



**CNPC (HONG KONG) LIMITED**

(incorporated in Bermuda with limited liability)

**中國(香港)石油有限公司\***

(Stock Code: 135)

**ANNOUNCEMENT OF RESULTS**

**HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP**

	Year ended 31 December		Change %
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Restated)	
Turnover	<u>3,842,723</u>	<u>3,893,732</u>	-1.31
Profit attributable to the shareholders of the Group before the expenses for exploring oilfields	1,886,226	1,858,305	1.50
Expenses for exploring oilfields (net off effect of minority interest)	<u>518,924</u>	<u>143,792</u>	260.89
Profit attributable to the shareholders of the Group	<u>1,367,302</u>	<u>1,714,513</u>	-20.25
	<i>HK cent</i>	<i>HK cent</i>	
Earnings per share (Basic)	28.23	35.49	-20.46
Earnings per share (Diluted)	27.88	35.05	-20.46
Dividend per share – Final	12.00	10.00	20.00

The directors of CNPC (Hong Kong) Limited (the “Company”) announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 as follows:

	<i>NOTES</i>	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000 (Restated)
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,132,130</b>	2,969,926
Prepaid lease payments		<b>3,560</b>	3,701
Interests in jointly controlled entities		<b>787,078</b>	674,727
Loans to jointly controlled entities		<b>142,023</b>	126,727
Interests in an associate		<b>13,802,574</b>	13,959,954
Available-for-sale investments		<b>126,467</b>	61,881
Exploration and evaluation assets		–	48,506
Other non-current assets		<b>2,162</b>	2,162
Deferred taxation assets		<b>71,587</b>	–
		<b>18,067,581</b>	17,847,584
<b>Current assets</b>			
Inventories		<b>30,491</b>	31,929
Trade and other receivables	8	<b>376,156</b>	249,494
Amounts due from jointly controlled entities		<b>8,815</b>	31,711
Bank deposits with original maturity more than three months		<b>901,089</b>	729,125
Bank balances and cash		<b>3,343,291</b>	2,127,612
		<b>4,659,842</b>	3,169,871
<b>Current liabilities</b>			
Trade and other payables	9	<b>726,662</b>	483,955
Amount due to ultimate holding company		<b>1,322</b>	1,229
Amounts due to minority shareholders of subsidiaries		<b>49,058</b>	49,718
Taxation payable		<b>93,278</b>	110,410
		<b>870,320</b>	645,312
<b>Net current assets</b>		<b>3,789,522</b>	2,524,559
<b>Total assets less current liabilities</b>		<b>21,857,103</b>	20,372,143

<i>NOTES</i>	<b>2007</b> <b><i>HK\$'000</i></b>	2006 <i>HK\$'000</i> (Restated)
Non-current liabilities		
Other loans – amount due over one year	<b>832,623</b>	828,132
Deferred taxation liabilities	<b>544,556</b>	462,306
	<u><b>1,377,179</b></u>	<u>1,290,438</u>
	<u><b>20,479,924</b></u>	<u>19,081,705</u>
Capital and reserves		
Share capital	<b>48,450</b>	48,401
Reserves	<b>15,245,879</b>	13,767,721
	<u><b>15,294,329</b></u>	<u>13,816,122</u>
Minority interests	<b>5,185,595</b>	5,265,583
	<u><b>20,479,924</b></u>	<u>19,081,705</u>
Total equity	<u><b>20,479,924</b></u>	<u>19,081,705</u>

	<i>NOTES</i>	<b>2007</b> <b><i>HK\$'000</i></b>	2006 <i>HK\$'000</i> (Restated)
Turnover	3	<b>3,842,723</b>	3,893,732
Cost of sales		<b>(2,318,940)</b>	(2,100,661)
Gross profit		<b>1,523,783</b>	1,793,071
Investment income		<b>122,113</b>	77,611
Other gains and income		<b>203,082</b>	270,905
Impairment losses on loans to and amounts due from jointly controlled entities		<b>(32,642)</b>	(99,160)
Impairment loss and write-off of exploration and evaluation assets		<b>(174,372)</b>	–
Exploration costs		<b>(316,136)</b>	(4,175)
Administrative expenses		<b>(155,521)</b>	(33,778)
Finance costs	4	<b>(76,983)</b>	(101,204)
Share of results of jointly controlled entities		<b>185,817</b>	84,839
Share of results of an associate		<b>1,036,302</b>	788,983
Profit before taxation		<b>2,315,443</b>	2,777,092
Income tax expense	5	<b>(630,546)</b>	(750,290)
Profit for the year		<b>1,684,897</b>	2,026,802
Attributable to:			
Shareholders of the Company		<b>1,367,302</b>	1,714,513
Minority interests		<b>317,595</b>	312,289
		<b>1,684,897</b>	2,026,802
Dividends	6	<b>484,409</b>	386,727
Earnings per share	7		
– Basic		<b>HK28.23 cents</b>	HK35.49 cents
– Diluted		<b>HK27.88 cents</b>	HK35.05 cents

Notes:

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2008.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2008.

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.

## 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 the Republic of Kazakhstan, were acquired at their fair values. Under the relevant rule of the Republic 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:

	<b>1.1.2006</b> <i>HK\$'000</i> (Originally stated)	<b>Adjustments</b> <i>HK\$'000</i>	<b>1.1.2006</b> <i>HK\$'000</i> (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
	<u>5,850,239</u>	<u>(122,289)</u>	<u>5,727,950</u>
	<b>31.12.2006</b> <i>HK\$'000</i> (Originally stated)	<b>Adjustments</b> <i>HK\$'000</i>	<b>31.12.2006</b> <i>HK\$'000</i> (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
	<u>5,400,858</u>	<u>(135,275)</u>	<u>5,265,583</u>

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

For the year ended 31 December 2006

	<i>HK\$'000</i>
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
	<u>28,214</u>

### 3. 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.

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

#### **For the year ended 31 December 2007**

	PRC <i>HK\$'000</i>	South America <i>HK\$'000</i>	Central Asia <i>HK\$'000</i> <i>(Note)</i>	South East Asia <i>HK\$'000</i> <i>(Note)</i>	Middle East <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>2,506,092</u>	<u>577,300</u>	<u>514,746</u>	<u>244,585</u>	<u>-</u>	<u>3,842,723</u>
Segment results	<u>1,072,782</u>	<u>76,030</u>	<u>93,523</u>	<u>(120,876)</u>	<u>(307)</u>	<u>1,121,152</u>
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						<u>1,684,897</u>

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
Interests 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
<b>Total assets</b>	<b>3,436,247</b>	<b>399,101</b>	<b>14,617,700</b>	<b>629,517</b>	<b>498,056</b>	<b>22,727,423</b>
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
<b>Total liabilities</b>	<b>371,512</b>	<b>97,898</b>	<b>1,450,676</b>	<b>209,486</b>	<b>109,758</b>	<b>2,247,499</b>
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.

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
Interests 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
<b>Total assets</b>	<b>3,608,603</b>	<b>437,067</b>	<b>14,633,157</b>	<b>686,167</b>	<b>413,496</b>	<b>21,017,455</b>
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
<b>Total liabilities</b>	<b>413,309</b>	<b>105,461</b>	<b>1,334,979</b>	<b>78,371</b>	<b>10</b>	<b>1,935,750</b>
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 operation in Kazakhstan and Azerbaijan, South East Asia represented the operation in Thailand, Indonesia and Myanmar.

#### 4. FINANCE COSTS

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

## 5. INCOME TAX EXPENSE

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

*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.

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.

## 6. DIVIDENDS

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

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.

## 7. 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 <i>HK\$'000</i>	2006 <i>HK\$'000</i> (Restated)
<b>Earnings</b>		
Earnings attributable to equity shareholders of the Company for the purposes of basic and diluted earnings per share	<u>1,367,302</u>	<u>1,714,513</u>

### Number of shares (in thousand)

<b>Number of shares</b>		
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	<u>60,594</u>	<u>60,705</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>4,904,164</u>	<u>4,892,269</u>

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 earnings per share <i>HK cents</i>	2006 Diluted earnings per share <i>HK cents</i>
Reported figures before adjustments	35.84	35.39
Effects of the prior year adjustments	<u>(0.35)</u>	<u>(0.34)</u>
Restated	<u>35.49</u>	<u>35.05</u>

## 8. TRADE AND OTHER RECEIVABLES

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

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.

## 9. TRADE AND OTHER PAYABLES

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade payables		
to third parties	123,705	31,663
to fellow subsidiaries	43,313	59,831
	<u>167,018</u>	<u>91,494</u>
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
	<u>726,662</u>	<u>483,955</u>

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

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

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.

## 10. CAPITAL COMMITMENTS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
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 ( <i>note</i> )	132,379	106,107
	<u>795,665</u>	<u>863,881</u>
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
	<u>222,790</u>	<u>316,867</u>

*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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 exploring 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 exploring 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 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 (“CGB II”) from an independent third party. CGB II 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 CGB II 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.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **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:

	<b>Increase/(decrease)</b> <i>HK\$'000</i>
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
	<hr/>
Total increase in assets	<u>1,631,480</u>

# 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 INVESTEMENT**

There was no new investment during the Year.

## **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.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **CORPORATE GOVERNANCE**

Save for the matters noted below, none of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange ("Listing Rules") at any time during the twelve months ended 31 December 2007.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and satisfied their independence up to the approval date of the Company's 2007 Annual Report in accordance with the Listing Rules.

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

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

The Company has an Audit Committee in place since 1998. The Committee, reporting directly to the Chairman, plays a major role in monitoring the internal governance of the Group. It also conducts special audits on areas of concern as identified by the Management or the Audit Committee. The Audit Committee can directly contact the external auditors freely without notifying the Chairman or Management.

The Audit Committee has reviewed with the Management the accounting policies and standards adopted by the Group and discussed the internal control and financial reporting matters related to the preparation of the audited financial statements for the year ended 31 December 2007. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

The Company has complied with all the provisions under the Code on Corporate Governance Practices in effect during the year ended 31 December 2007 except for the deviation as mentioned below.

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 formalised by adoption of written terms on the division of functions reserved to the Board and delegated to the management in April 2007.

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 during the year were held by Mr Li Hualin and Mr Zhang Bowen respectively.

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.

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 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.

### **MODEL, CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transaction.

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.

### **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.

### **AUDIT COMMITTEE**

Pursuant to the Listing Rules, an audit committee, comprising three independent Non-Executive Directors was established in December 1998.

Three meetings were held during the current financial year.

With reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the directors of the Company on the same date. The principal activities of the audit committee include the review and supervision of the Group’s financial reporting process and internal controls.

### **RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE WEBSITE**

The Company’s annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Company’s and the Stock Exchange’s website in due course.

## **BOARD OF DIRECTORS**

The board of Directors as at the date of this announcement comprises of Mr Li Hualin as the Chairman and Mr Zhang Bowen as Chief Executive Officer, Mr Wang Mingcai and Mr Cheng Cheng as Executive Director; Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng are the Independent Non-Executive Directors.

By Order of the Board  
**CNPC (HONG KONG) LIMITED**  
**Li Hualin**  
*Chairman*

Hong Kong, 11 April 2008

\* *For Identification only*