CNPC (HONG KONG) LIMITED

(incorporated in Bermuda with limited liability)

中國(香港)石油有限公司

(Stock Code: 0135)

Annual Report 2007

CNPC (HONG KONG) LIMITED 中國(香港)石油有限公司

Annual Report 2007

二零零七年年報

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(Chief Executive Officer)*
Mr Wang Mingcai
Mr Cheng Cheng
Dr Lau Wah Sum, GBS, LLD, DBA, JP
Mr Li Kwok Sing Aubrey
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
http://www.irasia.com/listco/hk/cnpchk

PRINCIPAL BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

SOLICITORS

Clifford Chance
Baker & McKenzie

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11, Bermuda

PRINCIPAL OFFICE

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118 Connaught Road West
Hong Kong
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E-mail: info@cnpc.com.hk
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PRINCIPAL REGISTRARS

Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

REGISTRARS IN HONG KONG

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

I am pleased to announce to the shareholders on behalf of the Board for the year ended 31 December 2007 (the "Year"), the Group recorded an operating profit after tax and minority interests of HK$1,367,302,000, representing a decrease of HK$347,211,000 or 20.25% compared with HK$1,714,513,000 (restated) in the previous year.

In the Year, the sales volume of crude oil was 16,488,000 barrels (2006: 17,209,000 barrels), representing a decrease of 721,000 barrels or 4.19%, and caused a decrease of HK$335,691,000 in the pretax profit of the Group. International crude oil price rebounded in the Year as compared with the previous year. The weighted average realised crude oil price per barrel of the Group was approximately US$59.06, representing an increase of US$7.8 or 15.21% as compared with US$51.26 in the previous year, and caused an increase of HK$846,912,000 in pretax profit of the Group.

Pursuant to the accounting policies of the Group, exploration costs related to oilfields with no discovery of commercial reserves within one year shall be accounted for as expenses. In the Year, newly explored oilfield has not commenced production and no contribution to the Group, the related expenses of HK$518,924,000 (2006: HK$143,792,000) was recognised in the consolidated income statement, of which, HK$32,642,000 (2006: HK$99,160,000) was accounted as impairment loss on loan to jointly controlled entities and amounts due from jointly controlled entities.

BUSINESS REVIEW

The Group has eleven oilfields located in seven different countries, four of them are exploration projects. Each oil field is undergoing comprehensive exploration and development, seeking to increase reserves and production volume in light of high oil price, so as to generate considerable returns for shareholders.

In 2007, the Group has commenced several comprehensive exploration work, however, those oilfields have no profit contribution, thus resulting a negative impact on the profit of the Group. If expenses for explorating oilfields were excluded, the adjusted profit after tax for the Year shall be HK$1,886,226,000 (2006: HK$1,858,305,000), representing an increase of HK$27,921,000, or 1.5%. The expenses for explorating oilfields represented 27.51% of the adjusted profit after tax (2006: 7.74%).

PETROLEUM BUSINESSES

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

Liaohe Leng Jiapu Oil Field

As the development of Leng Jiapu Oil Field has entered the middle stage of the contract, the oil fields development faced various difficulties, the production volume decreased. However, with the effective implementation of various measures by our staff to stabilize production, a total of 980,000 tonnes (2006: 1,061,000 tonnes) of crude oil were sold from the Liaohe Leng Jiapu Contract Area, representing a decrease of 7.63% compared with the previous year. On a 70% share basis, profit after tax attributable to the Group was HK$494,867,000 (2006: HK$639,675,000), representing a decrease of HK$144,808,000, or 22.64% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs. During the Year, RMB472,024,000 (approximately HK$502,474,000) (2006: RMB552,577,000 (approximately HK$541,742,000)) was contributed as part of the fund required for ongoing exploration, drilling and construction of ground production facilities. In 2007, the Group paid a total of HK$30,545,000 (2006: HK$33,267,000) as special levy for petroleum.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area sold a total of 665,000 tonnes (2006: 695,000 tonnes) of crude oil in 2007, representing a decrease of 4.32% compared with the previous year. On a 54% share basis, profit after tax attributable to the Group was HK$381,677,000 (2006: HK$482,570,000), representing a decrease of HK$100,893,000, or approximately 20.91% compared with last year.

According to the Xinjiang Contract, the production sharing contract is twelve consecutive years up to 31 August 2008. However, the term of contract may be extended up to 25 years (up to 2021). The Group has applied for an extension of contract period and expansion of development contract area, and is now waiting for the approval.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs. During the Year, RMB123,069,000 (approximately HK$131,008,000) (2006: RMB81,697,000 (approximately HK$80,095,000)) was contributed as part of the fund required for stabilizing production. In 2007, the Group paid a total of HK$51,868,000 (2006: HK$33,678,000) as special levy for petroleum.

The Republic of Kazakhstan ("Kazakhstan")

Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) Oil Fields

The Group indirectly owns 15.07% equity interest in Aktobe through holding 60% equity interest in Caspian. Aktobe, whose shares were de-listed from the Kazakhstan Stock Exchange in August 2007, owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan.

In 2007, total production of crude oil and natural gas in Aktobe amounted to 44,758,000 barrels (2006: 43,670,000 barrels) and 32,895,000,000 cu. ft. (2006: 30,626,000,000 cu. ft.) respectively. Production of crude oil increased by 1,088,000 barrels or 2.49%, while production of natural gas increased by 2,269,000,000 cu. ft. or 7.41%. The Group shared 6,746,000 barrels (2006: 6,581,000 barrels) of crude oil, and 4,956,000,000 cu. ft. (2006: 4,616,000,000 cu. ft) of natural gas.

As at 31 December 2007, the Group's share of reserves was 69,230,000 barrels of crude oil and 72,970,000,000 cu. ft. of natural gas (2006: 82,761,000 barrels of crude oil and 84,455,000,000 cu. ft. of natural gas). In 2007, the average selling price of crude oil is US$64.24 per barrel (2006: US$51.14).

When the Group increased its investment of 20% equity interests in Caspian in 2005, an assessment was made in the fair value of its investment in Aktobe, and caused an increase in the value of oil and gas properties. Pursuant to accounting standards, the asset revaluation is required to be amortized each year by unit-of-production method. HK$590,962,000 was amortized for the Group for the Year (2006: HK$526,386,000).

In 2007, after deduction of minority interest, the project contributed a profit of HK$1,018,726,000 (excluding amortization adjustment of asset revaluation value of HK$590,962,000) (2006: HK$831,796,000 – excluding amortization adjustment of asset revaluation value of HK$526,386,000) (restated) to the Group, representing an increase of HK$186,930,000 or 22.47%.

The Kingdom of Thailand ("Thailand")

Sukhothai Concession

During the Year, the Sukhothai Concession in Thailand recorded sales volume of 393,000 barrels (2006: 383,000 barrels), representing an increase of 10,000 barrels or 2.61% over last year. Profit before tax (after minority interest) for the Year was HK$119,987,000 (2006: HK$98,002,000), representing an increase of HK$21,985,000 or 22.43% compared with last year. Tax paid in 2007 was HK$59,376,000 (2006: HK$43,135,000). The Group will continue to exploit the potential of the oil field and input more resources to increase production.

L21/43 Concession

In July 2003, the Group was granted the right to carry out oil exploration in the L21/43 concession located next to Sukhothai Concession by the Thailand Government. The exploration was divided into two phases of total six years. The overall exploration, including seismic analysis and other exploration works, had commenced. The first phase of exploration was basically completed. Upon further analysis and investigation, commercial flow was confirmed. 28.8 square kilometers has been approved by the Thailand Government as development area, leaving the remaining area continues under exploration. Exploration cost of HK$38,820,000 (2006: HK$1,098,000) for the Year was accounted for in the consolidated income statement. In the Year, the project sold 124,000 barrels of crude oil (2006: 17,000 barrels), contributed a profit of HK$5,111,000 (2006: HK$254,000) to the Group.

Peru

Talara Oil Field

The Group holds 50% interest in the right to explore and produce oil and natural gas in Blocks VI and VII of the Talara Oil Field in Peru. During the Year, 1,045,000 barrels (2006: 1,114,000 barrels) of crude oil and 751,000,000 cu. ft. (2006: 969,000,000 cu. ft.) of natural gas were sold. The Group shared HK$29,751,000 (2006: HK$82,312,000) profit after tax and minority interests, representing a decrease of HK$52,561,000, or 63.86%, over that of last year. The decrease in profit was mainly due to increase of exploration cost in Blocks 111/113. If such exploration cost was excluded, profit of the Year shall be HK$246,410,000, representing an increase of HK$164,098,000, or 199.36%.

Blocks 111/113

In December 2005, the Group entered into an 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, located in Southeast Peru. Exploration work had commenced and incurred exploration cost of HK$216,659,000 (2006: nil), with an aim to discover reserves as soon as possible, and generate good return to the Group.

The Sultanate of Oman ("Oman")

Block 5

The Group holds 25% interest in the Block 5 oil field in Oman. The Group shared 1,313,000 barrels (2006: 1,336,000 barrels) of oil production during the Year, decreased by 23,000 barrels or 1.72% compared with last year. Profit after tax attributable to the Group amounted to HK$163,579,000 (2006: HK$115,633,000), representing an increase of HK$47,946,000, or 41.46% compared with last year.

Indonesia

Bengara II

The Group acquired 70% interests in Continental-GeoPetro (Bengara-II) Limited ("CGBII") from an independent third party. CGBII had interests in the oil and gas properties of Bengara II Production Contract Area in East Kalimantan, Indonesia.

According to the transfer agreement, the Group injected US$18,700,000 (approximately HK$144,832,000) into CGBII as shareholder loans for the exploration expenses required. The Group planned to complete the drilling work of four exploration wells during the exploration period (the exploration period ended on 4 December 2007) so as to confirm the oil reserves and apply for development.

After the official take-over in October 2006, the Group immediately arranged the drilling and exploration works. In 2007, four exploration wells were drilled, although there was indication of different level of oil trail, commercial discovery was not confirmed. The petroleum contract has a term of thirty years, but the exploration phase has a term of only ten years which ended on 4 December 2007. After the drilling of the four exploration wells, the exploration phase expired before the comprehensive exploration works commence, and all activities were subsequently suspended. The Group has applied in writing to the Petroleum Department of Indonesia (BP Migas) to extend the term for exploration so as to finish the remaining exploration works and arrive at a conclusion. Due to complicated procedures, we have not yet received the formal notice as of the announcement date. In accordance with requirements of accounting standards, the Board agreed to impair and write off all the oil and gas properties of US$22,453,000 (approximately HK$174,372,000) in 2007.

The Union of Myanmar

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

The Group holds 50% interest in the exploration rights of the oil fields in Myanmar. The exploration, including seismic analysis and other exploration works, had fully commenced. Findings of the exploration revealed that there would not be much commercial reserves. The Group had decided to abandon and return this block to the government, and focused on other potential projects. The Group's share of exploration cost of HK$6,355,000 (2006: HK$16,259,000) was included as impairment loss on loans to jointly controlled entities.

The Azerbaijan Republic (“Azerbaijan”)

Kursangi and Karabagli Oil Field (“K&K”)

The Group owns 25% interest in K&K in Azerbaijan. During the Year, the Group shared 1,061,000 barrels (2006: 1,082,000 barrels) of crude oil. Profit after tax attributable to the Group amounted to HK$95,597,000 (2006: HK$89,215,000), representing an increase of HK$6,382,000 or 7.15% as compared with the previous year.

Gobustan Oil Field

The Group holds 31.41% equity interest in Commonwealth Gobustan Limited (“CGL”). CGL owns 80% of participating interest in an oil field in the Southwest of Gobustan, Azerbaijan. A loss of HK$22,060,000 (2006: loss of HK$123,358,000) was contributed to the Group for the Year. Only a small amount of crude oil and natural gas was sold in 2007. Further plans of development will depend on the results of more in-depth research and exploration data.

PRC manufacturing business

Steel pipes factory

華油鋼管有限公司(“Steel Pipes Factory”) was set up by the Group with North China Petroleum Administration Bureau (華北石油管理局) (“Administration Bureau”). With the experience of the Administration Bureau in the manufacturing and distribution of high quality oil and gas pipes, the Steel Pipes Factory produces high quality steel pipes to meet market demand. The Steel Pipes Factory’s branch factory in Yangzhou Hanjiang Industrial Park, the PRC, has commenced production so as to enhance its competitiveness and capture a larger market share in the eastern part of the PRC.

In 2007, a total of 169,000 tonnes (2006: 229,000 tonnes) of steel pipes were sold by the Steel Pipes Factory. 123,000 tonnes (2006: 127,000 tonnes) were processed from material purchased on its own and 46,000 tonnes (2006: 102,000 tonnes) were processed with materials provided. It generated a profit of HK$18,037,000 (2006: HK$21,285,000) for the Group, representing a decrease of HK$3,248,000, or 15.26% over last year. Such decrease was mainly due to the postponement of construction of various pipelines, which has a negative impact on large scale and large bore steel pipe orders.

As the construction works of large-scale pipeline projects, such as the second pipeline for transmission of natural gas from Western China to the eastern part, Sino-Russian project, Sino-Kazakhstan project, commence successively, the Steel Pipes Factory will seize this opportunity to leverage its capacity.

Film factory

Biaxially Oriented Polypropylene (“BOPP”) Project

The BOPP film factory, which was jointly established by the Group with Daqing Petroleum Administrative Bureau (“Daqing Bureau”), achieved expected satisfactory results after commencement of production. Facing high raw materials price and fierce competition, only strong one will survive. The management of the film factory has actively seeking to improve quality, cost control and optimize products. Its products have gained high recognition in the market and have been positioned at the higher end of the market.

The BOPP film factory developed according to the expected targets. Profit after tax attributable to the Group for the Year was HK$6,562,000 (2006: HK$2,166,000), representing an increase of HK$4,396,000, or 202.95% over last year.

The CPP film production line has commenced operation after quantity and product quality tests. It provided another type of products to meet market demand. With continued economic growth in China, demand for packaging materials will gradually increase. The Group is confident that the project will provide steady income to the Group in the future.

The CPP film factory developed according to the expected targets. Loss after tax attributable to the Group for the Year was HK$622,000 (2006: nil).

BUSINESS PROSPECTS

The positioning of the Group's future development remains unchanged, which will still focus on the investment in petroleum upstream business as well as other petroleum-related business with stable income. The Group will continue to explore new business opportunities, increase oil reserves, invest in projects with lower risk and reasonable return in different regions and develop petroleum related business in the PRC and overseas.

With a strong financial position and prudent approach, the Group aims to expand into an international petroleum corporation. The crude oil price in future is expected to maintain at a relatively high level. The Group will accelerate on the exploration and development of existing oil projects, increase reserves and production volume, strengthen the management, costs control, increase efficiency and stabilize income. New acquisitions will be made with an aim to increase crude oil reserves and production, so as to enhance revenue and increase return to shareholders.

FINAL DIVIDEND

As the results for the year was satisfactory, the Board of Directors recommended the payment of a final dividend of HK12 cents (2006: HK10 cents) per share. The proposed dividend will be paid on or about 10 June 2008 to the shareholders whose names appear on the Register on 23 May 2008, subject to the approval at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 May 2008 to 23 May 2008 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, Tricor Secretaries Ltd. at the Level 26, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 19 May 2008 in order to qualify for the proposed final dividend.

By Order of the Board

Li Hualin
Chairman

Hong Kong, 11 April 2008

The Group has recorded a turnover of HK$3,842,723,000 for the year ended 31 December 2007 (the "Year"), representing a decrease of HK$51,009,000 or 1.31% as compared with HK$3,893,732,000 last year.

The sales volume of crude oil was 16,488,000 barrels, representing a decrease of 721,000 barrels or 4.19%. The weighted average price of crude oil per barrel was approximately US$59.06, representing an increase of US$7.8 or 15.21% compared with US$51.26 in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2007, the aggregate assets value of the Group was HK$22,727,423,000, representing an increase of HK$1,709,968,000 or 8.14% as compared last year.

The major changes of the assets are as follows:

	Increase/(decrease) HK$'000
Property, plant and equipment	162,204
Interests in jointly controlled entities	112,351
Interests in an associate	(157,380)[#]
Trade and other receivables	126,662
Bank balances and cash and deposits	1,387,643
Total increase in assets	1,631,480

\# The net assets of Aktobe was decreased due to dividend distribution received.

The gearing ratio of the Group maintained at 5.44% as at 31 December 2007 compared with 5.99% (restated) last year. It is computed by dividing the total borrowings of HK$832,623,000 (2006: HK$828,132,000) by the shareholders' funds of HK$15,294,329,000 (2006: HK$13,816,122,000 (restated)).

During the Year, RMB472,024,000 (approximately HK$502,474,000) (2006: RMB552,577,000 (approximately HK$541,742,000)) was injected out of profits into Leng Jiapu oil field as development costs.

In accordance with the Karamay Contract RMB123,069,000 (approximately HK$131,008,000) (2006: RMB81,697,000 (approximately HK$80,095,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the Year.

Dividend of US$199,340,000 (approximately HK$1,548,074,000) (2006: US$198,797,000 (approximately HK$1,539,182,000)) for the year 2006 was received from Aktobe during the Year and the withholding tax of US$29,901,000 (approximately HK$232,211,000) (2006: US$29,819,000 (approximately HK$230,876,000)) was paid thereon.

The Group paid interest of US$9,913,000 (approximately HK$76,983,000) (2006: US$9,684,000 (approximately HK$74,978,000)) in 2007 to Sun World Limited, the immediate holding company, for the long-term borrowing.

Dividend of US$10,522,000 (approximately HK$81,713,000) (2006: US$5,219,000 (approximately HK$40,408,000)) was received from Oman oilfield.

Dividend of RMB44,935,000 (approximately HK$46,163,000) (2006: nil) was received from North China Steel Pipe Factory Limited during the Year.

USE OF PROCEEDS

During the Year, the Company issued 4,900,000 (2006: 16,000,000) new shares as a result of share option exercised.

HK$5,998,000 (2006: HK$12,024,000) was received from a director and a senior executive by exercising their share options in 2007.

2006 final dividend of HK10 cents per share amounting HK$484,409,000 (2005: HK8 cents per share amounting HK$386,727,000) was distributed to the shareholders of the Group during the Year.

Taking into account the cashflow from the operating activities, the Group as at 31 December 2007 has a bank balance and cash and bank deposits of HK$4,244,380,000 (2006: HK$2,856,737,000).

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

NEW INVESTMENT

There was no new investment during the Year.

EMPLOYEE

On 31 December 2007, the Group had approximately 402 staff (excluding the staff under entrustment contracts) (2006: 362 staff) 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.

By Order of the Board

Zhang Bowen
Chief Executive Officer

Hong Kong, 11 April 2008

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2007.

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles (the "Principles"), code provisions (the "Code Provisions") and certain recommended best practices (the "Recommended Best Practices") as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

The Company has applied the Principles and the Code Provisions as set out in the CG Code and complied with all the Code Provisions and certain deviations from the Code Provisions A.2.1, details of which are explained below.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code, and acknowledges the important role of its Board of Directors in providing effective leadership and direction to Company's business, and in ensuring transparency and accountability of Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Code Provision D.1.2 stipulates that the Company should formalise the functions reserved to the Board and those delegated to management.

When the Board delegates aspects of its management and administration functions to Management, it has given clear directions as to the powers of Management, in particular, with respect to the circumstances where Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company adopted written terms on division of functions reserved to the Board and delegated to the management in April 2007.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Composition

During the year, the Board composes of 4 Executive Directors and 3 Independent Non-executive Directors. It has the necessary balance of skills and experience appropriate to the requirements of the business of the Company. There is a strong element of independence in the Board, which can effectively exercise independent judgement.

The Board comprises the following seven directors:

Executive Directors:
Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(Chief Executive Officer)*
Mr Wang Mingcai
Mr Cheng Cheng

Independent Non-Executive Directors:
Dr Lau Wah Sum *(Chairman of the Audit Committee and Member of the Remuneration Committee)*
Mr Li Kwok Sing Aubrey *(Chairman of the Remuneration Committee and Member of the Audit Committee)*
Dr Liu Xiao Feng *(Member of the Remuneration Committee and Audit Committee)*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

None of the members of the Board is related to one another.

During the year ended 31 December 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

Appointment and Re-election of Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the Articles of Association of the Company which provide that every Director appointed by the Board during the year shall retire at the next general meeting and every Director (including those appointed for a specific term) shall be subject to retirement at least once every three years. Code Provisions A.4.1 and A.4.2 have been fully complied.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

In accordance with the Company's Bye-laws, Mr Cheng Cheng, Dr Lau Wah Sum and Mr Li Kwok Sing Aubrey shall retire by rotation and being eligible offers themselve for re-election at the forthcoming annual general meeting.

Both Dr Lau Wah Sum and Mr Li Kwok Sing Aubrey had served the Company as Independent Non-Executive Director for more than nine years, but the Company believes that Dr Lau and Mr Li can independently express opinions on matters of the Company.

The Board recommended the re-appointment of the above directors standing for re-election at the forthcoming annual general meeting of the Company.

A circular containing detailed information of the directors standing for re-election at the forthcoming annual general meeting would be sent to the shareholders.

Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2007, five regular Board meetings, three Audit Committee meetings and three Remuneration Committee meeting were held.

The attendance record of each director at the meetings of the Board, the Audit Committee and the Remuneration Committee during the year ended 31 December 2007 is set out below:

	Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director:			
Mr Li Hualin *(Chairman)*	5/5		
Mr Zhang Bowen *(Chief Executive Officer)*	5/5		
Mr Wang Mingcai	5/5		
Mr Cheng Cheng	5/5		
Independent Non-Executive Director:			
Dr Lau Wah Sum	5/5	3/3	3/3
Mr Li Kwok Sing Aubrey	5/5	3/3	3/3
Dr Liu Xiao Feng	5/5	3/3	3/3

Note: One of the Board meetings (with the presence of Mr Wang Mingcai, Mr Li Hualin, Mr Cheng Cheng, Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng, being all directors) has discussed the directors' nomination matters.

Practices and Conduct of Meetings

Notices of regular Board meetings are served to all directors at least 14 days before the meetings and reasonable notice is generally given for other Board meetings. For committee meeting, notices are served in accordance with the required notice period stated in the relevant terms of reference.

Agenda and Board papers together with all appropriate, complete and reliable information are normally sent to all directors/ committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Chief Financial Officer a qualified accountant, Chief Executive Officer and Company Secretary will attend Board and committee meetings, when necessary, to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Minutes are prepared after each meeting and the final version is signed by the Chairman and confirmed by the Board in the following Board Meeting. The confirmed minutes are kept for future reference and directors‘ inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer of the Company are during the year held by Mr Li Hualin and Mr Zhang Bowen.

There are no written terms on the general division of responsibilities between the Chairman and the Chief Executive Officer. The Board considers that the responsibilities of the Chairman and the Chief Executive Officer are clear and distinctive and hence written terms thereof are not necessary. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval.

BOARD COMMITTEES

The Board has established two committees, namely, the Audit Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request.

The three independent non-executive directors of the Company are the members of each of the Audit Committee and Remuneration Committee of the Company.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

REMUNERATION COMMITTEE

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Company Secretary is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

The Remuneration Committee held three meetings during the year ended 31 December 2007 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the senior management for the year under review.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2007, the Audit Committee held three meetings, to review the financial results and reports, financial reporting and compliance procedures, the report on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31 December 2007 has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no different view taken by the Audit Committee from the Board regarding the selection, appointment, resignation or dismissal of external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

Code provision A.5.4 stipulates that directors must comply with their obligations under the Model Code set out in Appendix 10 and, in addition, the board should establish written guidelines on no less exacting terms than the model Code for relevant employees in respect of their dealings in the securities of the issuer.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

The Company established written guidelines (the "Employees Written Guidelines") in September 2007 in respect of the dealings in the Company's securities by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 30.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2007 amounted to 2,480,000 and 145,540 (2006: HK$2,380,000 and HK$63,000) respectively. The said non-audit services related to the preparation and filing of the profits tax returns of the Company and its subsidiaries.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders‘ meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll and the poll procedures are included in all circulars to shareholders and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be posted on the website of the Stock Exchange and the Company on the business day following the shareholders meeting.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees, and, where applicable, the independent Board committee, are available to answer questions at the shareholders‘ meetings.

Separate resolutions are proposed at shareholders meetings on each substantial issue, including the election of individual directors.

The Company continues to enhance communications and relationships with its investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner.

To promote effective communication, the Company also maintains a website at http://www.cnpc.com.hk and http://www.irasia.com/listco/hk/cnpchk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

INTERNAL CONTROLS

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders investment and the Company's assets.

The internal control system of the Company comprises a well-established organisational structure and comprehensive policies and standards. The Company has assigned a Vice-President of the Company to carry out the internal audit function, who is also a member of the Audit Committee.

The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organisation structure exists with defined lines of authority and control responsibilities;

- A comprehensive management accounting system is in place to provide financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose;

- Policies and procedures are designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud;

- Audit Committee reviews reports submitted by external auditors to the Group's management in connection with the annual audit and interim review;

- A Policy on Handling and Dissemination of Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner in such a way that it does not place any person in a privileged dealing position and allows time for the market to price the shares of the Company to reflect the latest available information.

The Board, through the Audit Committee, assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls as well as risk management functions, on an annual basis. Pursuant to a risk-based approach, independent reviews of risks associated with and controls over various operations and activities are performed. Significant findings on internal controls are reported to the Audit Committee twice each year. During the year 2007, no major issue have been identified. The Audit Committee reports its work to the Board on a semi-annual basis.

The directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries, the associate and jointly controlled entities are the exploration and production of crude oil and natural gas in the People's Republic of China ("PRC"), the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 32.

A final dividend for the year ended 31 December 2006 of HK10 cents per share amounting to HK$484,409,000 was paid during the year. The directors recommend the payment of a final dividend of HK12 cents per share for the year ended 31 December 2007, totalling HK$581,399,000.

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 97.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 35.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements during the year in share capital of the Company are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2007 and 2006 were as follows:

	2007 HK$'000	2006 HK$'000
Contributed surplus	133,795	133,795
Retained profits	5,017,931	3,388,689
	5,151,726	3,522,484

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

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

Executive Directors:
Mr Li Hualin
Mr Zhang Bowen (appointed on 5 January 2007)
Mr Wang Mingcai
Mr Cheng Cheng

Independent Non-Executive Directors:
Dr Lau Wah Sum
Mr Li Kwok Sing Aubrey
Dr Liu Xiao Feng

DIRECTORS (continued)

In accordance with Article 97 of the Company's Bye-Laws, Mr Cheng Cheng, Dr Lau Wah Sum and Mr Li Kwok Sing Aubrey shall 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, other than statutory compensation.

Independent Non-Executive Directors, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng, were appointed for a two-year term expiring on 31 July 2008 and 15 April 2008 respectively. While Dr Lau Wah Sum was appointed and will retire at 2008 general annual meeting.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr Li Hualin *(Chairman)*

Age 45, after graduated from South West Petroleum University in 1983 with Bachelor's Degree in Oil and Gas Exploration and Prospecting Engineering, Mr Li joined China National Petroleum Corporation ("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 and become the Chief Executive Officer in 2005. Mr Li was re-designated as the Chairman of the Company in January 2007. Mr Li was appointed by PetroChina Company Limited as Vice-President in November 2007.

Mr Zhang Bowen *(Chief Executive Officer)*

Aged 41, joined the Company on 1 January 2007. He holds a Bachelor degree from Xian Electronic Scientific University in computer science and a Master degree in petroleum geology from Daqing Petroleum University. Since he graduated, Mr Zhang joined China National Oil and Gas Exploration and Development Corporation, a subsidiary of CNPC. He has over 10 years of working experience in the oil and gas industry. Immediately before he joined the Company, he was the executive vice president of CNPC America Limited.

Mr Wang Mingcai *(Executive Director)*

Age 62, 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 CNPC overseas projects. He was the President of CNPC International Venezuela Ltd. Mr Wang joined the Company as Executive Chairman since 2001 and re-designated as Executive Director in January 2007.

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

Directors (continued)

Mr Cheng Cheng *(Executive Director)*

Age 40, was appointed as an Executive Director in June 2004. He is currently a Deputy General Manager of the Company. Before joining the Company, Mr Cheng has over 15 years industry experience working at various departments and sections of CNPC including 3 years in Canada as Vice President of CNPC International (Canada) Limited. Mr Cheng has a Master of Business Administration from the University of Calgary, Canada, a Master in Energy and Environment Economy from Scuola Superiore Enrico Mattei, Milan Italy and Diploma in Petroleum Technical Economy from Jianghan Institute of Petroleum, the PRC.

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

Age 80, is a Fellow of the Chartered Institute of Management Accountants. He was the ex-Chairman of Urban Renewal Authority. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Court Member of the University of Science and Technology of Hong Kong. He also sits on the Board of Tian Teck Land Limited and Associated International Hotels Limited in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

Mr Li Kwok Sing Aubrey *(Independent Non-Executive Director)*

Age 58, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of MCL Partners Limited, an investment banking firm, and has over 30 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, Kowloon Development Company Limited and Pokfulam Development Company Limited and had been a non-executive director of Value Partners China Greenchip Fund Limited up to 26 March 2007. 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.

Dr Liu Xiao Feng *(Independent Non-Executive Director)*

Age 45, was appointed as an independent non-executive director of the Company on 2004. He is currently Managing Director of DBS Asia Capital Limited. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons and JP Morgan, and has many years of experience in corporate finance. Dr Liu has a Ph.D and Master degrees from the Faculty of Economics, University of Cambridge and a Bachelor of Economics from Sichuan Institute of Finance and Economics, China. Dr Liu is currently also an independent non-executive director of Haier Electronics Group Co. Ltd and Honghua Group Limited, both of which are publicly listed companies on the The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Senior Management

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

Age 55, member of Hong Kong Institute of Certified Public 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 30 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, any of its fellow subsidiaries or its parent 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 31 December 2007, the interests of the directors of the Company in the shares 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 or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, referred to share options to the directors.

Share options are granted to directors and chief executives under the executive share option scheme approved by the board of directors on 3 June 2002. Details are set out in the section headed "Share Options" of this report.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, its fellow subsidiaries and its holding 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.

SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in note 29 to the consolidated financial statements.

The following table discloses the movements during the year in the number of share options of the Company which have been granted to the directors and employees of the Company:

				Number of share options			
Name of director	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Outstanding at 31.12.2007
Directors:							
Mr Li Hualin	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	20,000,000	–	–	20,000,000
	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	–	25,000,000	–	25,000,000
Mr Zhang Bowen	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	–	20,000,000	–	20,000,000
Mr Wang Mingcai	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	25,000,000	–	–	25,000,000
	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	–	10,000,000	–	10,000,000
Mr Cheng Cheng	25 Jun 2004	25 Sep 2004 to 24 Jun 2009	0.940	20,000,000	–	–	20,000,000
	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	–	10,000,000	–	10,000,000
Dr Lau Wah Sum	8 Jan 2004	8 Apr 2004 to 7 Jan 2009	1.362	3,500,000	–	–	3,500,000
Mr Li Kwok Sing Aubrey	8 Jan 2004	8 Apr 2004 to 7 Jan 2009	1.362	3,500,000	–	–	3,500,000
Dr Liu Xiao Feng	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	2,500,000	–	(900,000)	1,600,000
Employees:	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	5,000,000	–	(4,000,000)	1,000,000
	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	–	15,000,000	–	15,000,000
	14 Sep 2007	14 Dec 2007 to 13 Sep 2012	4.480	–	20,000,000	–	20,000,000
				79,500,000	100,000,000	(4,900,000)	174,600,000

The closing prices of the Company's shares immediately before 8 January 2007 and 14 September 2007, the dates of grant of the 2007 options, were HK$3.990 and HK$4.460, respectively.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$3.084.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

At 31 December 2007, the register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that the following substantial shareholders' interests, being 5% or more of the Company's issued share capital.

Name of shareholder		Number of shares	Approximate percentage of issued share capital
Sun World Limited ("Sun World")	Long position	2,513,917,342 [1]	51.89%

[1] All shares are registered under the name of HKSCC Nominees Limited.

Sun World is a wholly-owned subsidiary of CNPC, which is established in the PRC, and CNPC is accordingly deemed to have interest in the 2,513,917,342 shares held by Sun World.

Save as disclosed above, as at 31 December 2007, the directors and the chief executive of the Company are not aware of any other person (other than a director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in note 29 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2007 and there had been no other exercise of convertible securities, options, warrants or similar rights during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the consolidated financial statements constituted connected transactions under Listing Rules, which are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed procedures in respect of the continuing connected transactions of the Group. The auditor has reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms or terms no less favorable than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MANAGEMENT CONTRACTS

The Group has entered into certain entrustment contracts in relation to the management of the oil production under the Xinjiang Contract and the Leng Jiapu Contract. Details of those contracts are set out in notes 33 and 34 to the consolidated financial statements, respectively.

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	20.94%
Percentage of purchases attributable to the Group's five largest suppliers	52.18%
Percentage of sales attributable to the Group's largest customer	65.22%
Percentage of sales attributable to the Group's five largest customers	100.00%

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

Save for the above, none of the directors, their associates or any shareholder (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.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$10,000 (2006: HK$10,000).

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the knowledge of the directors, it is confirmed that there is sufficient public float of more than 25% of the Company's issued shares during the year.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Li Hualin
Chairman

Hong Kong, 11 April 2008

Deloitte.
德勤

TO THE MEMBERS OF
CNPC (HONG KONG) LIMITED
中國(香港)石油有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CNPC (Hong Kong) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 96, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
11 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000 (Restated)
Turnover	6	3,842,723	3,893,732
Cost of sales		(2,318,940)	(2,100,661)
Gross profit		1,523,783	1,793,071
Investment income	7	122,113	77,611
Other gains and income	8	203,082	270,905
Impairment losses on loans to and amounts due from jointly controlled entities		(32,642)	(99,160)
Impairment loss and write-off of exploration and evaluation assets	19	(174,372)	–
Exploration costs		(316,136)	(4,175)
Administrative expenses		(155,521)	(33,778)
Finance costs	9	(76,983)	(101,204)
Share of results of jointly controlled entities		185,817	84,839
Share of results of an associate	17	1,036,302	788,983
Profit before taxation	10	2,315,443	2,777,092
Income tax expense	11	(630,546)	(750,290)
Profit for the year		1,684,897	2,026,802
Attributable to:			
Shareholders of the Company		1,367,302	1,714,513
Minority interests		317,595	312,289
		1,684,897	2,026,802
Dividends paid	12	484,409	386,727
Earnings per share	13		
– Basic		HK28.23 cents	HK35.49 cents
– Diluted		HK27.88 cents	HK35.05 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	3,132,130	2,969,926
Prepaid lease payments	15	3,560	3,701
Interests in jointly controlled entities	16	787,078	674,727
Loans to jointly controlled entities	16	142,023	126,727
Interests in an associate	17	13,802,574	13,959,954
Available-for-sale investments	18	126,467	61,881
Exploration and evaluation assets	19	–	48,506
Other non-current assets		2,162	2,162
Deferred taxation assets	27	71,587	–
		18,067,581	17,847,584
Current assets			
Inventories	20	30,491	31,929
Trade and other receivables	21	376,156	249,494
Amounts due from jointly controlled entities	22	8,815	31,711
Bank deposits with original maturity more than three months	23	901,089	729,125
Bank balances and cash	23	3,343,291	2,127,612
		4,659,842	3,169,871
Current liabilities			
Trade and other payables	24	726,662	483,955
Amount due to ultimate holding company	25	1,322	1,229
Amounts due to minority shareholders of subsidiaries	25	49,058	49,718
Taxation payable		93,278	110,410
		870,320	645,312
Net current assets		3,789,522	2,524,559
Total assets less current liabilities		21,857,103	20,372,143

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000 (Restated)
Non-current liabilities			
Other loans-amount due over one year	26	832,623	828,132
Deferred taxation liabilities	27	544,556	462,306
		1,377,179	1,290,438
		20,479,924	19,081,705
Capital and reserves			
Share capital	28	48,450	48,401
Reserves		15,245,879	13,767,721
Equity attributable to shareholders of the Company		15,294,329	13,816,122
Minority interests		5,185,595	5,265,583
Total equity		20,479,924	19,081,705

The consolidated financial statements on pages 32 to 96 were approved and authorised for issue by the Board of Directors on 11 April 2008 and are signed on its behalf by:

Li Hualin
Chairman

Zhang Bowen
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to shareholders of the Company										
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (Note 30)	Employee share-based compensation reserve HK$'000	Asset revaluation reserve HK$'000 (Note 30)	Available-for-sale investments reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2006 (Originally stated)	48,241	1,338,537	134,323	21,120	2,713,131	53,006	(2,843)	8,301,557	12,607,072	5,850,239	18,457,311
Restatement of prior year figures (Note 2)	–	–	–	–	–	–	–	(183,433)	(183,433)	(122,289)	(305,722)
Balance at 1 January 2006 (Restated)	48,241	1,338,537	134,323	21,120	2,713,131	53,006	(2,843)	8,118,124	12,423,639	5,727,950	18,151,589
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	(2,548)	–	–	(2,548)	–	(2,548)
Exchange differences arising on translation	–	–	–	–	–	–	22,521	–	22,521	7,255	29,776
Share of reserve of associates	–	–	–	–	–	–	23,737	–	23,737	15,824	39,561
Share of reserve of jointly controlled entities	–	–	–	–	–	–	8,963	–	8,963	–	8,963
Net income recognised directly in equity	–	–	–	–	–	(2,548)	55,221	–	52,673	23,079	75,752
Profit for the year	–	–	–	–	–	–	–	1,714,513	1,714,513	312,289	2,026,802
Total recognised income and expense for the year	–	–	–	–	–	(2,548)	55,221	1,714,513	1,767,186	335,368	2,102,554
Exercise of share options	160	13,174	–	(1,310)	–	–	–	–	12,024	–	12,024
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(797,735)	(797,735)
2005 final dividend	–	–	–	–	–	–	–	(386,727)	(386,727)	–	(386,727)
	160	13,174	–	(1,310)	–	–	–	(386,727)	(374,703)	(797,735)	(1,172,438)
Balance at 31 December 2006 and 1 January 2007	48,401	1,351,711	134,323	19,810	2,713,131	50,458	52,378	9,445,910	13,816,122	5,265,583	19,081,705
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	48,380	–	–	48,380	–	48,380
Exchange differences arising on translation	–	–	–	–	–	–	223,677	–	223,677	(10,942)	212,735
Share of reserve of associates	–	–	–	–	–	–	175,067	–	175,067	116,711	291,778
Share of reserve of jointly controlled entities	–	–	–	–	–	–	26,476	–	26,476	–	26,476
Net income recognised directly in equity	–	–	–	–	–	48,380	425,220	–	473,600	105,769	579,369
Profit for the year	–	–	–	–	–	–	–	1,367,302	1,367,302	317,595	1,684,897
Total recognised income and expense for the year	–	–	–	–	–	48,380	425,220	1,367,302	1,840,902	423,364	2,264,266
Recognition of equity-settled share based payments	–	–	–	115,716	–	–	–	–	115,716	–	115,716
Exercise of share options	49	7,223	–	(1,274)	–	–	–	–	5,998	–	5,998
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(503,352)	(503,352)
2006 final dividend	–	–	–	–	–	–	–	(484,409)	(484,409)	–	(484,409)
	49	7,223	–	114,442	–	–	–	(484,409)	(362,695)	(503,352)	(866,047)
Balance at 31 December 2007	48,450	1,358,934	134,323	134,252	2,713,131	98,838	477,598	10,328,803	15,294,329	5,185,595	20,479,924

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000 (Restated)
Cash flows from operating activities		
Profit before taxation	2,315,443	2,777,092
Adjustments for:		
Share of results of jointly controlled entities	(185,817)	(84,839)
Share of results of an associate	(1,036,302)	(788,983)
Finance costs	76,983	101,204
Release of prepaid lease payments	141	141
Impairment losses on loans to and amounts due from jointly controlled entities	32,642	99,160
Impairment loss on property, plant and equipment	314	–
Impairment loss and write-off of exploration and evaluation assets	174,372	–
Depletion, depreciation and amortisation of property, plant and equipment	663,327	565,936
Employee share option benefits expense	115,716	–
Dividend income	(10,588)	(1,868)
Exchange difference arising from dividend income	(65,135)	(59,682)
Interest income	(111,525)	(75,743)
Operating cash flow before movements in working capital	1,969,571	2,532,418
Decrease (increase) in inventories	1,438	(2,583)
(Increase) decrease in trade and other receivables	(126,662)	24,844
Increase in trade and other payables	242,707	171,922
Cash generated from operating activities	2,087,054	2,726,601
Taxation in other jurisdictions paid	(676,605)	(871,369)
Net cash generated from operating activities	1,410,449	1,855,232

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000 (Restated)
Cash flows from investing activities		
Dividend received from an associate	1,548,075	2,037,611
Interest received	111,525	75,743
Dividend received from jointly controlled entities	127,876	40,408
Dividend received from available-for-sales investment	4,428	–
Proceeds from disposal of property, plant and equipment	–	29,262
Payment for exploration and evaluation assets	(125,734)	–
Increase of deposits with maturity more than three months	(171,964)	(729,125)
Purchase of property, plant and equipment	(647,723)	(676,226)
Purchase of available-for-sale investments	(4,405)	–
Loans to jointly controlled entities	(50,564)	(54,955)
Repayment from (advance to) amounts due from jointly controlled entities	728	(4,841)
Acquisition of a subsidiary, net of cash acquired (note 31)	–	(202)
Net cash generated from investing activities	792,242	717,675
Cash flow from financing activities		
Repayments of bank loans	–	(1,547,800)
Repayments of other loans	–	(75,183)
Dividends paid	(484,409)	(386,727)
Dividends paid to minority interests	(503,352)	(797,735)
Proceeds from issue of shares	5,998	12,024
Interest paid	(76,983)	(101,204)
Bank loans raised	–	619,000
Other loans raised	–	54,132
Net cash used in financing activities	(1,058,746)	(2,223,493)
Net increase in cash and cash equivalents	1,143,945	349,414
Cash and cash equivalents at 1 January	2,127,612	1,831,521
Effect of foreign exchange rate changes	71,734	(53,323)
Cash and cash equivalents at 31 December, represented by bank balances and cash	3,343,291	2,127,612

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is China National Petroleum Corporation ("CNPC") which is a company established in the People's Republic of China (the "PRC"). The immediate holding company of the Company is Sun World Limited, which is a company incorporated in the British Virgin Islands. The addresses of the Company's principal office and registered office are Room 3907-3910, 39/F, 118 Connaught Road West, Hong Kong and Clarendon House, Church Street, Hamilton HM11, Bermuda, respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries, the associate and the jointly controlled entities are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan ("Kazakhstan"), the Sultanate of Oman ("Oman"), Peru, the Kingdom of Thailand ("Thailand"), the Azerbaijan Republic ("Azerbaijan") and the Republic of Indonesia ("Indonesia").

The oil operations in the PRC are conducted through production sharing arrangements with PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC with its shares listed on the Stock Exchange and The Shanghai Stock Exchange, whereby the Group is entitled to a fixed percentage of assets, liabilities, income and expenses in accordance with the respective oil production sharing contracts entered into with PetroChina.

The Group currently has two production sharing arrangements in the PRC. On 1 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 30 December 1997, the Group entered into another oil production sharing contract (the "Leng Jiapu Contract") to develop and produce crude oil in Liaohe, Lioaning 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 33 and 34.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$") while the functional currency of the Company is United States Dollars ("US$"). The reason for selecting Hong Kong Dollars as its presentation currency is because the Company is a public company in Hong Kong with the shares listed on the Stock Exchange, where most of its public investors are located in Hong Kong.

2. RESTATEMENT OF PRIOR YEAR FIGURES

On 14 October 2005, CNPC International (Caspian) Limited ("Caspian") became a 60% owned subsidiary of the Group (the "Acquisition"). On the date of acquisition, the assets and liabilities of Caspian including the interest in its associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") of which operations are located in Kazakhstan, were acquired at their fair values. Under the relevant rule of Kazakhstan, dividend paid by Aktobe is subject to 15% withholding tax and the deferred tax liability for that withholding tax on the undistributed reserve should be recognised at the date of Acquisition. As a result, cumulative effect of deferred taxation liabilities in relation to the 15% withholding tax previously not provided for has been adjusted as follows:

	1.1.2006 HK$'000 (Originally stated)	Adjustments HK$'000	1.1.2006 HK$'000 (Restated)
Deferred taxation liabilities	197,631	305,722	503,353
Retained profits	8,301,557	(183,433)	8,118,124
Minority interests	5,850,239	(122,289)	5,727,950

	31.12.2006 HK$'000 (Originally stated)	Adjustments HK$'000	31.12.2006 HK$'000 (Restated)
Deferred taxation liabilities	124,120	338,186	462,306
Translation reserve	54,928	(2,550)	52,378
Retained profits	9,646,271	(200,361)	9,445,910
Minority interest	5,400,858	(135,275)	5,265,583

The effects of the adjustments described above on the consolidated income statement are summarised as follows:

For the year ended 31 December 2006

	HK$'000
Increase in income tax expenses and decrease in profit for the year	28,214
Decrease in profits attributable to shareholders of the Company	16,928
Decrease in profits attributable to minority interest	11,286
	28,214

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The Group has applied the disclosure requirements under HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation" has been removed and the relevant comparative information based on the requirements of HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC)-INT 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC)-INT 12	Service concession arrangements [4]
HK(IFRIC)-INT 13	Customer loyalty programmes [5]
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (continued)

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Joint ventures

Jointly controlled assets

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of the assets and share of any liabilities incurred jointly with other ventures are recognised in the consolidated balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

The income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred are recognised in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

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 results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Sales of crude oil and natural gas

Revenue from sales of crude oil and natural gas are recognised when goods are delivered and title has passed.

Rental income

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

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated at cost less subsequent accumulated depletion, depreciation and amortisation and any accumulated impairment losses. The successful efforts method of accounting is used for oil and gas properties. Under this method, all costs for development wells, support equipment and facilities, and acquired proven mineral interests in oil and gas properties are capitalised. Proven oil and gas reserves are the estimated quantities of crude oil, natural gas and condensate oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Depletion, depreciation and amortisation of capitalised costs of oil and gas properties is calculated on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for depletion, depreciation and amortisation of oil properties takes into account the expenditure incurred to date, together with projected future development expenditure and the volume of oil and gas produced in the current year. Depreciation of other fixed assets (capitalised in oil and gas properties) is provided on a straight-line basis at annual rates of between 16.67% and 20%.

Construction in progress

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other fixed assets

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

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than certain oil and gas properties and construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method, at the following rates per annum:

Buildings	4% or over the remaining period of respective leases where shorter
Furniture and fixtures	20% to 25%
Motor vehicles	25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised pending a determination of whether sufficient quantities of potentially economic oil and gas reserves have been discovered. The related well costs are expensed if it is determined that such economic viability is not attained within one year of completion of drilling. Otherwise, the related well costs are reclassified to oil and gas properties and subject to depletion and impairment review. For wells found economically viable reserves in areas where a major capital expenditure would be required before production can begin, the related well costs remain capitalised only if additional drilling is under way or firmly planned. Otherwise the well costs are expensed as dry holes. The Group has no costs of unproven properties capitalised in oil and gas properties.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

The Group's financial assets included loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans to/amounts due from jointly controlled entities, trade and other receivables, bank balances and cash and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in consolidated income statement (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to and amounts due from the jointly controlled entities, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Borrowings

Other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

Other financial liabilities

Other financial liabilities, including trade and other payables and amount due to ultimate holding company and minority shareholders of subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associate and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income in the periods when the grants became unconditional and there is reasonable assurance that the grants will be received.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit cost

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to the employees after 7 November 2002 and vested on or after 1 January 2005

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to the share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will continue to be held in the reserve.

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group which are stated at functional currency of the respective group entity other than Hong Kong Dollars are translated into Hong Kong Dollars at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of oil and natural gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in depletion, depreciation and amortisation calculation and in testing for impairment. Changes in proven oil and natural gas reserves will affect unit-of-production depreciation charges to the consolidated income statement. Proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the estimation of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes to the Group's estimates of proven reserves, may affect the amount of depletion, depreciation and amortisation recorded in the Group's financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proven reserves will increase depletion, depreciation and amortisation charges (assuming constant production) of oil and gas properties and reduce profit.

Oil production sharing contract

As disclosed in note 33 and pursuant to the Xinjiang Contract, the operating licenses issued by the PRC Government for the Xinjiang Contract will expire on 30 August 2008. However, under the terms of Xinjiang Contract, the jointly operating parties are permitted to apply for another thirteen years of production period. The management of the Group expects that this contract will be permitted for the extension of another thirteen years of production period. Up to the date of this report, the success of the application to extend the contract has not yet confirmed. If the Group fails in its application for the extension, the related oil properties existed of approximately HK$111,540,000 may be impaired and this would reduce profit.

6. SEGMENT INFORMATION

Business segments

The Group's principal activities are the exploration and production of crude oil and natural gas. No information for business segment is presented because the sales of natural gas is minimal comparing with the total turnover of the Group.

Geographical segments

The Group operates within five geographical regions, namely the PRC, South America, Central Asia, South East Asia and Middle East.

6. SEGMENT INFORMATION (continued)

Segment information about these geographical regions by location of assets and customers is presented as follows:

For the year ended 31 December 2007

	PRC HK$'000	South America HK'$000	Central Asia HK'$000 (Note)	South East Asia HK'$000 (Note)	Middle East HK'$000	Total HK'$000
Turnover	2,506,092	577,300	514,746	244,585	–	3,842,723
Segment results	1,072,782	76,030	93,523	(120,876)	(307)	1,121,152
Unallocated income						227,821
Unallocated expenses						(178,666)
Finance costs						(76,983)
Share of results of						
An associate	–	–	1,036,302	–	–	1,036,302
Jointly controlled entities	25,789	–	–	–	160,028	185,817
Profit before taxation						2,315,443
Income tax expense						(630,546)
Profit for the year						1,684,897
The segment assets and liabilities at 31 December 2007 are as follows:						
Segment assets	1,912,381	283,250	524,784	518,348	–	3,238,763
Interest in an associate	–	–	13,802,574	–	–	13,802,574
Interests in jointly controlled entities	289,082	–	–	–	497,996	787,078
Loans to jointly controlled entities	44,101	–	97,922	–	–	142,023
Deferred taxation assets	–	71,587	–	–	–	71,587
Amounts due from jointly controlled entities	2,205	–	6,550	–	60	8,815
Bank deposits with original maturity more than three months	901,089	–	–	–	–	901,089
Bank balances and cash	287,389	44,264	185,870	111,169	–	628,692
Other unallocated corporate assets						3,146,802
Total assets	3,436,247	399,101	14,617,700	629,517	498,056	22,727,423
Segment liabilities	250,277	64,353	167,717	126,388	109,758	718,493
Amount due to ultimate holding company	1,322	–	–	–	–	1,322
Amounts due to minority shareholders of subsidiaries	–	–	–	49,058	–	49,058
Other loans	–	–	832,623	–	–	832,623
Taxation payable	31,932	33,545	–	27,801	–	93,278
Deferred taxation liabilities	87,981	–	450,336	6,239	–	544,556
Other unallocated corporate liabilities						8,169
Total liabilities	371,512	97,898	1,450,676	209,486	109,758	2,247,499
Other segment information:						
Capital expenditure	488,966	22,723	50,146	211,962	–	773,797
Depletion, depreciation and amortisation	551,777	42,753	20,711	48,086	–	663,327
Impairment loss on property, plant and equipment	–	–	–	314	–	314
Impairment loss and write-off of exploration and evaluation assets	–	–	–	174,372	–	174,372

Note: Central Asia represented the operations in Kazakhstan and Azerbaijan. South East Asia represented the operations in Thailand, Indonesia and Myanmar.

6. SEGMENT INFORMATION (continued)

Geographical segments (continued)

For the year ended 31 December 2006

	PRC HK$'000	South America HK'$000	Central Asia HK'$000 (Note)	South East Asia HK'$000 (Note)	Middle East HK'$000	Total HK'$000 (Restated)
Turnover	2,713,025	556,369	467,544	156,794	–	3,893,732
Segment results	1,440,795	262,259	121,011	49,603	(16)	1,873,652
Unallocated income						252,110
Unallocated expenses						(121,288)
Finance costs						(101,204)
Share of results of						
An associate	–	–	788,983	–	–	788,983
Jointly controlled entities	22,256	–	(53,066)	–	115,649	84,839
Profit before taxation						2,777,092
Income tax expense						(750,290)
Profit for the year						2,026,802
The segment assets and liabilities at 31 December 2006 are as follows:						
Segment assets	2,048,917	326,848	503,205	485,934	–	3,364,904
Interest in an associate	–	–	13,959,954	–	–	13,959,954
Interests in jointly controlled entities	261,370	–	–	–	413,357	674,727
Loans to jointly controlled entities	45,246	–	81,481	–	–	126,727
Amounts due from jointly controlled entities	26,870	–	4,702	–	139	31,711
Bank deposits with original maturity more than three months	729,125	–	–	–	–	729,125
Bank balances and cash	497,075	110,219	83,815	200,233	–	891,342
Other unallocated corporate assets						1,238,965
Total assets	3,608,603	437,067	14,633,157	686,167	413,496	21,017,455
Segment liabilities	188,807	105,461	168,661	17,396	10	480,335
Amounts due to ultimate holding company	1,229	–	–	–	–	1,229
Amounts due to minority shareholders of subsidiaries	–	–	–	49,718	–	49,718
Other loans	–	–	828,132	–	–	828,132
Taxation payable	99,153	–	–	11,257	–	110,410
Deferred taxation liabilities	124,120	–	338,186	–	–	462,306
Other unallocated corporate liabilities						3,620
Total liabilities	413,309	105,461	1,334,979	78,371	10	1,935,750
Other segment information:						
Capital expenditure	452,729	58,138	65,059	148,806	–	724,732
Depletion, depreciation and amortisation	466,216	45,452	21,284	32,984	–	565,936

Note: Central Asia represented the operations in Kazakhstan and Azerbaijan. South East Asia represented the operations in Thailand, Indonesia and Myanmar.

7. INVESTMENT INCOME

	2007 HK$'000	2006 HK$'000
Interest on bank deposits	106,555	63,736
Interest on loan to jointly controlled entities	4,970	12,007
Total interest income	111,525	75,743
Dividends from listed equity investments	10,588	1,868
	122,113	77,611

Investment income earned on financial assets, analysed by category of asset, is as follows:

	2007 HK$'000	2006 HK$'000
Available-for-sale financial assets	10,588	1,868
Loans and receivables (including bank balances and deposits)	111,525	75,743
	122,113	77,611

8. OTHER GAINS AND INCOME

	2007 HK$'000	2006 HK$'000
Government grants related to reinvestment of profits generated from oil production sharing contracts (note)	93,526	97,261
Exchange gain	102,729	172,880
Others	6,827	764
	203,082	270,905

Note: The local government offered government grants to the subsidiaries established outside the PRC for the Leng Jiapu Contract and the Xinjiang Contract. Such government grants were endorsed by the relevant tax bureau for the qualification of these grants.

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on borrowings wholly repayable over five years:		
– loan from immediate holding company	76,983	74,978
– loan from a fellow subsidiary	–	1,861
– bank borrowings	–	24,365
	76,983	101,204

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2007 HK$'000	2006 HK$'000
Directors' emoluments (see below)	87,077	9,708
Other key management personnel	12,035	2,820
Total key management personnel	99,112	12,528
Other staff costs		
Staff's retirement benefits scheme contributions	10,744	6,256
Employee share option benefits expense	30,092	–
Other staff costs	113,356	99,958
	154,192	106,214
Total staff cost	253,304	118,742
Auditor's remuneration	3,755	4,224
Cost of inventories sold	2,318,940	2,100,661
Depletion, depreciation and amortisation of property, plant and equipment	663,327	565,936
Impairment loss on property, plant and equipment	314	–
Operating lease rental in respect of rented premises	3,825	2,771
Release of prepaid lease payments	141	141
Share of tax of		
– an associate (included in share of results of an associate)	1,171,866	1,049,593
– jointly controlled entities (included in share of results of jointly controlled entities)	2,600	1

10. PROFIT BEFORE TAXATION (continued)

Directors' emoluments

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefits expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Li Hualin	2,835	945	–	29,082	32,862
Mr Zhang Bowen	–	2,340	293	23,266	25,899
Mr Wang Mingcai	–	1,800	225	11,633	13,658
Mr Cheng Cheng	–	1,800	225	11,633	13,658
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	3,835	6,885	743	75,614	87,077

The remuneration of each director for the year ended 31 December 2006 is set out below:

Name of director	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefits expenses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Wang Mingcai	2,835	473	–	–	3,308
Mr Li Hualin	–	3,200	400	–	3,600
Mr Cheng Cheng	–	1,600	200	–	1,800
Mr Lin Jingao	–	–	–	–	–
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	3,835	5,273	600	–	9,708

10. PROFIT BEFORE TAXATION (continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining one (2006: two) highest paid individual during the year are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other emoluments	1,800	2,507
Retirement benefits scheme contributions	225	313
Share option benefits expense	10,010	–
	12,035	2,820

The emolument was within the following bands:

	Number of employee	
	2007	2006
HK$1,000,001 to HK$1,500,000	–	2
HK$12,000,001 to HK$12,500,000	1	–

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. INCOME TAX EXPENSE

	2007 HK$'000	2006 HK$'000 (Restated)
Current tax:		
Other jurisdictions	426,224	556,211
Withholding tax in other jurisdictions	233,249	230,876
Underprovision in prior years	–	108
	659,473	787,195
Deferred taxation (note 27):		
Charge (credit) to consolidated income statement	2,165	(36,905)
Attributable to change in PRC Enterprise Income Tax rate (note)	(31,092)	–
	(28,927)	(36,905)
	630,546	750,290

Note: On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset realised or the liability is settled (adjust as appropriate).

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group had no assessable profit for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subjected to the income tax rate of 33% (2006: 33%) for the year.

11. INCOME TAX EXPENSE (continued)

The Xinjiang Contract is operated by the Company's wholly owned subsidiary established outside the PRC. In accordance with an approval by the tax bureau of Karamay, the profit derived from the oil production under the Xinjiang Contract is entitled to preferential income tax rate of 15% for the foreign enterprise invested in the PRC for six years from 1 January 2003 to 31 December 2008. Such preferential rate was endorsed by the relevant tax bureau for the qualification of the Company's subsidiary. So, the New Law has not affected the tax rate used by the Xinjiang Contract for the year 2007 and 2008.

The withholding tax represented the 15% withholding tax paid in respect of the dividend receipt from an associate, Aktobe.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000 (Restated)
Profit before taxation	2,315,443	2,777,092
Tax of domestic income tax rate of 33% (2006: 33%)	764,096	916,440
Effect of different tax rates of subsidiaries operating in other jurisdictions	(11,049)	(7,868)
Effect on deferred tax for changes in PRC Enterprise Income Tax rate	(31,092)	–
Effect of income tax at preferential rate	(79,617)	(100,959)
Tax effect of income not taxable for tax purpose	(98,971)	(72,583)
Tax effect of expenses not deductible for tax purpose	163,273	43,504
Tax effect of share of results of associates	(341,980)	(260,364)
Tax effect of share of results of jointly controlled entities	(61,319)	(27,997)
Underprovision in prior years	–	108
Tax effect of tax losses not recognised	1,643	1,497
Withholding tax	313,795	259,090
Others	11,767	(578)
Income tax expense	630,546	750,290

The domestic tax rate used in the calculation above is the PRC tax rate which is the jurisdiction where the operations of the Group are substantially based.

12. DIVIDENDS PAID

	2007 HK$'000	2006 HK$'000
Dividend recognised as distribution during the year:		
2006 final dividend-HK10 cents		
(2005 final dividend: HK8 cents) per share	484,409	386,727

The final dividend of HK12 cents (2006: HK10 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. Accordingly, this dividend has not been recognised in the consolidated financial statements.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK$'000	2006 HK$'000 (Restated)
Earnings		
Earnings attributable to equity shareholders of the Company		
for the purposes of basic and diluted earnings per share	1,367,302	1,714,513

13. EARNINGS PER SHARE (continued)

	2007	2006
	Number of shares (in thousand)	
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,843,570	4,831,564
Effect of dilutive potential ordinary shares in respect of share options	60,594	60,705
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,904,164	4,892,269

A reconciliation of the restatement of basic and diluted earnings per share to adjust for the effects of the prior year adjustments is as follows:

	2006 Basic earning per share HK cents	2006 Diluted earnings per share HK cents
Reported figures before adjustments	35.84	35.39
Effects of the prior year adjustments	(0.35)	(0.34)
Restated	35.49	35.05

14. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties HK$'000	Buildings HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2006	5,484,959	1,365	2,522	3,670	38,366	5,530,882
Currency realignment	183,726	–	–	23	1,127	184,876
Additions	305,002	–	57	810	370,357	676,226
Disposals	(29,308)	–	–	–	–	(29,308)
Reclassifications	400,460	–	–	–	(400,460)	–
At 31 December 2006	6,344,839	1,365	2,579	4,503	9,390	6,362,676
Currency realignment	438,184	–	–	96	1,395	439,675
Additions	263,626	–	293	–	383,804	647,723
Disposals	–	–	(49)	–	–	(49)
Reclassifications	365,884	–	–	–	(365,884)	–
At 31 December 2007	7,412,533	1,365	2,823	4,599	28,705	7,450,025
DEPLETION, DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1 January 2006	2,721,603	77	2,107	2,059	–	2,725,846
Currency realignment	101,006	–	–	8	–	101,014
Provided for the year	565,057	55	162	662	–	565,936
Eliminated on disposals	(46)	–	–	–	–	(46)
At 31 December 2006	3,387,620	132	2,269	2,729	–	3,392,750
Currency realignment	261,507	–	–	46	–	261,553
Provided for the year	662,362	54	201	710	–	663,327
Impairment loss recognised in the income statement	314	–	–	–	–	314
Eliminated on disposals	–	–	(49)	–	–	(49)
At 31 December 2007	4,311,803	186	2,421	3,485	–	4,317,895
CARRYING VALUES						
At 31 December 2007	3,100,730	1,179	402	1,114	28,705	3,132,130
At 31 December 2006	2,957,219	1,233	310	1,774	9,390	2,969,926

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The buildings are situated in the PRC under medium term lease and long term lease amounting to HK$1,111,000 (2006: HK$1,163,000) and HK$68,000 (2006: HK$70,000), respectively.

During the year, the directors conducted a review of the Group's property plant and equipment and determined that a number of assets were impaired, due to the expiry of operating license in Bengara-II PSC Oil Field which is owned by Continental GeoPetro (Bengara-II) Limited ("CGBII"), a subsidiary of the Group, on 4 December 2007. Accordingly, impairment loss of HK$314,000 has been recongnised in respect of oil and gas properties which are used in the oil exploration and extraction on the oil field.

The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current regulations and contracts governing such activities.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007 HK$'000	2006 HK$'000
Leasehold interest in land outside Hong Kong:		
Lease of over 50 years	150	153
Leases of between 10 to 50 years	3,410	3,548
	3,560	3,701

16. INTERESTS IN/LOANS TO JOINTLY CONTROLLED ENTITIES

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	511,274	511,274
Share of post-acquisition profits and reserves	275,804	163,453
	787,078	674,727
Loans to jointly controlled entities	333,341	284,887
Less: Impairment losses recognised	(191,318)	(158,160)
	142,023	126,727

Loans to jointly controlled entities are unsecured and not repayable within one year. The amounts of HK$44,101,000 and HK$289,240,000 (2006: HK$45,246,000 and HK$239,641,000) bear interest at fixed rate 5% and London Interbank Offered Rate ("LIBOR") plus 3.75% (2006: 5% and LIBOR plus 3.75%) per annum, respectively. The effective interest rate is 8% (2006: 9%).

In 2007, the Group recognised an impairment loss of HK$32,642,000 (2006: HK$99,160,000) for loans to jointly controlled entities. The allowance is attributable to the unfavourable exploration results of the respective jointly controlled entities. The impairment loss is measured as the difference between the carrying amount of loans to the relevant jointly controlled entities and the present value of the estimated future cash flows discounted at the original effective interest rate.

At 31 December 2007 and 31 December 2006, all loans to jointly controlled entities are not past due and not impaired.

16. INTERESTS IN/LOANS TO JOINTLY CONTROLLED ENTITIES (continued)

The financial positions and results of the Group's portion of investment in its jointly controlled entities are summarised as follows:

	2007 HK$'000	2006 HK$'000
Assets and liabilities		
Current assets	833,192	516,825
Non-current assets	665,768	858,962
Current liabilities	(663,214)	(417,541)
Non-current liabilities	(48,668)	(283,519)
Net assets	787,078	674,727
Results for the year		
Income	1,143,215	971,357
Expenses	(957,398)	(886,518)
	185,817	84,839

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the years and cumulatively, are as follows:

	2007 HK$'000	2006 HK$'000
Unrecognised share of losses of jointly controlled entities for the year	26,110	12,552
Accumulated unrecognised share of losses of jointly controlled entities	38,662	–

Details of principal jointly controlled entities, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2007 and 2006, are set out in note 43.

17. INTERESTS IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	1,176,586	1,176,586
Share of post-acquisition profits and reserves	12,625,988	12,783,368
	13,802,574	13,959,954
Market value of listed shares		
-Investment in Aktobe	N/A	25,261,293

Aktobe was a joint stock company listed on the Kazakhstan Stock Exchange in 2006. In August 2007, Aktobe is delisted from the Kazakhstan Stock Exchange due to inactive trading. The principal activity of Aktobe 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 Kazakhstan. The Group holds 25.12% of issued capital of Aktobe.

The financial positions and results (after fair value adjustment upon acquisition) of the Group's investment in its associate, Aktobe, are summarised below:

	2007 HK$'000	2006 HK$'000
Assets and liabilities		
Total assets	66,946,762	63,807,582
Total liabilities	(12,000,210)	(8,234,517)
Net assets	54,946,552	55,573,065
The Group's share of net assets	13,802,574	13,959,954
Result for the year		
Turnover	19,865,658	16,810,377
Profit for the year	4,125,407	3,140,856
Group's share of profit of associate of the year (note)	1,036,302	788,983

17. INTERESTS IN AN ASSOCIATE (continued)

Note: During the year ended 31 December 2007, the Group's share of profit of Aktobe included an amount of HK$984,937,000 (2006: HK$877,310,000) related to the amortisation of fair value adjustments on oil and gas properties in connection with the acquisition of interest in Aktobe.

Details of the associate, which in the directors' opinion materially affect results and/or net assets of the Group at 31 December 2007 and 2006, are set out in note 42.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Listed investments:		
– Equity securities listed in Hong Kong	71,016	12,980
– Equity securities listed in Australia	55,451	48,901
	126,467	61,881

At the balance sheet date, all the equity securities listed in Hong Kong and Australia are stated at fair values, which have been determined by reference to bid prices quoted in Hong Kong Stock Exchange and Australian Stock Exchange, respectively.

Included in available-for-sale investment are the following amounts denominated in currency other than the functional currency of the entity to which they relate.

	2007 HK$'000	2006 HK$'000
Australian dollars	55,451	48,901

19. EXPLORATION AND EVALUATION ASSETS

	2007 HK$'000	2006 HK$'000
Carrying value		
At 1 January	48,506	–
Exchange realignment	132	–
Additions	125,734	–
Arising on acquisition of subsidiary	–	48,506
Write-off	(48,638)	–
Impairment loss	(125,734)	–
At 31 December	–	48,506

During the year, the directors conducted a review of the Group's exploration and evaluation assets and determined that a number of assets were impaired, due to the expiry of operating license in Bengara-II PSC Oil Field which is owned by CGBII, a subsidiary of the Company, on 4 December 2007. The renewal of the operating license is under the progress of application and subject to the approval from local government. The status of the application is uncertain as at the reporting date. Accordingly, impairment loss of HK$125,734,000 has been recongnised in respect of exploration and evaluation properties which are used in the oil exploration and extraction on the oil field. During the year, exploration and evaluation assets amounting to HK$48,638,000 (2006: nil) had been written off due the uncertainty of the potential economic oil and gas reserve in Bengara-II PSC Oil Field in accordance with the Group's policy.

20. INVENTORIES

	2007 HK$'000	2006 HK$'000
Crude oil in tanks	16,889	18,327
Marina club debentures and wet berths	13,602	13,602
	30,491	31,929

21. TRADE AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables		
from third parties	218,595	69,028
from fellow subsidiaries	100,184	129,295
	318,779	198,323
Prepayments and other receivables	25,607	19,435
Amounts due from fellow subsidiaries	31,770	31,736
	376,156	249,494

The Group grants a credit period of 30 to 90 days to its customers. At 31 December 2007 and 31 December 2006, all trade receivables were aged within three months and are not past due and no allowance for doubtful debts for both years.

The management closely monitors the credit quality of trade and other receivables and the credit ratings of the customers. The customers of the Group are mainly those international petroleum companies with sound financial background.

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and expected to be settled within one year.

22. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, non-interest bearing and expected to be settle within one year. No allowance for doubtful debts for both years.

23. BANK DEPOSITS, BANK BALANCES AND CASH

	2007 HK$'000	2006 HK$'000
Bank deposits with original maturity more than three months	901,089	729,125
Cash at bank and in hand	424,764	666,426
Short-term bank deposits	2,918,527	1,461,186
	3,343,291	2,127,612

23. BANK DEPOSITS, BANK BALANCES AND CASH (continued)

Bank deposits with original maturity more than three months carry fixed interest at market rate at 3.00% per annum (2006: 2.25% per annum). The original maturity ranged from 6 months to 1 year. Cash at bank and short-term bank deposits carry interest at prevailing market rate at 1.44% per annum (2006: 1.21% per annum).

Included in bank deposits, bank balances and cash are the following amounts denominated in currency other than the functional currency of the entity to which they relate.

	2007 HK$'000	2006 HK$'000
Hong Kong dollars	7,371	25,594

24. TRADE AND OTHER PAYABLES

	2007 HK$'000	2006 HK$'000
Trade payables		
to third parties	123,705	31,663
to fellow subsidiaries	43,313	59,831
	167,018	91,494
Other payables and accrued expenses	192,500	204,381
Other payables to fellow subsidiaries	205,893	27,698
Other payables to immediate holding company	161,251	160,382
	726,662	483,955

24. TRADE AND OTHER PAYABLES (continued)

The aged analysis of the trade payables (including amounts due to fellow subsidiaries of trading in nature) is as follows:

	2007 HK$'000	2006 HK$'000
Within three months	157,673	83,955
Between three months to six months	2,377	–
Over six months	6,968	7,539
	167,018	91,494

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables within the credit timeframe.

Other payables due to fellow subsidiaries and immediate holding company are unsecured, non-interest bearing and repayable on demand.

25. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

26. OTHER LOANS

	2007 HK$'000	2006 HK$'000
Loan from immediate holding company repayable over 5 years (note)	832,623	828,132

Note: The loan is unsecured, carries fixed interest at 8% per annum and repayable by 5 equal instalments starting from 2011.

27. DEFERRED TAXATION

The following are the major deferred taxation liabilities and assets recognised by the Group:

	Accelerated tax depreciation HK$'000	Withholding tax HK$'000	Others HK$'000	Total HK$'000
At 1 January 2006 (Originally stated)	(197,631)	–	13,530	(184,101)
Restatement of prior year figures (note 2)	–	(305,722)	–	(305,722)
At 1 January 2006 (Restated)	(197,631)	(305,722)	13,530	(489,823)
Currency realignment	(5,142)	(4,250)	4	(9,388)
Reversed during the year	–	230,876	–	230,876
Credit (charge) to consolidated income statement for the year (note 11)	78,653	(259,090)	(13,534)	(193,971)
At 31 December 2006 and 1 January 2007	(124,120)	(338,186)	–	(462,306)
Currency realignment	(7,986)	(31,604)	–	(39,590)
Reversed during the year	–	233,249	–	233,249
Credit (charge) to consolidated income statement for the year (note 11)	78,381	(313,795)	–	(235,414)
Attributable to change in PRC Enterprise Income Tax rate (note 11)	31,092	–	–	31,092
At 31 December 2007	(22,633)	(450,336)	–	(472,969)

As at 31 December 2007, the Group had tax losses carried forward for Hong Kong Profits Tax purpose amounting to HK$52,783,000 (2006: HK$47,803,000) available for offset against future profits that may be carried forward indefinitely. Deferred taxation assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

27. DEFERRED TAXATION (continued)

For the purposes of balance sheet presentation, certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2007 HK$'000	2006 HK$'000 (Restated)
Deferred taxation assets	71,587	–
Deferred taxation liabilities	(544,556)	(462,306)
	(472,969)	(462,306)

28 SHARE CAPITAL

	Number of ordinary shares '000	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each		
-at 1 January 2006, 31 December 2006 and 31 December 2007	8,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
-at 1 January 2006	4,824,094	48,241
-exercise of share options	16,000	160
-at 31 December 2006	4,840,094	48,401
-exercise of share options	4,900	49
-at 31 December 2007	4,844,994	48,450

28 SHARE CAPITAL (continued)

During the year ended 31 December 2006, the Company allotted and issued 10,000,000, 5,000,000 and 1,000,000 shares of HK$0.01 each for cash at the exercise price of HK$0.610, HK$0.940 and HK$1.224 per share, respectively as a result of the exercise of share options.

During the year ended 31 December 2007, the Company allotted and issued 4,900,000 shares of HK$0.01 each for cash at the exercise price of HK$1.224 per share.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

29. SHARE OPTION SCHEMES

Pursuant to resolution of the Company passed on 28 May 2001, the Company adopted an executive share option scheme (the "2001 Share Option Scheme"). The 2001 Share Option Scheme was replaced by another share option scheme (the "2002 Share Option Scheme") on 3 June 2002 and no options were granted under the 2001 Share Option Scheme since its adoption. The purpose of these share option schemes is to enable the Company to grant options to eligible employees and directors as incentives and rewards for their contributions to the Company and to recruit high caliber employees and attract human resources that are valuable to the Company.

Under the 2002 Share Option Scheme, the directors of the Company are authorised, at any time within ten years after the adoption of the 2002 Share Option Scheme, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for the Company's shares at a price not less than the average of the closing prices of the Company's shares on the five trading days immediately preceding the offer date of the options, the closing price of the Company's shares on the offer day or the nominal value of the Company's shares, whichever is the highest. Unless otherwise cancelled or amended, the 2002 Share Option Scheme will be valid and effective for a period of ten years from the date of adoption. The maximum number of shares in respect of which options may be granted under the 2002 Share Option Scheme cannot exceed 10% of the issued share capital of the Company. Notwithstanding aforesaid in this paragraph, the maximum numbers 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 shares of the Company) shall not exceed 30% of the shares in issue from time to time.

Options granted under the 2002 Share Option Scheme must be taken up within the period as specified in the offer of the options and no amount shall be payable by the grantee to the exercising the right to accept an offer of an option. Options granted are exercisable 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. All of the options were vested to the option holders after 3 months from the date on which the options are granted.

29. SHARE OPTION SCHEMES (continued)

Pursuant to the resolution of the Company passed on 8 January 2007, 65,000,000 and 15,000,000 share options were granted to directors and employees of the Company, respectively, under the 2002 Share Option Scheme. Furthermore, pursuant to the resolution of the Company passed on 14 September 2007, 20,000,000 share options were granted to employees of the Company under the 2002 Share Option Scheme. All of the options are vested to the option holders after 3 months from the date on which the options are granted. The exercise period of the option is 5 years from the grant date.

The closing prices of the Company's shares immediately before 8 January 2007 and 14 September 2007, the date of grant of the options, were HK$3.990 and HK$4.460, respectively.

The fair value of share options granted during the year was calculated using the Binomial Model. The inputs into the model were as follows:

	Granted on 8 January 2007 to		Granted on 14 September 2007 to
	Directors	Employees	Employees
Share price at grant date	HK$4.010	HK$4.010	HK$4.480
Exercise price	HK$4.186	HK$4.186	HK$4.480
Expected volatility	38.6%	38.6%	41.0%
Risk-free rate	3.7%	3.7%	4.0%
Expected dividend yield	2.4%	2.4%	2.0%
Exercise multiple	2.0	1.5	1.5

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years.

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the independent professional valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The fair value of the options granted to directors and employees of the Company on 8 January 2007 are HK$75,614,000 and HK$15,013,000, respectively. The fair value of the options granted to employees of the Company on 14 September 2007 is HK$25,089,000.

The number of shares in respect of which options had been granted and outstanding at 31 December 2007 under the 2002 Share Option Scheme was 174,600,000 shares (2006: 79,500,000 shares), representing 3.60% (2006: 1.64%) of the issued share capital of the Company at 31 December 2007.

29. SHARE OPTION SCHEMES (continued)

The following table discloses movements of the Company's share options held by the directors and certain employees during the year:

Name or category of participant	Option Type	Number of share options: Outstanding at 1 January 2006	Exercised during the year	Outstanding at 31 December 2006	Granted during the year	Exercised during the year	Outstanding at 31 December 2007	Date of grant	Exercise price HK$	Exercise period
Directors										
Mr Li Hualin	2005	20,000,000	–	20,000,000	–	–	20,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	25,000,000	–	25,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Zhang Bowen	2007A	–	–	–	20,000,000	–	20,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Wang Mingcai	2005	25,000,000	–	25,000,000	–	–	25,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	10,000,000	–	10,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Cheng Cheng	2004B	20,000,000	–	20,000,000	–	–	20,000,000	25 Jun 2004	0.940	25 Sep 2004 to 24 Jun 2009
	2007A	–	–	–	10,000,000	–	10,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Lin Jingao	2001B	10,000,000	(10,000,000)	–	–	–	–	26 Apr 2001	0.610	26 Jul 2001 to 25 Apr 2006
Dr Lau Wah Sum	2004A	3,500,000	–	3,500,000	–	–	3,500,000	8 Jan 2004	1.362	8 Apr 2004 to 7 Jan 2009
Mr Li Kwok Sing Aubrey	2004A	3,500,000	–	3,500,000	–	–	3,500,000	8 Jan 2004	1.362	8 Apr 2004 to 7 Jan 2009
Dr Liu Xiao Feng	2005	3,500,000	(1,000,000)	2,500,000	–	(900,000)	1,600,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
		85,500,000	(11,000,000)	74,500,000	65,000,000	(900,000)	138,600,000			

29. SHARE OPTION SCHEMES (continued)

		Number of share options								
Name or category of participant	Option Type	Outstanding at 1 January 2006	Exercised during the year	Outstanding at 31 December 2006	Granted during the year	Exercised during the year	Outstanding at 31 December 2007	Date of grant	Exercise price HK$	Exercise period
Other employees	2004B	5,000,000	(5,000,000)	–	–	–	–	25 Jun 2004	0.940	25 Sep 2004 to 24 Jan 2009
	2005	5,000,000	–	5,000,000	–	(4,000,000)	1,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	15,000,000	–	15,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
	2007B	–	–	–	20,000,000	–	20,000,000	14 Sep 2007	4.480	14 Dec 2007 to 13 Sep 2012
		10,000,000	(5,000,000)	5,000,000	35,000,000	(4,000,000)	36,000,000			
Total		95,500,000	(16,000,000)	79,500,000	100,000,000	(4,900,000)	174,600,000			

The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2006 are ranged from HK$3.250 to HK$4.680.

The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2007 are ranged from HK$3.620 to HK$5.640.

30. RESERVES

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

The asset revaluation reserve represents the adjustment of the acquiree's net assets to the fair value related to the previously held interest in that subsidiary under a business combination achieved by more than one acquisition transaction.

31. ACQUISITION OF A SUBSIDIARY

On 29 September 2006, the Group acquired 70% equity interest of CGBII from Continental Energy Corporation and GeoPetro Resources Company at the aggregate consideration of US$21,000 and US$14,000, respectively. This acquisition has been accounted for using the purchase method.

	2006 Acquiree's carrying value and fair value HK$'000
Net assets acquired:	
Bank balances and cash	69
Exploration and evaluation assets	48,506
Other receivables	586
Other payables	(96)
Amounts due to minority shareholder of subsidiaries	(48,794)
	271
Net cash outflow arising on acquisition:	
Cash consideration paid	(271)
Bank balances and cash acquired	69
	(202)

The subsidiary acquired during the year ended 31 December 2006 did not contribute significantly to the Group's cash flow or operating results for the year.

32. RETIREMENT BENEFITS SCHEMES

Defined contributed plans

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK$1,000 per employee per month. The contributions are fully and immediately vested to the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

The Group also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

The total cost charged to the consolidated income statement of HK$11,712,000 (2006: HK$7,169,000) represents contributions paid and payable to these schemes by the Group in respect of the current accounting period.

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

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the "JMC") set up by the Group and PetroChina pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1 September 1996. The first phase of the Xinjiang Contract ends on 30 August 2008 and all the oil and gas properties used for the first phase of the operation i.e. HK$117,031,000, will be fully amortised on the expiry date. The Group and PetroChina is in the process of applying the extension of the production period. According to the Xinjiang Contract, the jointly operating parties are permitted to apply for another production period of thirteen years. The directors of the Company anticipate that the extension of the production period will probably be granted before the end of the first production period phase. Up to the date of this report, the success of the application to extend the Xinjiang Contract is not yet confirmed. If the Group fails in its application for the extension, the oil properties relating to the future development of approximately HK$111,540,000 may be impaired and this would reduce the Group's profit for the year ending 31 December 2008.

33. OIL PRODUCTION SHARING CONTRACT-XINJIANG CONTRACT (continued)

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 financial statements in relation to the Group's interest in the Xinjiang Contract:

		2007 HK$'000	2006 HK$'000
(a)	Results for the year		
	Income	959,284	1,006,500
	Expenses	(576,430)	(539,304)
(b)	Assets and liabilities		
	Oil and gas properties	228,571	267,271
	Current assets	395,434	306,819
	Current liabilities (excluding amount due to immediate holding company)	(112,515)	(41,226)
	Amount due to immediate holding company	(266,981)	(266,202)
	Non-current liabilities	–	(1,938)
	Net assets	244,509	264,724
(c)	Capital commitments		
	Contracted but not provided for	113,361	243,508

34. OIL PRODUCTION SHARING CONTRACT-LENG JIAPU CONTRACT

Pursuant to the Leng Jiapu Contract signed in 1997, 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 "LJP 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 cost after the first two years, in exchange for a 70% share in the oil production from the LJP Contract Area.

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

34. OIL PRODUCTION SHARING CONTRACT-LENG JIAPU CONTRACT (continued)

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 1 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 summary of assets, liabilities and results for the year recognised in the consolidated financial statements in relation to the Group's interest in the Leng Jiapu Contract is as follows:

		2007 HK$'000	2006 HK$'000
(a)	Results for the year		
	Income	1,561,534	1,717,792
	Expenses	(1,166,956)	(1,176,634)
(b)	Assets and liabilities		
	Oil and gas properties	1,752,682	1,602,752
	Current assets	1,012,350	1,097,336
	Current liabilities (excluding amount due to immediate company)	(169,635)	(236,907)
	Amount due to immediate holding company	(639,444)	(717,215)
	Non-current liabilities	(87,982)	(123,721)
	Net assets	1,867,971	1,622,245
(c)	Capital commitments		
	Contracted but not provided for	549,925	514,266

35. CAPITAL COMMITMENTS

	2007 HK$'000	2006 HK$'000
Contracted but not provided for		
Development cost under the Xinjiang Contract	113,361	243,508
Development cost under the Leng Jiapu Contract	549,925	514,266
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	132,379	106,107
	795,665	863,881
Authorised but not contracted for		
Development cost for Azerbaijan Kursangi and Kurabagli oil field	145,309	74,294
Development cost for Peru Talara oil field	46,333	82,252
Development cost for Thailand Sukhothai oil field	31,148	15,490
Development cost for Indonesia Bengara-II Block	–	144,831
	222,790	316,867

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

36. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007 HK$'000	2006 HK$'000
Within one year	2,875	2,636
In the second to fifth years inclusive	2,287	3,330
Later than five years	976	1,167
	6,138	7,133

Operating lease payments represent rental payable by the Group for the rented premises. Leases are negotiated for term from 1 to 14 years.

37. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

Nature of transaction	2007 HK$'000	2006 HK$'000
Purchase of the Group's share of crude oil by the CNPC Group	2,506,092	2,834,927
Interest income received from jointly controlled entities	4,970	12,007
Products and services provided by the CNPC Group	939,368	949,878
Assistance fee paid to a fellow subsidiary – Beckbury International Limited	262	268
Assistance fee paid to a fellow subsidiary – Hafnium Limited	205	210
Training fee paid to a fellow subsidiary – Beckbury International Limited	110	–
Training fee paid to a fellow subsidiary – Hafnium Limited	205	199
Rental expenses paid to a fellow subsidiary	373	373
Interest expenses paid to a fellow subsidiary	–	1,861
Interest expenses paid to immediate holding company	76,983	74,978

The above transactions also constituted connected transactions in accordance with Chapter 14A of the Listing Rules.

The Group also has related party balances as at the balance sheet date shown in notes 16, 22, 25 and 26.

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC Government ("State-controlled entities"). In addition, the Group itself is part of a larger group of companies under CNPC which is controlled by the PRC Government. Apart from the transactions with immediate holding company and fellow subsidiaries disclosed above, the Group also conducts business with other State-controlled entities. The directors consider those State-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

The Group has entered into various transactions, including deposits placements with certain banks and financial institutions which are State-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other State-controlled entities are not significant to the Group's operations.

37. RELATED PARTY TRANSACTIONS (continued)

Key management compensation

	2007 HK$'000	2006 HK$'000
Salaries and emoluments	8,685	7,780
Directors' fees	3,835	3,835
Retirement benefit cost	968	913
Share options	85,624	–
	99,112	12,528

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of other loans (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if appropriate.

39. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007 HK$'000	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,771,374	3,264,669
Available-for-sale financial assets	126,467	61,881
Financial liabilities		
Amortised cost	1,537,436	1,296,240

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, loans to/amounts due from jointly controlled entities, trade and other receivables, bank balances and cash and deposits, trade and other payables, amount due to ultimate holding company and minority shareholders of subsidiaries and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

Market risk

(i) Currency risk

The Group's exposure to currency risk is attributable to the bank balances and cash and deposits of the Group which are denominated in foreign currencies of HK$ (see note 23 for details). The functional currency of the relevant group entities is US$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure since HK$ is pegged to the US$ and majority transactions are conducted in functional currency of relevant group entities, management considers the Group's exposure to currency risk is minimal. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's exposure to fair value interest rate risk is mainly attributable to the fixed rate loans to jointly controlled entities and other borrowings. The fair value of fixed rate loans to jointly controlled entities and other borrowings is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value interest rate risk is insignificant as the fixed interest rate has no significant difference to the effective interest rate.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances and deposits and loan to a jointly controlled entity. The Group cash flow interest rate is mainly concentrated on the fluctuation of LIBOR and the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate financial instruments at the balance sheet date. For variable interest rate bank balances and deposits and loan to a jointly controlled entity, the analysis is prepared assuming the amounts of assets outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by HK$17,359,000 (2006: increase/decrease by HK$11,959,000).

(iii) Other price risk

The Group's equity investments at each balance sheet date exposed the Group to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks in respect of available-for-sale investments at the reporting date.

If the prices of the respective available-for-sale investments had been 10% higher/lower, the Group's equity as at 31 December 2007 would increase/decrease by HK$12,467,000 (the equity as at 31 December 2006 would increase/decrease by HK$6,188,000) as a result of the changes in fair value of available-for-sale investments.

A change of 10% in price of the respective investments does not affect the Group's profit for the year.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk

At 31 December 2007, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group has policies in place to ensure that sales are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers.

The credit risk on trade receivables is concentrated in a few customers. Trade receivables of the Group's five largest customers accounted for 100% of the Group's total trade receivables. The customers of the Group are mainly those international petroleum companies with sound financial background. Thus, management considers that the risk is limited.

In order to minimise the credit risk on the loans to and amount due from jointly controlled entities, the management will design the overall development plan of the jointly controlled entities and consider the satisfied reward to the Group for the fund advanced to the jointly controlled entities. In addition, the Group reviews the recoverable amount of each individual balance at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts and follow-up action is taken to recover the overdue debts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit standing.

Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relied on the financial support of the immediate holding company.

39. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

The following table shows the details of the Group's expected maturity of the financial instruments, which are different from the actual contract dates.

	Weighted average effective interest rate %	Repayable on demand HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	2-5 years HK$'000	> 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
2007								
Non-derivative financial liabilities								
Trade and other payables	N/A	367,144	277,944	9,345	–	–	654,433	654,433
Amount due to ultimate holding company	N/A	1,322	–	–	–	–	1,322	1,322
Amounts due to minority shareholders of subsidiaries	N/A	49,058	–	–	–	–	49,058	49,058
Other loans	8.00	–	38,596	38,596	615,170	728,827	1,421,189	832,623
		417,524	316,540	47,941	615,170	728,827`	2,126,002	1,537,436
2006								
Non-derivative financial liabilities								
Trade and other payables	N/A	188,080	221,542	7,539	–	–	417,161	417,161
Amount due to ultimate holding company	N/A	1,229	–	–	–	–	1,229	1,229
Amounts due to minority shareholders of subsidiaries	N/A	49,718	–	–	–	–	49,718	49,718
Other loans	8.00	–	38,387	38,387	466,101	947,422	1,490,297	828,132
		239,027	259,929	45,926	466,101	947,422	1,958,405	1,296,240

39. FINANCIAL INSTRUMENTS (continued)

c. Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the respective balance sheet dates.

40. FINANCIAL RISK MANAGEMENT

Apart from the financial risk relating to financial instruments disclosed in note 39, the Group's activities expose it to market risk relating to oil and gas price risk.

The Group is engaged in a wide range of petroleum related activities. The global oil and gas market is affected by international political, economic and military developments and global demand for and supply of oil and gas. A decrease in the world prices of crude oil and gas could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil and refined products. The management will consider hedging oil and gas exposure should the need arises.

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2007 and 2006, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Investment holding:			
Operated in Hong Kong			
FSC (B.V.I.) Limited	British Virgin Islands	US$50,000	100%
FSC Investment Holdings Limited	Hong Kong	HK$222,396,617	100%

41. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Operated in Peru			
Goldstein International Limited	British Virgin Islands	US$1	100%
Operated in Oman			
Bestcode Company Limited	British Virgin Islands	US$1	100%
Operated in Thailand			
Thai Offshore Petroleum Limited	Thailand	Baht 175,000,000 (fully paid) Baht 125,000,000 (25% paid up)	74%
Modern Ahead Developments Limited	Thailand	US$1	100%
Operated in Kazakhstan			
Bestory Company Inc.	British Virgin Islands	US$1	100%
CNPC International (Caspian) Ltd.	British Virgin Islands	US$100	60%
Operated in Azerbaijan			
Smart Achieve Developments Limited	British Virgin Islands	US$1	100%
Operated in Indonesia			
CNPCHK (Indonesia) Limited	British Virgin Islands	US$1	100%

41. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Oil and gas exploration and production:			
Operated in the PRC			
Hafnium Limited	British Virgin Islands	US$1	100%
Beckbury International Limited	British Virgin Islands	US$1	100%
Operated in Peru			
SAPET Development Corporation	United States of America	100 ordinary shares no par value	50% (note)
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	50% (note)
Operated in Thailand			
Central Place Company Limited	Hong Kong	HK$1,600	100%
Sino-Thai Energy Limited	Thailand	Baht120,000,000	100%
Sino-U.S. Petroleum Inc.	United States of America	US$1,000	100%
Thai Energy Resources Limited	Thailand	Baht100,000	74%
CNPCHK (Thailand) Limited	Thailand	Baht100,000,000	100%

41. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Operated in Azerbaijan			
Fortunemate Assets Limited	British Virgin Islands	US$1	100%
Operated in Indonesia			
Continental GeoPetro (Bengara-II) Limited	British Virgin Islands	US$50,000	100%
Marina club debentures and wet berths holding:			
Operated in Hong Kong			
Marina Ventures Hong Kong Limited	Hong Kong	HK$1,000	65%

Note: In accordance with the share purchase agreement dated 8 September 2001, the Company has the power to control the financial and operating policies of SAPET Development Corporation. As a result, SAPET Development Corporation is accounted for as a subsidiary of the Company.

Since SAPET Development Peru Inc. is wholly owned by SAPET Development Corporation, it is also accounted for as the subsidiary of the Company.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the period or formed a substantial portion of the assets and liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 31 December 2007 or at any time during the year.

42. ASSOCIATE

At 31 December 2007 and 2006, the Group had interest in the following associate:

Name of associate	Place of incorporation and type of legal entity	Nominal value of issued and fully paid ordinary share	Percentage of interest held by the Group	Principal activity
CNPC-Aktobemunaigas Joint Stock Company	Kazakhstan, Joint-stock company	8,946,470 common shares of 1,500 tenge each	25.12 (note)	Exploration and production of petroleum

Note: The Group through 60% owned subsidiary, hold a 25.12% interest in Aktobe. The Group effectively holds 15.072% interest in Aktobe.

43. JOINTLY CONTROLLED ENTITIES

As at 31 December 2007 and 2006, the Group had interest in the following jointly controlled entities:

Name of jointly controlled entity	Place of incorporation/ establishment and type of legal entity	Registered capital/ particulars of issued shares	Percentage of interest in ownership and profit sharing	Principal activities and place of operations
華油鋼管有限公司	PRC, equity joint venture	RMB370,000,000	50	Manufacturing of steel pipe in the PRC
北京中油聯合信息技術有限公司	PRC, equity joint venture	RMB30,000,000	32	Operation of a web portal in the PRC
青島慶昕塑料有限公司	PRC, equity joint venture	RMB124,157,250	25	Production of petro-chemical products in the PRC
青島凱姆拓塑膠工業有限公司	PRC, equity joint venture	RMB99,318,000	25	Production of petro-chemical products in the PRC
Chinnery Assets Limited	British Virgin Islands, limited liability company	200 ordinary shares of US$1 each	50	Crude oil exploration and production in Myanmar
Mazoon Petrogas (BVI) Limited	British Virgin Islands, limited liability company	50,000 ordinary shares of US$1 each	50	Crude oil exploration and production in Oman
Commonwealth Gobustan Limited	Anguilla, limited liability company	26,900 ordinary shares no par value	31.41	Crude oil exploration and production in Azerbaijan

44. BALANCE SHEET INFORMATION OF THE COMPANY

	2007 HK$'000	2006 HK$'000
Assets		
Property, plant and equipment	873	1,056
Investments in subsidiaries	156,035	156,035
Investments in jointly controlled entities	236,169	236,169
Loans to jointly controlled entities	44,102	45,246
Other receivables	7,840	520
Amounts due from subsidiaries	3,540,329	3,817,846
Amount due from jointly controlled entity	2,205	26,870
Bank balances and cash	2,714,599	1,236,270
	6,702,152	5,520,012
Liabilities		
Trade and other payables	8,154	487,620
Amounts due to subsidiaries	282	89,632
	8,436	577,252
Net assets	6,693,716	4,942,760
Capital and reserves		
Share capital	48,450	48,401
Reserves	6,645,266	4,894,359
	6,693,716	4,942,760

	Year ended 31 December				
	2007 HK$'000	2006 HK$'000 (Restated)	2005 HK$'000 (Restated)	2004 HK$'000	2003 HK$'000
Results					
Turnover	3,842,723	3,893,732	3,378,323	2,533,312	2,098,686
Profit before taxation	2,315,443	2,777,092	4,251,132	1,079,382	711,323
Income tax expense	(630,546)	(750,290)	(375,828)	(275,974)	(175,993)
Profit for the year	1,684,897	2,026,802	3,875,304	803,408	535,330
Profit attributable to					
Shareholders of the Company	1,367,302	1,714,513	3,806,635	768,034	516,403
Minority interests	317,595	312,289	68,669	35,374	18,927
	1,684,897	2,026,802	3,875,304	803,408	535,330
Earnings per share					
– Basic	HK28.23 cents	HK35.49 cents	HK79.54 cents	HK16.20 cents	HK10.74 cents
– Diluted	HK27.88 cents	HK35.05 cents	HK79.20 cents	HK16.01 cents	HK10.67 cents
Dividend per share	HK12 cents	HK10 cents	HK8 cents	HK3.5 cents	HK2 cents

FIVE YEAR FINANCIAL SUMMARY

	As at 31 December				
	2007 HK$'000	2006 HK$'000 (Restated)	2005 HK$'000 (Restated)	2004 HK$'000	2003 HK$'000
Movement of retained earnings					
Retained earnings b/f	9,445,910	8,118,124	2,577,460	1,904,107	1,557,768
Profit attributable to shareholders of the Company	1,367,302	1,714,513	3,806,635	768,034	516,403
Adjustment in connection with adoption of HKFRS 3 Business Combination	–	–	1,899,722	–	–
Dividends paid	(484,409)	(386,727)	(165,693)	(94,681)	(170,064)
Retained earnings c/f	10,328,803	9,445,910	8,118,124	2,577,460	1,904,107
Assets and liabilities					
Total assets	22,727,423	21,017,455	20,946,693	5,249,261	4,469,286
Total liabilities	(2,247,499)	(1,935,750)	(2,795,104)	(1,013,558)	(899,618)
Total equity	20,479,924	19,081,705	18,151,589	4,235,703	3,569,668

PROVEN RESERVES (ESTIMATION)

Crude Oil

	PRC (million barrels)	South America (million barrels)	Central Asia (million barrels)	South East Asia (million barrels)	Middle East (million barrels)	Total (million barrels)
As at 1 January 2007	44.1	4.2	113.8	7.7	13.9	183.7
Revision	–	–	(6.8)	–	–	(6.8)
Production	(7.9)	(0.5)	(7.9)	(0.6)	(1.3)	(18.2)
As at 31 December 2007	36.2	3.7	99.1	7.1	12.6	158.7

Natural gas

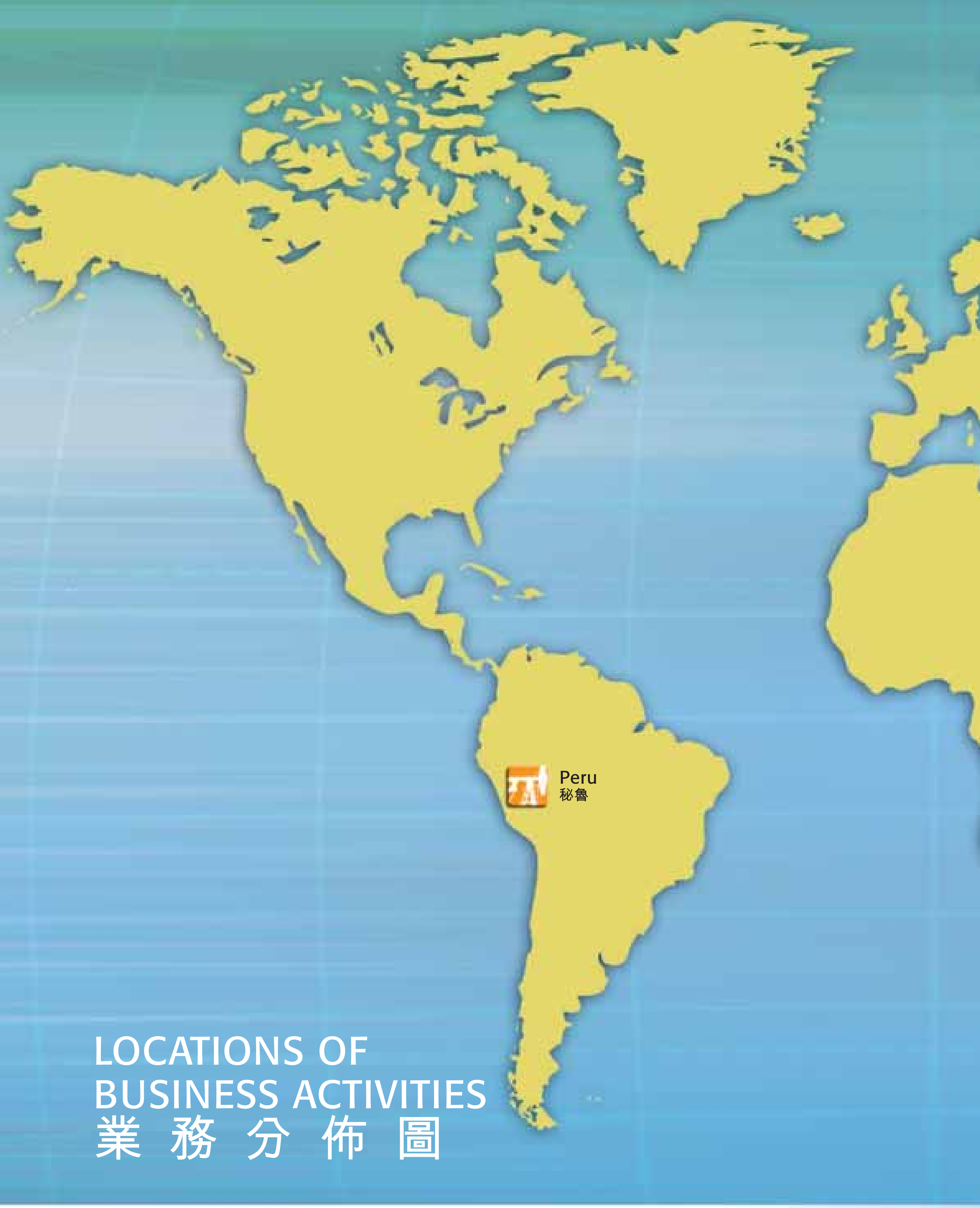
	South America (million cu.feet)	Central Asia (million cu.feet)	Total (million cu.feet)
As at 1 January 2007	2,533.4	84,455.0	86,988.4
Revision	–	(5,127.0)	(5,127.0)
Production	(375.6)	(4,958.0)	(5,333.6)
As at 31 December 2007	2,157.8	74,370.0	76,527.8

Notes:

(a) Based on the Group's share of participated interest in the oil field through subsidiaries, associates and joint ventures.

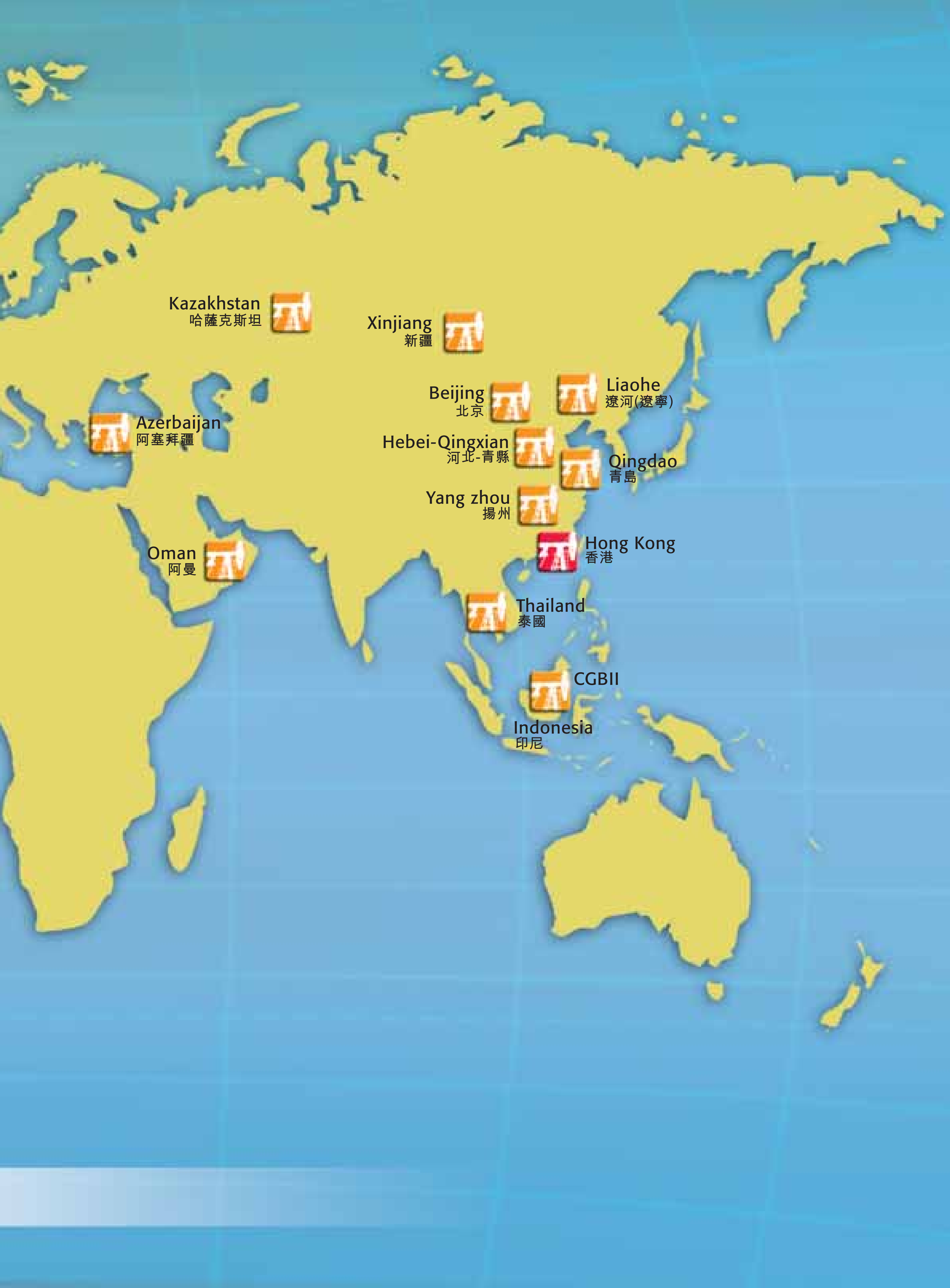
(b) Participated interest belonging to minority interest is excluded.

LOCATIONS OF BUSINESS ACTIVITIES
業 務 分 佈 圖



Existing Projects
現有項目

Headquarter
總部


Kazakhstan
哈薩克斯坦
Xinjiang
新疆
Beijing
北京
Liaohe
遼河(遼寧)
Azerbaijan
阿塞拜疆
Hebei-Qingxian
河北-青縣
Qingdao
青島
Yang zhou
揚州
Hong Kong
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Thailand
泰國
CGBII
Indonesia
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