area was sold in the first half of the year, representing a 11.81% decrease compared with the same period of last year. On a 70% sharing basis, profit after tax and special levy on petroleum was HK\$330,355,000 (corresponding period of last year: HK\$242,125,000), representing an increase of HK\$88,230,000 or 36.44% compared with the same period of last year. Since March this year, the PRC Government has imposed a special levy on petroleum. The amount paid by the Group on a 70% sharing was RMB16,879,000 or approximately HK\$16,111,000.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and thus an aggregate contribution of RMB226,016,000 (approximately HK\$215,726,000) (corresponding period of last year: RMB154,000,000 (approximately HK\$145,201,000)) was made out of profit by the Group during the Period as partial financing for the on-going exploration, drilling and construction of ground production facilities in order to stabilise its production.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area sold a total of 367,000 tonnes (corresponding period of last year: 326,000 tonnes) of crude oil, representing an increase of approximately 12.60% compared with the corresponding period of the previous year. On a 54% sharing basis, profit after tax and special levy on petroleum attributable to the Group was HK\$275,716,000 (corresponding period of last year: HK\$148,783,000), an increase of HK\$126,933,000 or 85.31% compared with the corresponding period of last year. Since March this year, the special levy on petroleum paid by the Group on a 54% sharing was RMB16,762,000 or approximately HK\$15,999,000.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and an aggregate contribution of RMB81,697,000 (approximately HK\$77,977,000) (corresponding period of last year: RMB69,186,000 (approximately HK\$65,233,000)) was made during the Period as part of the fund required for stabilising production.

The Republic of Kazakhstan ("Kazakhstan")

Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields

On 10 December 2003, the Group acquired 40% equity interest in CNPC International (Caspian) Limited ("Caspian"). Caspian owned 25.12% equity interest in CNPC-Aktobemunaigas Open Joint Stock Company ("Aktobe"). As a result of the acquisition, the Group indirectly owns 10.048% interest in Aktobe. Aktobe owns Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan, whose shares are listed and traded in the Kazakhstan Stock Exchange.

On 14 October 2005, the Group successfully acquired an additional 20% equity interest in Caspian. Currently, the Group holds 60% equity interest in Caspian, representing an effective indirect holding of 15.072% interest in Aktobe.

As at 31 December 2005, a revaluation of the Group's 60% shares in Caspian was undertaken by a US firm of independent valuers. Since the only assets of Caspian are the holding of 25.12% in Aktobe, the oil and gas properties of Aktobe were revaluated. It resulted an asset revaluation gain of HK\$7,349,521,000 in excess of Caspian's share of the carrying value of Aktobe. The assets revaluation gain will be amortized based on unit of production. For the Period, an amortization charges of HK\$285,712,000 (the Group shared HK\$171,427,000) on the asset revaluation gain was recorded.

For the Period, the project generated a profit after tax and minority interest of HK\$416,278,000 for the Group. The Group shared 3,163,000 barrels (corresponding period of last year: 1,964,000 barrels) of crude oil.

The Kingdom of Thailand ("Thailand")

Sukhothai Concession

For the first half year, the Sukhothai Concession in Thailand recorded sales volume of 176,000 barrels (corresponding period of last year: 191,000 barrels), representing a decrease of 7.97% over the corresponding period of last year, income tax was HK\$18,761,000 (corresponding period of last year: nil), and profit after tax amounted to HK\$32,510,000 (corresponding period of last year: HK\$37,137,000), representing an decrease of 12.46% as compared with the corresponding period of last year. The Group will continue to explore the potential of the oil field and maintain stable production to improve efficiency.

L21/43 Concession

In July 2003, the Group was granted the right to carry out oil exploration in the L21/43 concession located in central Thailand by the Thai Government. The initial findings for the exploration were satisfactory, and the Group was just approved by the Thai Government to carry out small scale production and continue the remaining exploration, analysis and investigation. Exploration cost of HK\$9,115,000 (corresponding period of last year: HK\$1,715,000) for the Period was accounted for as costs.

Peru*Talara Oil Field*

The Group holds 50% interest in the rights to explore and produce petroleum and natural gas in Blocks VI and VII of the Talara Oil Field in Peru. During the Period, 572,000 barrels (corresponding period of last year: 615,000 barrels) of oil and 371,584,000 cu.ft. (corresponding period of last year: 383,726,000 cu.ft.) of natural gas were produced. The Group shared HK\$45,094,000 in profit after tax and minority interests, representing an increase of HK\$13,398,000, or 42.27%, over that of the corresponding period last year.

Blocks 111/113

In December 2005, the Group entered into a blocks exploration agreement with Perupetro, a company wholly-owned by the Peruvian Government, in relation to conducting exploration in Zones 111 and 113 of Madre de Dios, being new blocks for exploration in Southeast Peru. Exploration will commence soon in the hope that findings will bring returns to the Group.

The Sultanate of Oman*Block 5*

The Group holds 25% interest in the Block 5 oil field in the Sultanate of Oman. We shared 664,000 barrels of oil during the Period, decreased by 5.64% compared with 703,000 barrels for the corresponding period of last year, and profit after tax amounted to HK\$59,872,000 (corresponding year of last year: HK\$45,403,000).

The Azerbaijan Republic (the "Azerbaijan")*Kursangi and Karabagli Oil Field ("K&K")*

The Group owns 25% interest in K&K in Azerbaijan and shared 530,000 barrels of oil during the Period (corresponding period of last year: 590,000 barrels). Profit after tax attributable to the Group amounted to HK\$41,115,000 (corresponding period of last year: HK\$25,685,000), representing an increase of HK\$15,430,000 or 60.07% as compared with the corresponding period last year.

Gobustan Oil Field

In March 2003, the Group acquired 31.41% interest in Commonwealth Gobustan Limited. The company owns 80% interest in an oil field in the Southwest of Gobustan, Azerbaijan. The exploration cost attributable to the Group for the Period of HK\$7,855,000 (corresponding period of last year: HK\$6,100,000) decreased in investment in our share of results of jointly controlled entities. So far, two natural gas producing wells drilled in the Gobustan Oil Field have shown satisfactory result. Sale of natural gas commences in 2006 in small scale, and in-depth analysis and investigation are speeded up for production in larger scale.

The Union of Myanmar

Tetma Block IOR-3, Tuyintaung Block RSF-2 and Gwegyo-Ngashandaung Block RSF-3

The Group owns 50% exploring interest in the Myanmar oil field and exploration has commenced in full swing. During the Period, seismic analysis and other exploration work were carried out. Exploration cost attributable to the Group of HK\$2,355,000 (corresponding year of last year: HK\$18,343,000) was decreased in investment in our share of results of jointly controlled entities for the Period. As initial findings of the exploration were not satisfactory, the Group will decide on the next move in the year.

Manufacturing Business

Steel pipes factory

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, the Bureau can produce high quality steel pipes to satisfy the demand for natural gas transportation from Western China to the eastern part and other pipe projects. Its branch factory, which was established in the Yangzhou Han Jiang Industrial Park, the PRC, commenced production in the second half of 2006 to enhance its competitiveness and capture a larger market share in the eastern China.

In the first half of 2006, North China had a total output of 72,000 tonnes of steel pipes (corresponding period of last year: 45,000 tonnes), and 100,000 tonnes (corresponding period of last year: 134,000 tonnes) were processed, generating a profit after tax of HK\$6,100,000 (corresponding period of last year: HK\$19,067,000) for the Group, which represented a decrease of HK\$12,967,000 or 68.01% as compared with the corresponding period of last year.

Film Factory

Biaxially Oriented Polypropylene (“BOPP”) project and CPP project

The BOPP film factory jointly established with 大慶石油管理局 has formally begun production and the results were satisfactory as anticipated. Facing the increase in raw material price led by the soaring crude oil price, competition within the industry became more severe and only the strong ones will survive. Products of the film factory gained high recognition in the market as the management paid much effort on improving product quality, controlling cost and optimizing production. Gain attributable to the Group for the Period was HK\$190,000 (loss for corresponding period of last year: HK\$836,000).

The CPP film production line set up in 2004 will formally commenced production during the year, providing an additional product line to satisfy the market demand. With the continued growth of the PRC's economy, demand for packaging material will gradually increase. It is believed that the business will contribute stable revenue to the Group.

BUSINESS PROSPECTS

The direction of the Group's future development remains unchanged. It will still focus on investing in petroleum up-stream business as well as other petroleum-related businesses that generate stable income. The Group will continue to explore new business opportunities, increase its 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 sound financial position and prudent approach in investment, the Group aims at developing into an international petroleum corporation.

The future crude oil price is expected to maintain at a relatively high level. The Group will accelerate on the exploration and development of existing oil projects, increase production volume, strengthen the management, control costs, increase efficiency and stabilise income, and for the sake of the shareholders, make new acquisitions with an aim to increase crude oil reserves and production, enhance revenue and increase shareholders' return.

By Order of the Board

Wang Mingcai

Chairman

Hong Kong, 8 September 2006

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group has recorded a sales of HK\$1,966,611,000 for the period ended 30 June 2006 (the "Period"), representing an increase of 30.90% as compared to HK\$1,502,323,000 corresponding period of last year. The increase of sales was mainly due to the increase of weighted average crude oil selling price from US\$36.85 per barrel to US\$51.34 per barrel.

The profit after taxation and minority interest for the Period was HK\$1,156,611,000 representing an increase of HK\$430,541,000 or 59.30%, as compared to HK\$726,070,000 (restated) corresponding period of last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2006, the aggregate assets of the Group were HK\$16,703,731,000, representing an increase of HK\$637,801,000 or 3.97% as compared with 31 December 2005.

The major changes of the assets are as follows:

	Increase/ (decrease) HK\$'000
Property, plant and equipment	(177,550)
Leasehold land and land use rights	(71)
Investment in jointly controlled entities	60,535
Investment in an associated company	338,101
Other current assets	(352,123) ⁺
Bank balances and cash	768,909
Total increase in assets	<u>637,801</u>

+ Dividend receivable from Aktobe amounting HK\$498,267,000 received during the Period.

The gearing ratio of the Group decreased to 10.64% as at 30 June 2006 compared with 14.10% as at 31 December 2005. It is computed by dividing the total borrowings of HK\$1,458,407,000 (31 December 2005: HK\$1,777,983,000) by the shareholders' funds of HK\$13,700,826,000 (31 December 2005: HK\$12,607,072,000).

A bank borrowing denominated in United States Dollars amounted to US\$120,000,000 (approximately HK\$928,800,000) was fully repaid on 13 February 2006 and replaced with a new term loan of US\$80,000,000 (approximately HK\$619,200,000).

During the Period, RMB226,016,000 (approximately HK\$215,726,000) (30 June 2005: RMB154,000,000 (approximately HK\$145,201,000)) was injected out of profits into Leng Jiapu oil field as development costs.

In accordance with the Karamay Contract RMB81,697,000 (approximately HK\$77,977,000) (30 June 2005: RMB69,186,000 (approximately HK\$65,233,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the Period.

Dividend of US\$165,220,000 (approximately HK\$1,278,803,000) for the year 2005 was received from Aktobe during the Period.

USE OF PROCEEDS

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

In June 2006, HK\$6,100,000 was received from a director from exercising his share options.

2005 final dividend of HK\$0.08 per share amounting HK\$386,727,000 was distributed to the shareholders of the Group during the Period.

Taking into account the cashflow from the operating activities, the Group as at 30 June 2006 has a bank balances and cash of HK\$2,600,430,000.

The Group is in a very healthy financial position, ready to invest in new projects with no financial difficulty.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Period.

EMPLOYEE

On 30 June 2006, the Group had approximately 359 staff (excluding the staff under 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, the Company has not repurchased any of its shares.

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

CORPORATE GOVERNANCE

The Board of Directors has adopted the corporate governance principles which aimed at maintaining the Board's independence and all Directors are fully informed on key strategic issues relating to the Group before making decision. The Board comprises six members and three of which are Independent Non-executive Directors, one of them holds accounting and financial management qualification.

The Remuneration Committee, composed of three Independent Non-executive Directors, is responsible for reviewing and approving the remunerations of Directors and senior management.

With respect to the Code Provision C.2 on internal controls, which came into effect from the accounting period starting from 1 July 2005, the Company already has an Audit Committee in place since year 2000 comprising three Independent Non-executive Directors. The Committee, reporting directly to the Chairman, plays a major role in monitoring the internal governance of the Group. It also conducts special audits on areas of concern as identified by the Management or the Audit Committee. The Audit Committee can directly contact the external auditors freely without notifying the Chairman or Management.

The Audit Committee has reviewed with the Management the accounting policies and standards adopted by the Group and discussed the internal control and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2006. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

The Company has complied with all the provisions under the Codes of Corporate Governance in effect during the six months ended 30 June 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. In response to the Company's enquiry, all Directors confirm that they have complied with the provisions of the Model Code throughout the Period.

NEW INVESTMENT

During the Period, there is no new investment.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2006, the interests and short positions of each director and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under section 352 of Part XV of the SFO were as follows:

- (a) Ordinary shares of HK\$0.01 each in the Company at 30 June 2006.

		Personal interest	Number of shares held Corporate interest (Note)	Total	% of issued share capital of the Company
Mr Wang Mingcai	Long positions	24,200,000	2,549,317,342	2,573,517,342	53.24
Mr Li Hualin	Long positions	20,000,000	2,549,317,342	2,569,317,342	53.15

Note: Mr Wang Mingcai and Mr Li Hualin are directors of Sun World Limited ("Sun World") which beneficially owned 2,549,317,342 shares in the Company as at 30 June 2006. Sun World is a wholly owned subsidiary of China National Petroleum Corporation ("CNPC"), the Company's ultimate holding company incorporated in the People's Republic of China.

- (b) Share options are granted to directors and chief executives under the executive share option scheme approved by the board of directors on 23 October 1991 and 3 June 2002 respectively.

Save as disclosed above, at no time during the Period was the Company, its subsidiaries, its associates, its fellow subsidiaries or its parent company a party to any arrangement to enable the directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

Details of the share options granted by the Company are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1 January 2006	Options granted during the Period	Options exercised during the Period	Options held at 30 June 2006	Expiry date
Directors							
Wang Mingcai	27 April 2005	1.224	25,000,000	–	–	25,000,000	26 April 2010
Li Hualin	27 April 2005	1.224	20,000,000	–	–	20,000,000	26 April 2010
Lin Jingao	26 April 2001	0.61	10,000,000	–	10,000,000	–	25 April 2006
Lau Wah Sum	8 January 2004	1.362	3,500,000	–	–	3,500,000	7 January 2009
Aubrey Li Kwok Sing	8 January 2004	1.362	3,500,000	–	–	3,500,000	7 January 2009
Cheng Cheng	25 June 2004	0.94	20,000,000	–	–	20,000,000	24 June 2009
Liu Xiaofeng	27 April 2005	1.224	3,500,000	–	–	3,500,000	26 April 2010
Employee							
	25 June 2004	0.94	5,000,000	–	–	5,000,000	24 June 2009
	27 April 2005	1.224	5,000,000	–	–	5,000,000	26 April 2010
			95,500,000	–	10,000,000	85,500,000	

SUBSTANTIAL SHAREHOLDERS

At 30 June 2006, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name		Number of shares	Percentage (%) of the total number of shares in issue
Sun World ⁽¹⁾	Long position	2,549,317,342	52.74
JP Morgan Chase & Co ⁽²⁾	Long position	436,066,000	9.02
	Lending pool	104,966,000	2.17

(1) All shares are registered under the name of HKSOC Nominees Limited. Sun World is a wholly owned subsidiary of CNPC and CNPC is accordingly deemed to have interest in the 2,549,317,342 shares held by Sun World.

(2) JP Morgan Chase & Co through its various controlled corporation is interested in an aggregate of 436,066,000 (long position) and 104,966,000 (lending pool) shares of the Company.

By Order of the Board

Li Hualin

Chief Executive Officer

Hong Kong, 8 September 2006

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF CNPC (HONG KONG) LIMITED

中國(香港)石油有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by CNPC (Hong Kong) Limited (the "Company") to review the interim financial report set out on pages 14 to 32.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

8 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006 (the "Period")

	Notes	2006 (Unaudited) HK\$'000	2005 (Unaudited and Restated) HK\$'000
Turnover	3	1,966,611	1,502,323
Cost of sales		(922,414)	(806,978)
Gross profit		1,044,197	695,345
Other income		70,873	15,737
Exploration costs		(9,115)	(1,715)
Administrative expenses		(18,190)	(26,154)
Finance costs	4	(42,776)	(6,673)
Share of results of jointly controlled entities		15,565	37,664
Share of results of an associate		820,373	223,926
Profit before taxation	5	1,880,927	938,130
Income tax expense	6	(396,956)	(180,360)
Profit for the Period		1,483,971	757,770
Attributable to:			
Shareholders of the Company		1,156,611	726,070
Minority interests		327,360	31,700
		1,483,971	757,770
Earnings per share	7		
– Basic		HK23.95 cents	HK15.05 cents
– Diluted		HK23.68 cents	HK15.02 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Notes			
ASSETS			
Non-current assets			
		2,627,486	2,805,036
		3,771	3,842
		879,670	819,135
	9	10,068,410	9,730,309
		13,530	13,530
		59,612	59,030
		2,162	2,162
		13,654,641	13,433,044
Current assets			
		44,349	29,346
	10	404,311	772,019
		383,020	–
		2,217,410	1,831,521
		3,049,090	2,632,886
Current liabilities			
	11	437,851	312,861
		1,185	1,185
		190,761	199,722
	12	11,610	950,472
		641,407	1,464,240
		2,407,683	1,168,646
		16,062,324	14,601,690
Non-current liabilities			
	12	1,446,797	827,511
		188,457	197,631
		1,635,254	1,025,142
		14,427,070	13,576,548
Capital and reserves			
	13	48,341	48,241
		13,652,485	12,558,831
		13,700,826	12,607,072
		726,244	969,476
		14,427,070	13,576,548

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company				Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000 (note 14)	Retained profits HK\$'000	Total HK\$'000		
Balance at 1 January 2005	47,341	1,471,422	4,822,736	6,341,499	134,027	6,475,526
Gains on fair value changes of available-for-sale investments	–	53,006	–	53,006	–	53,006
Fair value adjustment on assets arising from acquisition of a subsidiary	–	2,713,131	–	2,713,131	–	2,713,131
Exchange differences arising on translation of foreign operations	–	(40,195)	–	(40,195)	(4,273)	(44,468)
Net income recognised directly in equity	–	2,725,942	–	2,725,942	(4,273)	2,721,669
Profit for the year	–	–	3,644,514	3,644,514	190,958	3,835,472
Total recognised income and expense for the year	–	2,725,942	3,644,514	6,370,456	186,685	6,557,141
Share option benefits	–	13,910	–	13,910	–	13,910
Exercise of share options	900	46,000	–	46,900	–	46,900
Acquisition of a subsidiary	–	–	–	–	687,614	687,614
Dividends paid to minority interests	–	–	–	–	(38,850)	(38,850)
2004 final dividend	–	–	(165,693)	(165,693)	–	(165,693)
Balance at 31 December 2005 and 1 January 2006	48,241	4,257,274	8,301,557	12,607,072	969,476	13,576,548
Gains on fair value changes of available-for-sale investments	–	1,250	–	1,250	–	1,250
Amortisation of asset revaluation reserve	–	(105,473)	105,473	–	–	–
Exchange differences arising on translation of foreign operations	–	316,520	–	316,520	–	316,520
Net income recognised directly in equity	–	212,297	105,473	317,770	–	317,770
Profit for the Period	–	–	1,156,611	1,156,611	327,360	1,483,971
Total recognised income and expense for the Period	–	212,297	1,262,084	1,474,381	327,360	1,801,741
Exercise of share options	100	6,000	–	6,100	–	6,100
Dividends paid to minority interests	–	–	–	–	(570,592)	(570,592)
2005 final dividend	–	–	(386,727)	(386,727)	–	(386,727)
Unaudited balance at 30 June 2006	48,341	4,475,571	9,176,914	13,700,826	726,244	14,427,070
Balance at 1 January 2005	47,341	1,471,422	4,822,736	6,341,499	134,027	6,475,526
Exchange differences arising on translation of foreign operations and net income recognised directly in equity	–	(66)	–	(66)	–	(66)
Profit for the period	–	–	726,070	726,070	31,700	757,770
Total recognised income and expense for the period	–	(66)	726,070	726,004	31,700	757,704
Share options benefits	–	13,910	–	13,910	–	13,910
2004 final dividend	–	–	(165,693)	(165,693)	–	(165,693)
Exercise of share options	900	46,000	–	46,900	–	46,900
Unaudited balance at 30 June 2005	48,241	1,531,266	5,383,113	6,962,620	165,727	7,128,347

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash inflow from operating activities	879,986	697,439
Net cash inflow/(outflow) from investing activities:		
Dividend received from an associate	1,278,807	8,112
Acquisition of property, plant and equipment	(84,529)	(297,740)
Placement of deposit with maturity more than three months	(383,020)	5
Others	(44,622)	43,868
	766,636	(245,755)
Net cash used in financing activities:		
Dividend paid to a minority shareholder of subsidiaries	(570,592)	–
Dividend paid	(386,727)	(165,693)
Proceeds from bank borrowings	619,200	–
Repayment of bank borrowings	(928,800)	–
Others	6,186	36,760
	(1,260,733)	(128,933)
Increase in cash and cash equivalents	385,889	322,751
Cash and cash equivalents at 1 January	1,831,521	1,282,402
Cash and cash equivalents at 30 June	2,217,410	1,605,153

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The condensed consolidated financial statements has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2005.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRS(s)") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKFRS 6 deals with the accounting for exploration for and evaluation of mineral resources including oil and gas. The adoption of this standard has no significant impact on the Group's result of operations and financial position.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" ²
HK(IFRIC)-INT 8	Scope of HKFRS 2 ³
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

3. SEGMENT INFORMATION

Geographical segments

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

The unaudited segment results, and other information for the six months ended 30 June 2006 are as follows:

	The People's Republic of China (the "PRC") HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	1,388,565	283,946	294,100	-	1,966,611
Segment results	817,258	141,026	132,192	(11)	1,090,465
Unallocated income					9,650
Unallocated costs					(12,350)
Finance costs	-	-	-	-	(42,776)
Share of results of					
– Jointly controlled entities	5,679	-	(49,998)	59,884	15,565
– An associate	-	-	820,373	-	820,373
Profit before taxation					1,880,927
Income tax expense					(396,956)
Profit for the Period					1,483,971
Other information:					
Capital expenditure	8,162	1,636	74,721	-	84,519
Unallocated capital expenditure					10
Total capital expenditure					84,529
Depletion, depreciation and amortisation	192,954	22,599	12,741	10,669	238,963
Unallocated depletion, depreciation and amortisation					522
Total depletion, depreciation and amortisation					239,485

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

3. SEGMENT INFORMATION (continued)

Geographical segments (continued)

The unaudited and restated segment results, and other information for the six months ended 30 June 2005 are as follows:

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	1,024,078	228,566	249,679	–	1,502,323
Segment results	536,525	99,986	63,866	(10)	700,367
Unallocated costs					(17,154)
Finance costs					(6,673)
Share of results of					
– Jointly controlled entities	16,693	–	(24,442)	45,413	37,664
– An associate	–	–	223,926	–	223,926
Profit before taxation					938,130
Income tax expenses					(180,360)
Profit for the period					757,770
Other information:					
Capital expenditure	222,939	10,976	62,936	–	296,851
Unallocated capital expenditure					889
Total capital expenditure					297,740
Depletion, depreciation and amortisation	192,723	24,408	23,904	–	241,035
Unallocated depletion, depreciation and amortisation					188
Total depletion, depreciation and amortisation					241,223

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

4. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest on loan from an immediate holding company and a fellow subsidiary wholly repayable within five years	37,779	1,848
Interest on bank borrowings wholly repayable within five years	4,997	4,825
	42,776	6,673

5. PROFIT BEFORE TAXATION

Profit before taxation has been carried at after charging:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Amortisation of prepaid lease payments	71	65
Depletion, depreciation and amortisation of property, plant and equipment	239,414	241,158
	239,485	241,223
Cost of inventories sold	683,453	565,943
Operating lease rental in respect of land and buildings	1,514	1,723
Staff costs, including directors' remuneration	46,773	45,481
and after crediting:		
Gain on disposal of property, plant and equipment	3	3,276
Exchange gains	36,179	156

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

6. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Overseas taxation	402,261	188,944
Deferred taxation	(5,305)	(8,584)
	396,956	180,360

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30 June 2006 (six months ended 30 June 2005: nil).

Taxation on overseas profit has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries in which the Group operates.

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

The taxable income in respect of the oil production under the Leng Jiapu Contract is subject to the income tax rate of 33%.

For the six months ended 30 June 2006, the tax paid includes a withholding tax of HK\$1 17,080,000 relating to the dividend income received from an associate, CNPC-Aktobemunaigas Open Joint Stock Company ("Aktobe"), amounting to HK\$780,543,000. The dividend income is subject to the withholding tax rate of 15%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
<i>Earnings</i>		
Earnings attributable to shareholders of the Company for the purpose of basic and diluted earnings per share	1,156,611	726,070
	Number of shares (in thousand)	
<i>Number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,829,463	4,823,709
Effect of dilutive potential ordinary shares in respect of share options	53,971	10,456
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,883,434	4,834,165

8. DIVIDENDS

During the Period, the Company paid a dividend of HK\$0.08 (six months ended 30 June 2005: HK\$0.035) per share, totaling HK\$386,727,000 (six months ended 30 June 2005: HK\$165,693,000) to the shareholders as final dividend for the year ended 31 December 2005.

The directors do not recommend payment of an interim dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

9. INTERESTS IN AN ASSOCIATE

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Audited) HK\$'000
Group's share of net assets in Aktobe	10,068,410	9,730,309

Aktobe is 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.

10. TRADE AND OTHER RECEIVABLES

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	Trade receivables (Note (a))	
from third parties	93,425	62,899
from related parties	230,613	203,334
	324,038	266,233
Prepayments and other receivables from third parties (Note (b))	80,199	505,601
Amount due from related parties	74	185
	404,311	772,019

Notes:

- (a) The Group granted a credit period of 30 to 60 days to its customers. As at 30 June 2006 and 31 December 2005, all trade receivables were aged within three months.
- (b) As at 31 December 2005, the amount included a receivable of US\$64,376,000 (approximately HK\$498,267,000) from a stock broker, who received dividend paid out by Aktobe on behalf of the Group. The amount was fully settled during the Period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

11. TRADE AND OTHER PAYABLES

	As at	
	30 June	31 December
	2006	2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade payables to third parties	18,972	10,375
Trade payables to related parties	9,154	35,063
	28,126	45,438
Other payable to third parties and accrued expenses	248,021	138,832
Other payable to related parties	161,704	128,591
	437,851	312,861

At 30 June 2006, the aged analysis of the trade payables (including amounts due to related parties of trading in nature) were as follows:

	As at	
	30 June	31 December
	2006	2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Within three months	21,794	37,956
Between three months to six months	–	21
Over six months	6,332	7,461
	28,126	45,438

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

12. BORROWINGS

	As at	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Amount due over one year		
Loan from immediate holding company (note (a))	827,597	774,000
Loan from a fellow subsidiary (note (b))	–	53,511
Bank borrowings (note (c))	619,200	–
	1,446,797	827,511
Amount due within one year shown under current liabilities		
Bank borrowings	–	928,800
Loan from a fellow subsidiary (note (d))	11,610	21,672
	11,610	950,472
	1,458,407	1,777,983

Notes:

- (a) The loan is unsecured and bears interest at 8% per annum and repayable in full on 10 February 2011.
- (b) The loan in 2005 is unsecured, bears interest at 8% per annum and repayable in full on 10 February 2011.
- (c) During the Period, the Group obtained new bank loans amounting to US\$80,000,000 (equivalent to HK\$619,200,000). The loans bear interest at LIBOR plus 0.3% and are repayable by instalments starting from 2008.
- (d) The loan is borrowed from a fellow subsidiary company in 2003 for working capital purpose. The loan is unsecured, bears interest at LIBOR plus 6.5% per annum and is repayable before 31 December 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

13. SHARE CAPITAL

	Number of shares '000	Ordinary shares HK\$'000
At 1 January 2005	4,734,094	47,341
Exercise of share options	90,000	900
At 30 June 2005 and 31 December 2005	4,824,094	48,241
Exercise of share options	10,000	100
At 30 June 2006	4,834,094	48,341

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

	Number of options	
	1 Jan 2006 to 30 June 2006 (Unaudited)	1 Jan 2005 to 31 Dec 2005 (Audited)
At the beginning of the Period/year	95,500,000	132,000,000
Granted	–	53,500,000
Exercised	(10,000,000)	(90,000,000)
At the end of the Period/year	85,500,000	95,500,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

14. OTHER RESERVES

	Contributed surplus	Share premium	Employee share-based compensation reserve	Asset revaluation reserve	Available-for-sale investments reserve	Translation reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2005	134,323	1,292,537	7,210	–	–	37,352	1,471,422
Gains on fair value changes of available-for-sale investments	–	–	–	–	53,006	–	53,006
Fair value adjustment on assets arising from acquisition of a subsidiary	–	–	–	2,713,131	–	–	2,713,131
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(40,195)	(40,195)
Share option benefits	–	–	13,910	–	–	–	13,910
Exercise of share options	–	46,000	–	–	–	–	46,000
Balance at 31 December 2005 and 1 January 2006	134,323	1,338,537	21,120	2,713,131	53,006	(2,843)	4,257,274
Gains on fair value changes of available-for-sale investments	–	–	–	–	1,250	–	1,250
Amortisation of asset revaluation reserve	–	–	–	(105,473)	–	–	(105,473)
Exercise of share options	–	6,000	–	–	–	–	6,000
Exchange differences arising on translation of foreign operation	–	–	–	–	–	316,520	316,520
Unaudited balance at 30 June 2006	134,323	1,344,537	21,120	2,607,658	54,256	313,677	4,475,571
Balance at 1 January 2005	134,323	1,292,537	7,210	–	–	37,352	1,471,422
Share option benefits	–	–	13,910	–	–	–	13,910
Exercise of share options	–	46,000	–	–	–	–	46,000
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(66)	(66)
Unaudited balance at 30 June 2005	134,323	1,338,537	21,120	–	–	37,286	1,531,266

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

15. COMMITMENTS

(a) Capital commitments

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Contracted but not provided for		
Development cost under the Leng Jiapu Contract	215,726	469,823
Development cost under the Xinjiang Contract	1,618	48,670
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	31,450	60,500
	248,794	578,993
Authorised but not contracted for		
Development cost for the Azerbaijan Kursangi and Karabagli oil field	61,572	99,730
Development cost for Peru Talara oil field	14,851	16,486
Development cost for Thailand Sukhothai oil field	55,051	83,592
	131,474	199,808

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

(b) Operating leases commitments

At 30 June 2006, the Group had total future aggregate minimum lease payments under non-cancelable operating leases in respect of land and buildings as follows:

	30 June 2006 HK\$'000 (Unaudited)	31 December 2005 HK\$'000 (Audited)
Within one year	2,004	1,995
In the second to fifth year inclusive	3,711	4,391
More than five years	1,249	1,363
	6,964	7,749

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

16. RELATED-PARTY TRANSACTIONS

Other than those disclosed elsewhere in the financial statements, a summary of significant related party transactions during the Period is as follows:

- (a) In connection with the Xinjiang Contract entered into with China National Petroleum Corporation (“CNPC”), ultimate holding company of the Company, in July 1996, the Group has entered into the following transactions with related parties:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Sale of crude oil	531,259	321,008
Operating management fee	77,637	60,172
Operating lease rental in respect of motor vehicles and land and buildings	266	821
Assistance fee	105	105
Training fee	105	105

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

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Sales of crude oil	857,307	703,069
Operating management fee	172,840	140,516
Purchase of equipment	–	1,054
Operations and support services fee	311	415
Perforation fee	–	1,452
Assistance fee	134	137
Training fee	229	137

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

16. RELATED-PARTY TRANSACTIONS (continued)

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Operating lease rental of oil field equipment	7,174	5,602
Geophysical and geological studies	227	357
Purchase of material	1,632	–

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Geophysical and geological studies	877	856
Operating lease rental of oil field equipment	2,236	4,259
Purchase of material	2,820	874

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

16. RELATED-PARTY TRANSACTIONS (continued)

- (e) In accordance with Kursangi and Karabagli oil field in the Azerbaijan, the Group entered into the following transactions with related parties:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Drilling fee	21,176	9,057
Engineering and others	15,060	15,344
Fracturing fee	–	11,656
Purchase of material	–	1,476

- (f) Key management compensation

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	4,381	3,533
Other long-term benefits	370	442
Share-based payments	–	12,610
	4,751	16,585

- (g) Rental expense amounting to HK\$187,000 (six months ended 30 June 2005: HK\$187,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$31,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: HK\$31,000).
- (h) Interest expenses amounting to HK\$1,188,000 and HK\$36,591,000 (six months ended 30 June 2005: HK\$1,848,000 and nil) were paid to China Petroleum Finance Company Limited and Sun World Limited respectively, being the Company's fellow subsidiary and immediate holding company, respectively (note 4).