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 2008

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CORPORATE INFORMATION

BOARD OF DIRECTORS
Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(Chief Executive Officer)*
Mr Wang Mingcai (retired on 1 January 2009)
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
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Church Street
Hamilton HM11, Bermuda

AUDITOR
PricewaterhouseCoopers

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
0135.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
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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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

I am pleased to announce to the shareholders on behalf of the Board that, for the year ended 31 December 2008 (the "Year"), the Group recorded profit attributable to equity holders of the Company of HK$3,319,132,000, representing an increase of HK$1,355,692,000 or 69.05% compared with HK$1,963,440,000 (restated) in the previous year.

The sales volume of crude oil for the Year was 16,494,000 barrels (2007: 16,488,000 barrels), representing an increase of 6,000 barrels or 0.04% compared with the previous year. In addition, with the rise in international crude oil price, profit before taxation of the Group increased by HK$2,243,627,000. As compared with the previous year, the weighted average realised crude oil price per barrel of the Group was approximately US$78.26, representing an increase of US$19.20 or 32.52% as compared with US$59.06 in the previous year.

On 27 August 2008, the Company was informed by PetroChina Company Limited ("PetroChina") that PetroChina would become the controlling shareholder of the Group. Upon completion of the shareholding restructure, the Group will continue to engage in its current oil and gas exploration and development business, and will exploit new business growth opportunities in city gas, vehicle fuel gas and related businesses with the support of PetroChina. After receiving the information, the Group promptly accelerated the search for relevant natural gas projects to be injected into the Group.

In previous accounting years, the Group adopted the purchase method of accounting, to account for acquisition of subsidiaries, including the business combinations under common control. Following the acquisition by PetroChina on 18 December 2008, the Directors of the Company are of the view that, taking into account of the policy adopted by PetroChina and certain companies within the industry, the predecessor value method of accounting would provide more appropriate and relevant information of the Group's business combinations under common control in the Group's consolidated financial statements. Therefore, with effect from 1 January 2008, the Group changed to adopt predecessor value method of accounting to account for its business combinations under common control.

BUSINESS REVIEW

The Group has eleven oilfields located in seven different countries, four of them are exploration projects. In 2008, each oil field underwent 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.

CHAIRMAN'S STATEMENT

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 field development faced various difficulties and production volume decreased. The natural decline rate was approximately 42%. However, with the effective implementation of various measures by our staff to stabilise production, the ultimate composite decline rate was approximately 11%.

A total of 902,000 tonnes (2007: 980,000 tonnes) of crude oil were sold from the Liaohe Leng Jiapu Contract Area, representing a decrease of 8.00% compared with the previous year. On a 70% share basis, the Group shared 686,000 tonnes and profit after tax attributable to the Group was HK$430,920,000 (2007: HK$494,867,000), representing a decrease of HK$63,947,000, or 12.92% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs. During the Year, RMB393,750,000 (approximately HK$446,885,000) (2007: RMB472,024,000 (approximately HK$502,474,000)) was contributed as part of the fund required for ongoing exploration, drilling and construction of ground production facilities. In 2008, the Group paid a total of HK$160,008,000 (2007: HK$30,545,000) as special levy for petroleum.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area sold a total of 771,000 tonnes (2007: 665,000 tonnes) of crude oil in 2008, representing an increase of 15.95% compared with the previous year. On a 54% share basis, the Group shared 359,000 tonnes and profit after tax attributable to the Group was HK$700,121,000 (2007: HK$381,677,000), representing an increase of HK$318,444,000, or approximately 83.43% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs. During the Year, RMB106,491,000 (approximately HK$120,861,000) (2007: RMB123,069,000 (approximately HK$131,008,000)) was contributed as part of the fund required for stabilizing production. In 2008, the Group paid a total of HK$245,959,000 (2007: HK$51,868,000) as special levy for petroleum.

According to the Xinjiang Contract, the term of the production sharing period lasts for twelve consecutive years up to 31 August 2008. Application for extension is needed upon expiry, whereas the maximum term of the sharing contract shall not exceed 25 years (up to 2021). The Group applied for extension in 2008 and was granted an extended sharing period of 8 years. Under the leadership of the Joint Management Committee, management was strengthened, steam injection was optimised while production technique improved in order to secure a stable but rising production volume. Under the high oil price environment, production volume was increased and the performance of the management team was recognised. Facing volatile oil price, future production volume will be adjusted appropriately for achieving the best result.

The Republic of Kazakhstan ("Kazakhstan")

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

The Group indirectly owns 15.07% equity interest in CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") through holding 60% equity interest in CNPC International (Caspian) Limited. Aktobe owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan.

In 2008, total production of crude oil and natural gas in Aktobe amounted to 41,742,000 barrels (2007: 44,758,000 barrels) and 118,276,000,000 cu. ft. (2007: 32,895,000,000 cu. ft.) respectively. Production of crude oil decreased by 3,016,000 barrels or 6.74%, while production of natural gas increased by 85,381,000,000 cu. ft. or 259.56%. The Group shared 6,291,000 barrels (2007: 6,746,000 barrels) of crude oil, and 17,827,000,000 cu. ft. (2007: 4,956,000,000 cu. ft) of natural gas.

As of 31 December 2008, the Group's share of crude oil reserves was 62,939,000 barrels and share of natural gas was 56,522,000,000 cu. ft. (2007: 69,230,000 barrels of crude oil; 72,970,000,000 cu. ft. of natural gas). During the Year, average selling price of crude oil was USD86.28 per barrel (2007: crude oil USD64.24 per barrel).

Due to the change in financial reporting standards, the Group is not required to amortise the revaluation surplus value of oil and gas properties annually by unit-of-production method with effect from the year 2008 (2007: HK$590,962,000).

In 2008, after deduction of tax and minority interests, the project contributed a profit of HK$1,595,687,000 (2007: HK$1,018,726,000) to the Group, representing an increase of HK$576,961,000 or 56.64%.

The Kingdom of Thailand ("Thailand")

Sukhothai Concession

During the Year, the Sukhothai Concession in Thailand recorded sales volume of 347,000 barrels (2007: 393,000 barrels), representing a decrease of 46,000 barrels or 11.56% over last year. Profit after tax and minority interests for the Year was HK$62,106,000 (2007: HK$60,611,000), representing an increase of HK$1,495,000 or 2.47% compared with last year. The Group will continue to exploit the potential of the oil field and input more resources to increase production.

CHAIRMAN'S STATEMENT

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 for a total of six years. The overall exploration, including seismic analysis and other exploration works, has commenced. The first phase of exploration was basically completed. Upon further analysis and investigation, commercial flow was confirmed, and environmental assessment by the Thailand government was also passed. 28.7 square kilometres has been officially assigned as production area. As the previous two phases of exploration were basically completed, the Company has filed application for Phase 3 (lasting for 3 years) exploration project to the Thailand government. Assessment and approval of which are under process. Exploration cost of HK8,785,000 (2007: HK$38,820,000) for the Year was accounted for as exploration expenses in the consolidated income statement. In the Year, the project sold 258,000 barrels of crude oil (2007: 124,000 barrels) and contributed a profit after tax of HK$77,809,000 (2007: HK$5,111,000) 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, 1,014,000 barrels (2007: 1,045,000 barrels) of crude oil and 720,000,000 cu. ft. (2007: 751,000,000 cu. ft.) of natural gas were sold. The Group shared HK$133,192,000 (2007: HK$34,927,000 (restated)) profit after tax and minority interests, representing an increase of HK$98,265,000, or 281.34%, over that of last year.

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 has commenced and incurred exploration cost of HK$26,007,000 (2007: HK$216,659,000), 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 1,574,000 barrels (2007: 1,313,000 barrels) of oil production during the Year, increasing by 261,000 barrels or 19.88% compared with last year. Profit after tax attributable to the Group amounted to HK$122,613,000 (2007: HK$163,579,000), representing a decrease of HK$40,966,000, or 25.04% 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 in 2006. CGB II has 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's loans for the exploration expenses required. The Group planned to complete the drilling work of four exploration wells during the exploration period (which was 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, the data was not sufficient to apply for entering the development phase. 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 commenced, 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. After relentless explanations and persuasion made to the Petroleum Department of Indonesia by the management of CGB II, eventually in February 2009, the Petroleum Department agreed to extend the exploration phase to December 2011. Therefore, 2009 will be a crucial year to CGB II. The Company will organise the collection of 2D and 3D seismic data as soon as possible and plan to carry out drilling of exploration wells in 2010 so as to confirm the reserve volume and submit application for entering the development phase.

Despite the current depressed crude oil price, increasing crude oil reserves is the strategy and long-term objective of the Company, when crude oil price rebounds, the best returns will be brought to the shareholders.

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 909,000 barrels (2007: 1,061,000 barrels) of crude oil. Profit after tax attributable to the Group amounted to HK$106,029,000 (2007: HK$95,597,000), representing an increase of HK$10,432,000 or 10.91% 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$107,934,000 (2007: loss of HK$22,060,000) was recorded by the Group for the Year, which was the one-time write-off of exploration expenses incurred in the previous years. Only a small amount of crude oil and natural gas was sold in 2008. Further plans of development will depend on the results of more in-depth research and exploration data.

CHAIRMAN'S STATEMENT

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 has set up a branch factory in Yangzhou Hanjiang Industrial Park, the PRC to enhance its competitiveness and capture a larger market share in the eastern part of the PRC.

In 2008, a total of 499,000 tonnes (2007: 169,000 tonnes) of steel pipes were sold by the Steel Pipes Factory. 488,000 tonnes (2007: 123,000 tonnes) were processed from material purchased on its own and 11,000 tonnes (2007: 46,000 tonnes) were processed with materials provided. It generated a profit of HK$33,513,000 (2007: HK$18,037,000) for the Group, representing an increase of HK$15,476,000, or 85.80% over last year.

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, commenced successively, future demands for steel pipes will continue to increase which will bring opportunities and hopes to the Steel Pipes Factory in this economically depressed environment. The Steel Pipes Factory will seize this opportunity to leverage its potential and enhance efficiency.

Film factory

Biaxially Oriented Polypropylene ("BOPP") Project and CPP Project

The BOPP film factory, which was jointly established by the Group with Daqing Petroleum Administrative Bureau achieved satisfactory results as expected after commencement of production. Facing high raw materials price and fierce competition, only strong ones will survive. The management of the film factory has actively seeking to improve quality, cost control and optimise 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$2,980,000 (2007: HK$6,562,000), representing a decrease of HK$3,582,000, or 54.59% over last year.

The CPP film factory developed according to the expected targets. Loss after tax attributable to the Group for the Year was HK$1,052,000 (Loss for 2007: HK$622,000).

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.

CHAIRMAN'S STATEMENT

BUSINESS PROSPECTS

On 27 August 2008, the Company was informed by PetroChina that PetroChina would become the controlling shareholder of the Group. Upon completion of the shareholding restructure, the Group will continue to engage in its current oil and gas exploration and development business, and will exploit new business growth opportunities in city gas, vehicle fuel gas and related businesses with the support of PetroChina. Natural gas as a clean and efficient source of energy has drawn increasing attention and interest from the PRC Government and enterprises and has become one of the most rapidly growing sectors in the PRC energy industry. PetroChina, as the PRC's largest enterprise in the production, transportation and sales of natural gas, has long been committed to nurturing and developing the natural gas market in the PRC. Following the completion of the construction of the Second West-East Gas Pipeline and other long distance gas pipelines, a series of diverse major gas resources of PetroChina located in northern China and western China, including Sulige, Tarim, Sichuan, Central Asia and other overseas areas will further integrate with the important consumer markets in central China, eastern China, southern China and other areas, and will catalyse the rapid growth in natural gas downstream end-user markets.

We believe that by leveraging on PetroChina's advantage in the resources and supply in the PRC natural gas market, the cooperation between PetroChina and the Group in city gas, vehicle fuel gas and other related businesses will further promote the development of PetroChina's upstream and midstream natural gas businesses and create an attractive new business growth area for the Group in natural gas downstream end-user markets.

As at the date of this report, the Group has made three investments, namely the capital injection in CNPC Shennan Oil Technology Development Co., Ltd. ("Shennan Oil"), acquisition of Xinjiang Xinjie Co., Ltd. ("Xinjiang Xinjie") and capital injection in China Natural Gas Co., Ltd. ("Huayou").

(i) Shennan Oil Capital Injection. On 19 December 2008, the Group entered into an agreement with Shennan Oil and the existing shareholders of Shennan Oil, pursuant to which the Company conditionally agreed to subscribe for capital in Shennan Oil of RMB52,000,000, representing 50.98% equity interest in Shennan Oil. The relevant capital injection procedures have been completed.

(ii) Xinjiang Xinjie Acquisitions. On 9 January 2009, the Group entered into agreements with PetroChina, Lead Source Limited, Xinjiang Tongyu Co., Ltd and Xinjiang Tongyuan Co., Ltd. (collectively "Existing Shareholders of Xinjiang Xinjie") respectively, pursuant to which the Company conditionally agreed to acquire the respective equity interest of the Existing Shareholders of Xinjiang Xinjie in Xinjiang Xinjie. Upon completion of the Xinjiang Xinjie Acquisitions, the Company will own 97.26% equity interest in Xinjiang Xinjie. At the Special General Meeting held on 12 February 2009, the proposal for acquiring Xinjiang Xinjie was approved and the respective acquisition procedures are under process.

(iii) On 16 February 2009, the Group entered into the Huayou Capital Injection Agreement with the existing shareholders of Huayou, pursuant to which the Company conditionally agreed to subscribe for 177,000,000 shares of Huayou at a consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000). Upon completion of the Huayou Capital Injection, Huayou will be owned as to 51.01% by the Company and will become its non-wholly owned subsidiary. At the Special General Meeting held on 24 March 2009, the proposal for injecting capital into Huayou was approved and the respective capital injection procedures are under process.

CHAIRMAN'S STATEMENT

Through the above capital injections and acquisitions, the Group has formally engaged in natural gas business and will actively develop this new business area so as to secure a leading position in this business in the PRC in the short run.

With a strong financial position and prudent approach, the Group aims to expand into an international petroleum corporation mainly engaging in the natural gas end users sale and comprehensive utilisation businesses. The crude oil price is expected to remain fluctuated in the future. The Group will accelerate on the exploration of existing oil projects, increase reserves, adjust production volume as appropriate, strengthen the management, costs control, increase efficiency and stabilise income. In the meantime, the Group will develop new business position on the natural gas end users sale and comprehensive utilisation business and under the firm support of China National Petroleum Corporation and PetroChina, the Group will accelerate the acquisition of the natural gas downstream business, develop actively the comprehensive utilisation projects for natural gas, realize rapidly the business transition, so as to develop quickly a strong and top position of the Group's businesses, and generate a considerable return to our shareholders.

FINAL DIVIDEND

As the results for the Year was satisfactory, the Board of Directors recommended the payment of a final dividend of HK15 cents (2007: HK12 cents) per share. The proposed dividend will be paid on or about 1 June 2009 to the shareholders whose names appear on the Register on 8 May 2009, 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 4 May 2009 to 8 May 2009 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 Level 26, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 30 April 2009 in order to qualify for the proposed final dividend.

On behalf of the Board

Li Hualin
Chairman

Hong Kong, 25 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has recorded a revenue of HK$5,208,347,000 for the year ended 31 December 2008 (the "Year"), representing an increase of HK$1,365,624,000 or 35,54% as compared with HK$3,842,723,000 last year.

The sales volume of crude oil was 16,494,000 barrels, representing an increase of 6,000 barrels or 0.04%. The weighted average price of crude oil per barrel was approximately US$78.26, representing an increase of US$19.20 or 32.52% compared with US$59.06 in the previous year.

Liquidity and capital resources

As at 31 December 2008, the aggregate assets value of the Group was HK$14,814,934,000, representing an increase of HK$2,565,395,000 or 20.94% as compared with last year.

Major changes in assets are as follows:

	Increase/(decrease) HK$'000
Property, plant and equipment	424,184
Interest in an associate	1,685,218
Bank balances and cash and deposits	749,309
Total increase in assets	2,858,711

The gearing ratio of the Group was 9.32% as at 31 December 2008 compared with 9.25% (restated) last year. It is computed by dividing the total borrowings of HK$995,283,000 (2007: HK$833,945,000) by the shareholders' funds of HK$10,679,775,000 (2007: HK$9,014,472,000 (restated)).

During the Year, RMB393,750,000 (approximately HK$446,885,000) (2007: RMB472,024,000 (approximately HK$502,474,000)) was injected out of profits into Leng Jiapu oil field as development costs.

Pursuant to the Karamay Contract, RMB106,491,000 (approximately HK$120,861,000) (2007: RMB123,069,000 (approximately HK$131,008,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the Year.

Dividend of US$206,247,000 (approximately HK$1,606,045,000) (2007: US$199,340,000 (approximately HK$1,548,074,000)) for the year 2007 was received from CNPC-Aktobemunaigas Joint Stock Company during the Year and the withholding tax of US$30,937,000 (approximately HK$240,906,000) (2007: US$29,901,000 (approximately HK$232,211,000)) was paid thereon.

The Group paid interest of US$5,782,000 (approximately HK$45,024,000) (2007: US$9,913,000 (approximately HK$76,983,000)) in 2008 to Sun World Limited ("Sun World"), for its long-term borrowing. In August the same year, this loan was assigned to China Petroleum Hong Kong (Holding) Limited ("China Petroleum") from Sun World. Interest of US$4,130,000 (approximately HK$32,163,000) has been paid to China Petroleum for this loan.

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend of US$8,697,000 (approximately HK$67,723,000) (2007: US$10,522,000 (approximately HK$81,713,000)) was received from Oman oilfield.

Dividend of RMB10,279,000 (approximately HK$11,666,000) (2007: RMB44,935,000 (approximately HK$46,163,000)) was received from North China Steel Pipe Factory Limited during the Year.

USE OF PROCEEDS

During the Year, few senior executives of the Company exercised their share options. As a result, the Company issued 11,360,000 new shares (2007: 4,900,000 shares) and received subscription amount of HK$13,632,000 (2007: HK$5,998,000).

The Company repurchased a total of 415,570,000 shares of the Company (2007: nil) with HK$1,125,285,000 (2007: nil) during the Year.

2007 final dividend of HK12 cents per share amounting to HK$581,399,000 (2006: HK10 cents per share amounting to HK$484,409,000) 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 2008 has bank deposits with maturities over three months and cash equivalents of HK$4,993,689,000 (2007: HK$4,244,380,000).

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

NEW INVESTMENT

On 19 December 2008, the Group entered into an agreement with CNPC Shennan Oil Technology Development Co., Ltd., ("Shennan Oil"), CNPC Shenzhen Petroleum Industrial Co., Ltd. and Hainan Fushan Oilfield Exploration and Development Limited Liability Company to inject RMB95,091,000 (approximately HK$107,653,000) of capital into Shennan Oil for subscribing share capital in Shennan Oil of RMB52,000,000 (approximately HK$58,869,000). Payment has been made by the Group at the beginning of 2009.

EMPLOYEE

On 31 December 2008, the Group had approximately 404 staff (excluding the staff under entrustment contracts) (2007: 402 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.

The Company has complied with all the provisions under the Code on Corporate Governance Practices in effect during the year ended 31 December 2008 except for the deviation as mentioned below.

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.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as its code of conduct regarding directors’ securities transactions.

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 2008.

By Order of the Board

Zhang Bowen
Chief Executive Officer

Hong Kong, 25 March 2009

CORPORATE GOVERNANCE REPORT

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 2008.

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.

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 (retired on 1 January 2009)
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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2008, 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 Li Hualin shall retire by rotation and being eligible offers himself for re-election at the forthcoming annual general meeting.

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

A circular containing detailed information of the director 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 appointment, so as to ensure that he has appropriate understanding of the business and operations of the Company and that he is fully aware of his 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 2008, eight regular Board meetings, four Audit Committee meetings and two 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 2008 is set out below:

	Attendance/Number of Meetings		
Directors	**Board**	**Audit Committee**	**Remuneration Committee**
Executive Director:			
Mr Li Hualin *(Chairman)*	8/8	–	–
Mr Zhang Bowen *(Chief Executive Officer)*	8/8	–	–
Mr Wang Mingcai *(retired on 1 January 2009)*	7/8	–	–
Mr Cheng Cheng	8/8	–	–
Independent Non-Executive Director:			
Dr Lau Wah Sum	8/8	4/4	2/2
Mr Li Kwok Sing Aubrey	7/8	4/4	2/2
Dr Liu Xiao Feng	7/8	4/4	2/2

CORPORATE GOVERNANCE REPORT

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 abreast 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 two meetings during the year ended 31 December 2008 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. An independent consultant on executive compensation was appointed to carry out review of the Company's executive compensation in May 2008.

CORPORATE GOVERNANCE REPORT

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 independent auditor.

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 independent auditor before submission to the Board.

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

(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 2008, the Audit Committee held four 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 independent auditor.

The Company's annual results for the year ended 31 December 2008 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 independent auditor.

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 2008.

The Company has also established written guidelines (the "Employees Written Guidelines") 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 AUDITOR'S 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 2008.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on page 32.

The remuneration paid to the independent auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2008 amounted to HK$3,050,000 and HK$115,000 (2007: HK$2,480,000 and HK$145,540) 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.

CORPORATE GOVERNANCE REPORT

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 control 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 independent auditor 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 2008, no major issue have been identified. The Audit Committee reports its work to the Board on a semi-annual basis.

DIRECTORS' REPORT

The directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2008.

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 34.

A final dividend for the year ended 31 December 2007 of HK12 cents per share amounting to HK$581,399,000 was paid during the year. The directors recommend the payment of a final dividend of HK15 cents per share for the year ended 31 December 2008, totalling HK$666,118,000.

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 106.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 38.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in property, plant and equipment of the Group are set out in note 19 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 31 to the consolidated financial statements.

DIRECTORS' REPORT

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000
Contributed surplus	133,795	133,795
Retained earnings	6,888,414	5,018,285
	7,022,209	5,152,080

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

During the year, 415,570,000 shares of HK$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited ("Stock Exchange") and cancelled, details of which are as follows:

Month	Number of shares Repurchased	Highest price HK$	Lowest price HK$	Aggregate amount paid HK$'000
September 2008	136,200,000	3.46	2.95	432,474
October 2008	143,470,000	3.37	1.85	359,496
November 2008	125,410,000	2.68	2.20	306,860
December 2008	10,490,000	2.58	2.42	26,455
	415,570,000			1,125,285

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

DIRECTORS' REPORT

DIRECTORS

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

Executive Directors:
Mr Li Hualin
Mr Zhang Bowen
Mr Wang Mingcai (Retired on 1 January 2009)
Mr Cheng Cheng

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

In accordance with Article 97 of the Company's Bye-Laws, Mr Li Hualin shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr Li Hualin *(Chairman)*

Age 46, 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 ("PetroChina") as Vice-President in November 2007.

Mr Zhang Bowen *(Chief Executive Officer)*

Aged 42, 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.

DIRECTORS' REPORT

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

Directors (continued)

Mr Wang Mingcai *(Executive Director)*

Age 63, 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, re-designated as Executive Director in January 2007 and retried on 1 January 2009.

Mr Cheng Cheng *(Executive Director)*

Age 41, 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 59, 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 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 ABC Communications (Holdings) Limited up to 18 September 2008. 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 46, 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 Stock Exchange.

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

Senior Management

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

Age 56, 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 overseas.

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

As at 31 December 2008, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities Future Ordinance (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules are set out below.

Ordinary Shares of HK$0.01 each of the Company

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Li Kwok Sing Aubrey (1)	1,000,000	Beneficial owner	0.02%

Notes:

(1) The interests held by Mr. Li Kwok Sing Aubrey represent long position in the shares of the Company.

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.

DIRECTORS' REPORT

SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in note 31 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:

Name	Date of Grant	Exercise Period	Exercise price HK$	Outstanding at 1.1.2008	Number of Share Options Granted during the year	Number of Share Options Exercised during the year	Outstanding at 31.12.2008
Directors:							
Lau Wah Sum	8 Jan 2004	8 Apr 2004 to 7 Jan 2009	1.362	3,500,000	–	(3,500,000)	–
Li Kwok Sing Aubrey	8 Jan 2004	8 Apr 2004 to 7 Jan 2009	1.362	3,500,000	–	(3,500,000)	–
Cheng Cheng	25 Jun 2004	25 Sep 2004 to 24 Jun 2009	0.940	20,000,000	–	(4,360,000)	15,640,000
	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	10,000,000	–	–	10,000,000
	26 May 2008	26 Aug 2008 to 25 May 2013	4.240	–	1,500,000	–	1,500,000
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
	26 May 2008	26 Aug 2008 to 25 May 2013	4.240	–	3,200,000	–	3,200,000
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
	26 May 2008	26 Aug 2008 to 25 May 2013	4.240	–	1,500,000	–	1,500,000
Liu Xiao Feng	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	1,600,000	–	–	1,600,000
Zhang Bowen	8 Jan 2007	8 Apr 2007 to 7 Jan 2012	4.186	20,000,000	–	–	20,000,000
	26 May 2008	26 Aug 2008 to 25 May 2013	4.240	–	2,400,000	–	2,400,000
Employees:	27 Apr 2005	27 Jul 2005 to 26 Apr 2010	1.224	1,000,000	–	–	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
	26 May 2008	26 Aug 2008 to 25 May 2013	4.240	–	5,500,000	–	5,500,000
				174,600,000	14,100,000	(11,360,000)	177,340,000

The closing prices of the Company's shares immediately before 26 May 2008, the date of grant of the 2008 options, was HK$4.34.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$2.54.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2008, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Name	Number of Shares		Percentage of the total number of shares in issue
	Direct Interest	Indirect Interest	
Sun World Limited (1)	2,513,917,342(L)	–	56.6%
PetroChina Hong Kong (BVI) Ltd. (1)	–	2,513,917,342(L)	56.6%
PetroChina Hong Kong Ltd. (1)	–	2,513,917,342(L)	56.6%
PetroChina Company Limited (1)	–	2,513,917,342(L)	56.6%
CNPC Finance (HK) Ltd. (2)	8,500,000(L)	–	0.2%
China Petroleum Finance Company Ltd. (2)	–	8,500,000(L)	0.2%
China National Petroleum Corporation (1) (2)	2,522,417,342(L)		56.8%

Notes:

(1) Sun World Limited is a wholly-owned subsidiary of PetroChina Hong Kong (BVI) Ltd., which in turn is wholly owned by PetroChina Hong Kong Ltd.. PetroChina Hong Kong Ltd. is wholly owned by PetroChina, which is in turn owned as to 86.29% by CNPC. Accordingly, CNPC is deemed to have interest in the 2,513,917,342 shares held by Sun World Limited. Mr. Li Hualin, the Chairman of the Company and Mr. Zhang Bowen, the Chief Executive Officer of the Company are also directors of Sun World Limited, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).

(2) CNPC Finance (HK) Ltd. is a wholly-owned subsidiary of China Petroleum Finance Company Ltd., which is in turn owned as to 98.97% by CNPC. Accordingly, CNPC is deemed to have interest in the 8,500,000 shares held by CNPC Finance (HK) Ltd.

Save as disclosed above, as at 31 December 2008, the Directors and the chief executive of the Company were not aware of any 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 Divisions 2 and 3 of Part XV of the SFO.

As at 31 December 2008, the Directors and the chief executive of the Company were not aware of any person (other than a Directors or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

DIRECTORS' REPORT

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in note 31 to the consolidated financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2008 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 41 to the consolidated financial statements constituted continuing connected transactions under Listing Rules, which are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

The aforesaid continuing connected transaction has been reviewed by independent non-executive directors of the Company. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of Listing Rules, the Board of Directors engaged the independent auditor of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Serviced 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The independent auditor has reported their factual findings on the selected samples based on the agreed procedures to the Board of Directors.

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 38 and 39 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	33.59%
Percentage of purchases attributable to the Group's five largest suppliers	58.86%
Percentage of sales attributable to the Group's largest customer	64.97%
Percentage of sales attributable to the Group's five largest customers	99.74%

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.

DIRECTORS' REPORT

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$10,000 (2007: 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

Messrs. Deloitte Touche Tohmatsu were appointed as the auditor of the Company in 2006 upon the retirement of Messrs. PricewaterhouseCoopers, who acted as the auditor of the Company for the year ended 31 December 2005. Messrs. Deloitte Touche Tohmatsu has acted as the auditor of the Company for the past two years. During the year, Messrs. PricewaterhouseCoopers were appointed as the auditor of the Company to fill the casual vacancy upon the resignation of Messers. Delotte Touche Tohmatsu.

On behalf of the Board

Li Hualin
Chairman

Hong Kong, 25 March 2009

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF CNPC (HONG KONG) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of CNPC (Hong Kong) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 34 to 105, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
25 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated) (Note 6)
Revenue	7	5,208,347	3,842,723
Other gains, net	8	188,810	213,670
Interest income	9	113,039	111,525
Purchases, services and others		(1,240,246)	(939,504)
Employee compensation costs	10	(221,917)	(253,304)
Exploration expenses, including exploratory dry holes		(43,705)	(490,508)
Depreciation, depletion and amortisation		(631,595)	(653,116)
Selling, general and administrative expenses		(615,810)	(535,772)
Taxes other than income taxes	11	(405,967)	(82,413)
Other expenses		(112,886)	(32,642)
Interest expenses	12	(77,191)	(76,983)
Share of profits less losses of:			
– An associate		3,231,962	2,021,239
– Jointly controlled entities		161,518	185,817
Profit before taxation	13	5,554,359	3,310,732
Taxation	15	(1,034,733)	(630,546)
Profit for the year		4,519,626	2,680,186
Attributable to:			
– Equity holders of the Company	16	3,319,132	1,963,440
– Minority interests		1,200,494	716,746
		4,519,626	2,680,186
Earnings per share for profit attributable to equity holders of the Company	17		
– Basic (HK cents)		69.70	40.54
– Diluted (HK cents)		68.99	40.04
Dividends attributable to equity holders of the Company	18	581,399	484,409

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated) (Note 6)
Assets			
Non-current assets			
Property, plant and equipment	19	3,483,641	3,060,295
Advanced operating lease payments	20	3,418	3,560
Interests in jointly controlled entities	21	934,530	929,101
Interest in an associate	22	5,081,744	3,396,526
Available-for-sale financial assets	23	38,985	126,467
Other non-current assets	26	48,312	2,162
Deferred tax assets	35	88,174	71,587
		9,678,804	7,589,698
Current assets			
Inventories	27	35,822	30,491
Accounts receivable	28	90,088	318,779
Prepaid expenses and other current assets	29	17,283	66,192
Bank deposits with maturities over three months	30	476,677	901,089
Cash and cash equivalents	30	4,517,012	3,343,291
		5,136,882	4,659,842
Total assets		14,815,686	12,249,540
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	44,408	48,450
Reserves	32	10,613,515	8,966,022
		10,657,923	9,014,472
Minority interests		1,619,895	987,569
		12,277,818	10,002,041

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000 (Restated) (Note 6)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	33	669,124	740,498
Income tax payable		29,210	93,278
Other tax payable		24,259	36,544
		722,593	870,320
Non-current liabilities			
Other loans, wholly repayable over five years	34	993,874	832,623
Deferred tax liabilities	35	821,401	544,556
		1,815,275	1,377,179
Total liabilities		2,537,868	2,247,499
Total equity and liabilities		14,815,686	12,249,540
Net current assets		4,414,289	3,789,522
Total assets less current liabilities		14,093,093	11,379,220

The accompanying notes are an integral part of these consolidated financial statements.

Li Hualin
Chairman

Zhang Bowen
Chief Executive Officer

BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	19	460	873
Interests in jointly controlled entities	21	281,076	282,476
Interests in subsidiaries	25	156,035	156,035
Other non-current assets	26	46,150	–
		483,721	439,384
Current assets			
Prepaid expenses and other current assets	29	4,141,988	3,548,169
Cash and cash equivalents	30	2,872,122	2,714,599
		7,014,110	6,262,768
Total assets		7,497,831	6,702,152
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	44,408	48,450
Reserves	32	7,426,524	6,645,266
		7,470,932	6,693,716
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	33	23,176	8,436
Non-current liabilities			
Deferred tax liabilities	35	3,723	–
Total liabilities		26,899	8,436
Total equity and liabilities		7,497,831	6,702,152
Net current assets		6,987,934	6,254,332
Total assets less current liabilities		7,471,655	6,693,716

The accompanying notes are an integral part of these consolidated financial statements.

Li Hualin
Chairman

Zhang Bowen
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

		Attributable to equity holders of the Company					
	Note	Share capital HK$'000	Retained earnings HK$'000	Reserves HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balances at 1 January 2007, as previously reported		48,401	9,445,910	4,321,811	13,816,122	5,265,583	19,081,705
Prior year adjustments	6	–	(3,196,528)	(3,679,467)	(6,875,995)	(4,597,177)	(11,473,172)
Balances at 1 January 2007, as restated		48,401	6,249,382	642,344	6,940,127	668,406	7,608,533
Gain on fair value changes of available-for-sale financial assets		–	–	48,380	48,380	–	48,380
Currency translation differences:							
– The Group		–	–	223,677	223,677	(10,942)	212,735
– An associate		–	–	175,067	175,067	116,711	291,778
– Jointly controlled entities		–	–	26,476	26,476	–	26,476
Net gain recognised directly in equity		–	–	473,600	473,600	105,769	579,369
Profit for the year		–	1,963,440	–	1,963,440	716,746	2,680,186
Total recognised income for the year		–	1,963,440	473,600	2,437,040	822,515	3,259,555
Recognition of equity settled share-based payments	32	–	–	115,716	115,716	–	115,716
Issue of shares upon exercise of share options	31, 32	49	–	5,949	5,998	–	5,998
Dividends paid to minority interests		–	–	–	–	(503,352)	(503,352)
2006 final dividend	18	–	(484,409)	–	(484,409)	–	(484,409)
		49	(484,409)	121,665	(362,695)	(503,352)	(866,047)
Balances at 31 December 2007		48,450	7,728,413	1,237,609	9,014,472	987,569	10,002,041
Balances at 1 January 2008, as previously reported		48,450	10,328,803	4,917,076	15,294,329	5,185,595	20,479,924
Prior years adjustments	6	–	(2,600,390)	(3,679,467)	(6,279,857)	(4,198,026)	(10,477,883)
Balances at 1 January 2008, as restated		48,450	7,728,413	1,237,609	9,014,472	987,569	10,002,041
Loss on fair value changes of available-for-sale financial assets		–	–	(81,028)	(81,028)	–	(81,028)
Currency translation differences:							
– The Group		–	–	26,469	26,469	22,836	49,305
– An associate		–	–	32,777	32,777	21,852	54,629
– Jointly controlled entities		–	–	20,413	20,413	–	20,413
Net (loss)/gain recognised directly in equity		–	–	(1,369)	(1,369)	44,688	43,319
Profit for the year		–	3,319,132	–	3,319,132	1,200,494	4,519,626
Total recognised income/(expenses) for the year		–	3,319,132	(1,369)	3,317,763	1,245,182	4,562,945
Recognition of equity settled share-based payments	32	–	–	18,740	18,740	–	18,740
Issue of shares upon exercise of share options	31, 32	114	–	13,518	13,632	–	13,632
Repurchase of shares	31	(4,156)	–	(1,121,129)	(1,125,285)	–	(1,125,285)
Dividends paid to minority interests		–	–	–	–	(612,856)	(612,856)
2007 final dividend	18	–	(581,399)	–	(581,399)	–	(581,399)
		(4,042)	(581,399)	(1,088,871)	(1,674,312)	(612,856)	(2,287,168)
Balances at 31 December 2008		44,408	10,466,146	147,369	10,657,923	1,619,895	12,277,818

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities	36	2,238,088	1,372,855
Cash flows from investing activities			
Dividend received from an associate		1,606,040	1,548,075
Dividend received from jointly controlled entities		79,386	127,876
Dividend received from available-for-sale financial assets		–	4,428
Additions of exploration and evaluation assets		–	(125,734)
Capital expenditure		(949,464)	(647,723)
Purchase of available-for-sale financial assets		–	(4,405)
Loans to jointly controlled entities		(5,948)	(50,564)
Repayment from amounts due from jointly controlled entities		–	728
Interest received		109,422	111,525
Additions of other non-current assets		(752)	–
Prepayments for acquisition of a subsidiary		(45,398)	–
Decrease/(increase) in deposits with maturities over three months		424,412	(171,964)
Net cash generated from investing activities		1,217,698	792,242
Cash flows from financing activities			
Dividends paid to equity holders of the Company		(581,399)	(484,409)
Dividends paid to minority interests		(612,856)	(503,352)
Issue of shares		13,632	5,998
Repurchase of shares		(1,125,285)	–
Interest paid		(77,191)	(76,983)
Net cash used in financing activities		(2,383,099)	(1,058,746)
Increase in cash and cash equivalents		1,072,687	1,106,351
Cash and cash equivalents at 1 January		3,343,291	2,127,612
Effect of foreign exchange rate changes		101,034	109,328
Cash and cash equivalents at 31 December	30	4,517,012	3,343,291

The accompanying notes and an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1 GENERAL INFORMATION

CNPC (Hong Kong) Limited (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 ("Sun World"), which is a company incorporated in the British Virgin Islands. On 27 August 2008, PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, entered into a sale and purchase agreement with CNPC to acquire 100% equity interest in Sun World. On 18 December 2008, the transaction was completed. Since then, PetroChina became an intermediate holding company of the Company. As at 31 December 2008, PetroChina indirectly owned 56.6% equity interest in the Company.

The address 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, associate and 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 and Azerbaijan are conducted through production sharing arrangements with PetroChina and a third party, 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 and the third party.

The Group currently has three production sharing arrangements in the PRC and Azerbaijan. 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. In 2002, the Group acquired the third production sharing arrangement ("K&K Contract") to develop and produce crude oil in Azerbaijan. Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in Notes 38, 39 and 40 respectively.

These consolidated financial statements have been approved for issue by the Company's Board of Directors on 25 March 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except as disclosed in the accounting policies below;

The preparation of financial statements in conformity withe HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries except for the business combination under common control. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

In prior years, business combinations under common control were accounted for using the purchase method of accounting. As a result of a change in accounting policy as set out in Note 6(b), an acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity. The financial effect of the change in accounting policy is set out in Note 6(b).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

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

A listing of the Group's principal subsidiaries is set out in Note 45.

(b) Interest in an associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting in the consolidated financial statements of the Group and are initially recognised at cost. Under this method of accounting the Group's share of the post-acquisition profits or losses of an associate is recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in equity. The cumulative post-acquisition movements are adjusted against the carrying amounts of the investments.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

A listing of the Group's associate is shown in Note 46.

(c) Interests in jointly controlled entities

Jointly controlled entities are those entities over which the Group has contractual arrangements to jointly share control with one or more parties. The Group's interest in jointly controlled entities is accounted for using the equity method of accounting (Note 3(b)) in the consolidated financial statements.

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

A listing of the Group's principal jointly controlled entities is shown in Note 47.

(d) Accounting for production sharing contracts

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

(i) the assets that the Group controls and the liabilities that the Group incurs; and

(ii) the share of expenses that the Group incurs and its share of income from the production according to the terms stipulated in these contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity participants of the Group. Gains and losses resulting from the disposals to minority interests are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired, resulting from the purchase from minority interest, are recorded in equity.

(f) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency. The Company's functional currency is US dollar.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "interest expenses". All other foreign exchange gains and losses are presented in the consolidated income statement within "other gains, net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Foreign currencies (continued)

(iii) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designed as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(g) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3 (h)), are recorded at cost less accumulated depreciation, depletion and amortisation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use.

Depreciation, to write off the cost of each asset, other than oil and gas properties (Note 3(h)), to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

Buildings	25 years or over the remaining period of respective leases whichever is the shorter
Others	4-5 years

No depreciation is provided for construction in progress until they are completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment, including oil and gas properties (Note 3(h)), are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the cash generating unit.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Costs for planned major maintenance activities are expensed as incurred except for costs of components that result in improvements or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

(h) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas 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.

Exploratory wells in areas not requiring major capital expenditure are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review (Note 3(g)).

For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant costs of unproved properties capitalised in oil and gas properties.

The cost of oil and gas properties is amortised at the field level based on the unit of production method. Unit of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group's production licenses. The Group's oil and gas reserves estimates include only crude oil and condensate and natural gas which management believes can be reasonably produced within the current terms of these production licenses.

Depreciation of other property, plant and equipment (capitalised in oil and gas properties) is provided for on a straight-line basis over their estimated useful lives between 5 years and 6 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has only loans and receivables and available-for-sale financial assets. The detailed accounting policies for loans and receivables and available-for-sale financial assets held by the Group 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. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise accounts receivable, other deposits and cash and cash equivalents in the balance sheet. The recognition methods for loans and receivables are disclosed in the respective policy statements.

- *Available-for-sale financial assets*

  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories; these are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Group's available-for-sale financial assets primarily comprise quoted equity instruments.

  Regular purchases and sales of available-for-sale financial assets are recognised on settlement date, the date that the asset is delivered to or by the Group (the effective acquisition or sale date). Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred out substantially all risks and rewards of ownership in the investment. Available-for-sale financial assets are measured at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. The amount of the impairment loss in measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

(j) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases. Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Related parties

Related parties include CNPC and its subsidiaries (together, the “CNPC Group”), other state-controlled enterprises and their subsidiaries directly or indirectly controlled by the PRC Government, corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and CNPC and their close family members.

(l) Inventories

Inventories include crude oil and marina club debentures and wet berths held for sales which are stated at the lower of cost and net realisable value. Cost of crude oil is primarily determined by the weighted average cost method, comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(m) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

(o) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowing costs should be recognised as an expense in the period in which they are incurred except for the portion eligible for capitalisation as part of qualifying property, plant and equipment.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities for at least 12 months after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Impairment of investments in subsidiaries, associate and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(s) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts. Revenue is recognised only when the Group has transferred to the buyers significant risks and rewards of ownership of the goods in the ordinary course of the Group's activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

(t) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in the PRC. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in the PRC. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expense as incurred.

The Group currently has no additional material obligations outstanding for the payment of retirement and other post retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.

(v) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Share-based compensation (continued)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(w) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the equity holders of the Company after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(x) New accounting developments

The Group has adopted all of the following new and revised HKFRSs and Interpretations that are effective for annual periods beginning on or after 1 January 2008.

HKAS 39 and HKFRS 7 (amendment)	Financial instruments: recognition and measurement
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the above new and revised HKFRSs and Interpretations do not have significant changes to the accounting policies applied in the financial statements for the year ended 31 December 2008.

At the date of authorisation of these financial statements, the following new and revised HKFRSs and Interpretations were in issue but not yet effective and have not been early adopted by the Group.

HKFRSs (amendments)	Improvements to HKFRSs
HKAS 1 (revised)	Presentation of financial statements
HKAS 23 (revised)	Borrowing costs
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 32 and HKAS 1 (amendments)	Puttable financial instruments and obligations arising on liquidation
HKAS 39 (amendement)	Eligible hedged items
HKAS 1 and HKAS 27 (amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (amendment)	Vesting conditions and cancellations
HKFRS 3 (revised)	Business combinations
HKFRS 8	Operating segments
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HK(IFRIC)-Int 18	Transfers of assets from customers

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the management of the Company under policies approved by the Board of Directors. 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.

(a) Market risk

- Foreign exchange rate risk

  The Group conducts its business primarily in US dollar and Renminbi. Renminbi is not a freely convertible currency and is regulated by the PRC Government. Limitation in foreign exchange transactions imposed by the PRC Government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates.

  Entities within the Group also exposes to foreign exchange rate risk in relation to monetary balances which are denominated in a currency that is not the entity's functional currency. As at 31 December 2008 and 2007, except for bank amounting to HK$4,338,000 (2007: HK$7,371,000), there are no significant monetary balances held by the Group that are denominated in a non-functional currency.

  The Group did not enter into material hedge contracts during any of the years presented to hedge against its foreign exchange rate risk. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

  At 31 December 2028, if US dollar had weakended/strengthened by 5% against Renminbi with all other variable hold constant, profit for the year would have been HK$9,137,000 (2007: HK$7,357,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation if Renminbi – denominated current accounts within the Group.

- Cash flow and fair value interest rate risk

  The Group's exposure to fair value interest rate risk is mainly attributable to other loans. wholly repayable over five years. The fair value of other loans, wholly repayable over five years are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(a) Market risk (continued)

- Cash flow and fair value interest rate risk (continued)

  The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances and deposits and loans to a jointly controlled entity. The Group's 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.

  At 31 December 2008, if interest rates on bank balances and deposits and loan to a jointly controlled entity had been 50 base-point higher/lower with all other variables held constant, post-tax profit for the year would have been HK$9,773,000 (2007: HK$17,359,000) higher/lower, mainly as a result of higher/lower interest income on floating rate bank balances and deposits and loan to a jointly controlled entity.

- Price risk

  The Group is engaged in a wide range of petroleum-related activities. Prices of crude oil and petroleum products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil or petroleum products and therefore the Group is exposed to general price fluctuations of crude oil and petroleum products.

  The Group is also exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

  At 31 December 2008, if the prices of the respective available-for-sale financial assets had been 10% higher/lower with all other variables held constant, the Group's equity would have been HK$3,898,000 (2007: HK$12,467,000) higher/lower, mainly as a result of higher/lower fair value of available-for-sale financial assets.

(b) Credit risk

Credit risk arises primarily from cash and cash equivalents, accounts receivable, other receivables and bank deposits. As the majority of cash at bank and time deposits are placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, accounts receivable, other receivables and bank deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

4 FINANCIAL RISK MANAGEMENT (continued)

4.1 Financial risk factors (continued)

(c) *Liquidity risk*

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

As at 31 December 2008 and 31 December 2007, the Group's and the Company's contractual obligations mature within one year except for other loans, wholly repayable over five years. The table below analyses the Group's other loans, wholly repayable over five years, into relevant maturity groups based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2008 HK$'000	2007 HK$'000
Less than 1 year	79,510	77,191
Between 1 and 2 years	79,510	79,150
Between 2 and 5 years	787,148	620,177
Over 5 years	445,256	691,736
	1,391,424	1,468,254

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so as to provide returns for equity holders and to reduce its cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as other loans, wholly repayable over five years divided by total equity attributable to equity holders of the Company. The gearing ratio at 31 December 2008 is 9.32% (2007: 9.25%).

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at 31 December 2008 and 2007 are disclosed in the respective accounting policies.

The carrying amounts of the following financial assets and financial liabilities approximate their fair values as all of them are short-term in nature: cash and cash equivalents, bank deposits with maturities over three months, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities. The fair values of other loans, wholly repayable over five years, are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of other loans, wholly repayable over five years, are presented in Note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the estimates and judgements that are involved in preparing the Group's consolidated financial statements.

(a) Estimation of oil and natural gas reserves

Oil and natural gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net profit. Proved 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 technical maturity of oil and natural gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

(b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil, and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans.

6 COMPARATIVES

(a) Changes in presentation of the consolidated income statement

In previous years, the Group presented an analysis of expenses on the face of its consolidated income statement using a classification based on their function within the Group.

Following the acquisition by PetroChina on 18 December 2008, the Directors reviewed the presentation of the Group's consolidated income statement and, taking into account the presentation adopted by PetroChina and certain companies within the same industry, concluded that to present an analysis of expenses using a classification based on their nature would be more appropriate to the Group's circumstances and more relevant to users of the Group's financial statements. Consequently, the presentation of the consolidated income statement for the year ended 31 December 2008 has been revised and the comparative figures have been reclassified in order to conform to the current year's presentation. The changes in presentation of the consolidated income statement did not have any impact on the Group's profit for the year or the calculation of the Group's earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

6 COMPARATIVES (continued)

(b) Change in accounting policy

In previous years, the Group adopted the purchase method of accounting, to account for acquisition of subsidiaries, including the business combinations under common control. Following the acquisition by PetroChina on 18 December 2008, the Directors of the Company are of the view that, taking into account the policy adopted by PetroChina and certain companies within the industry, the predecessor value method of accounting would provide more appropriate and relevant information of the Group's business combinations under common control in the Group's consolidated financial statements. Therefore, with effect from 1 January 2008, the Group changed to adopt predecessor value method of accounting to account for its business combinations under common control.

The change in accounting policy has been applied retrospectively. The effect of the change in accounting policy is as follows:

	2008 HK$'000	2007 HK$'000
Decrease in oil and gas properties	(61,782)	(71,835)
Decrease in interest in an associate	(9,204,413)	(10,406,048)
Decrease in opening retained earnings	(2,600,390)	(3,196,528)
Decrease in opening minority interests	(4,198,026)	(4,597,177)
Decrease in asset revaluation reserve	(2,713,131)	(2,713,131)
Decrease in merger reserve	(960,519)	(960,519)
Decrease in translation reserve	(1,153)	(5,817)
Decrease in depreciation, depletion and amortisation	10,061	10,352
Increase in share of profits less losses of an associate	1,196,963	984,937
Increase in basic earnings per share (HK cents)	15.19	12.31
Increase in diluted earnings per share (HK cents)	15.03	12.16

7 REVENUE AND TURNOVER

Turnover represents revenue from the sale of crude oil and natural gas. Analysis of revenue by segment is shown in Note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

8 OTHER GAINS, NET

	2008 HK$'000	2007 HK$'000
Dividend income from available-for-sale financial assets	1,759	10,588
Government grants related to reinvestment of profits generated from oil production sharing contracts (Note)	9,544	93,526
Net exchange gains	174,516	102,729
Others	2,991	6,827
	188,810	213,670

Note: The PRC 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. It is recognised at their fair value where there is a reasonable assurance that the grant will be received.

9 INTEREST INCOME

	2008 HK$'000	2007 HK$'000
Interest income on bank deposits	109,422	106,555
Interest income on loans to jointly controlled entities	3,617	4,970
	113,039	111,525

10 EMPLOYEE COMPENSATION COSTS

	2008 HK$'000	2007 HK$'000
Salaries, wages and allowances	181,715	125,876
Retirement benefits scheme contributions	21,462	11,712
Share-based payment expenses (Note 32)	18,740	115,716
	221,917	253,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

11 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes mainly represent special levy which is paid or payable on the portion of income realised from the sales of domestically-produced crude oil at prices above certain level. This levy was imposed by the PRC Government and became effective from 26 March 2006.

12 INTEREST EXPENSES

	2008 HK$'000	2007 HK$'000
Interest on loans, wholly repayable over five years, from:		
– A fellow subsidiary	32,163	–
– Immediate holding company	45,028	76,983
	77,191	76,983

13 PROFIT BEFORE TAXATION

	2008 HK$'000	2007 HK$'000
Profit before taxation is arrived at after charging the following items:		
Amortisation of prepaid lease payments	142	141
Auditor's remuneration	3,479	3,678
Cost of inventories recognised as expense	3,042,451	2,318,940
Depreciation on property, plant and equipment	631,453	652,975
Impairment loss of property, plant and equipment	–	314
Provision for loans to and amounts due from jointly controlled entities	112,886	32,642
Operating lease expenses	4,719	3,825
Repairs and maintenance	128,477	104,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of each director for the years ended 31 December 2008 and 2007 are as follows:

	2008					2007
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefit expenses	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr Li Hualin	3,500	3,500	–	4,584	11,584	32,862
Mr Zhang Bowen	–	5,250	375	3,438	9,063	25,899
Mr Wang Mingcai	–	4,000	300	2,149	6,449	13,658
Mr Cheng Cheng	–	4,000	300	2,149	6,449	13,658
Dr Lau Wah Sum	450	–	–	–	450	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300	300
Dr Liu Xiao Feng	250	–	–	–	250	250
	4,500	16,750	975	12,320	34,545	87,077

The five individuals whose emoluments were the highest in the Group for the year including four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2007: one) individual during the year are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries, wages and allowances	4,000	1,800
Retirement benefits scheme contributions	300	225
Share-based payment expenses	1,751	10,010
	6,051	12,035
The emoluments fell within the following bands:		
HK$6,000,001 to HK$6,500,000	1	–
HK$12,000,001 to HK$12,500,000	–	1

15 TAXATION

	2008 HK$'000	2007 HK$'000
Current tax		
– PRC	277,549	275,988
– Overseas	492,065	383,485
	769,614	659,473
Deferred tax (Note 35)	265,119	(28,927)
	1,034,733	630,546

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit for the year (2007: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 25% (2007: 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2010.

Taxation on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas taxation is an amount of withholding tax of HK$240,906,000 (2007: HK$233,249,000) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") which is charged at 15% (2007: 15%).

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For the year ended 31 December 2008

15 TAXATION (continued)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the corporate income tax rate in the PRC applicable to the Group as follows:

	2008 HK$'000	2007 HK$'000
Profit before taxation	5,554,359	3,310,732
Tax of domestic income tax rate of 25% (2007: 33%)	1,388,590	1,092,542
Effect of different tax rates of overseas subsidiaries	(186,524)	(305,033)
Effect on a change in tax rate	–	(31,092)
Effect of income tax at preferential rate	(82,764)	(82,482)
Tax effect of income not subject to tax	(77,639)	(134,340)
Tax effect of expenses not deductible for tax purposes	64,477	145,320
Tax effect of share of profits less losses of an associate	(533,274)	(353,717)
Tax effect of share of profits less losses of jointly controlled entities	(26,651)	(3,838)
Withholding tax on dividend received and receivable	488,518	303,186
Tax charge	1,034,733	630,546

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.

16 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$2,451,528,000 (2007: HK$1,631,142,000).

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For the year ended 31 December 2008

17 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$3,319,132,000 (2007: HK$1,963,440,000) and weighted average number of ordinary shares in issue during the year of approximately 4,761,936,000 shares (2007: 4,843,557,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company of approximately HK$3,319,132,000 (2007: HK$1,963,440,000), and the weighted average number of ordinary shares of approximately 4,810,754,000 shares (2007: 4,903,294,000 shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 48,818,000 shares (2007: 59,737,000 shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

18 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2008 HK$'000	2007 HK$'000
Final dividends attributable to equity holders of the Company for 2006 (Note (a))	–	484,409
Final dividends attributable to equity holders of the Company for 2007 (Note (b))	581,399	–
	581,399	484,409

Notes:

(a) Final dividends attributable to equity holders of the Company in respect of 2006 of HK10 cents per share amounting to a total of HK$484,409,000 were approved by the shareholders in the Annual General Meeting on 13 June 2007 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2007, and were paid on 20 June 2007.

(b) Final dividends attributable to equity holders of the Company in respect of 2007 of HK12 cents per share amounting to a total of HK$581,399,000 were approved by the shareholders in the Annual General Meeting on 26 May 2008 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2008, and were paid on 10 June 2008.

(c) At the meeting on 25 March 2009, the Board of Directors proposed final dividends attributable to equity holders of the Company in respect of 2008 of HK15 cents per share amounting to a total of HK$666,118,000. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the balance sheet date and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2009 when approved at the forthcoming Annual General Meeting.

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For the year ended 31 December 2008

19 PROPERTY, PLANT AND EQUIPMENT

	Group					Company
Year ended 31 December 2007	Oil and gas properties HK$'000	Buildings HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000	Others HK$'000
Cost						
Balances at 1 January 2007, as previously reported	6,344,839	1,365	7,082	9,390	6,362,676	4,032
Prior year adjustments	149,560	–	–	–	149,560	–
Balances at 1 January 2007, as restated	6,494,399	1,365	7,082	9,390	6,512,236	4,032
Exchange differences	438,184	–	96	1,395	439,675	–
Additions	263,626	–	293	383,804	647,723	292
Transfers	365,884	–	–	(365,884)	–	–
Disposals or write off	–	–	(49)	–	(49)	(49)
Balances at 31 December 2007	7,562,093	1,365	7,422	28,705	7,599,585	4,275
Accumulated depletion, depreciation and impairment						
Balances at 1 January 2007, as previously reported	3,387,620	132	4,998	–	3,392,750	2,976
Prior year adjustments	231,776	–	–	–	231,776	–
Balances at 1 January 2007, as restated	3,619,396	132	4,998	–	3,624,526	2,976
Exchange differences	261,478	–	46	–	261,524	–
Charge for the year	652,010	54	911	–	652,975	475
Disposals or write off	–	–	(49)	–	(49)	(49)
Impairment loss	314	–	–	–	314	–
Balances at 31 December 2007	4,533,198	186	5,906	–	4,539,290	3,402
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	3,028,895	1,179	1,516	28,705	3,060,295	873

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For the year ended 31 December 2008

19 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					Company
Year ended 31 December 2008	Oil and gas properties HK$'000	Buildings HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000	Others HK$'000
Cost						
Balances at 1 January 2008, as previously reported	7,412,533	1,365	7,422	28,705	7,450,025	4,275
Prior year adjustments	149,560	–	–	–	149,560	–
Balances at 1 January 2008, as restated	7,562,093	1,365	7,422	28,705	7,599,585	4,275
Exchange differences	352,776	–	90	1,938	354,804	–
Additions	68,868	–	77	880,519	949,464	77
Transfers	851,171	–	–	(851,171)	–	–
Balances at 31 December 2008	8,834,908	1,365	7,589	59,991	8,903,853	4,352
Accumulated depletion, depreciation and impairment						
Balances at 1 January 2008, as previously reported	4,311,803	186	5,906	–	4,317,895	3,402
Prior year adjustments	221,395	–	–	–	221,395	–
Balances at 1 January 2008, as restated	4,533,198	186	5,906	–	4,539,290	3,402
Exchange differences	249,406	–	63	–	249,469	–
Charge for the year	630,512	55	886	–	631,453	490
Balances at 31 December 2008	5,413,116	241	6,855	–	5,420,212	3,892
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	3,421,792	1,124	734	59,991	3,483,641	460

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For the year ended 31 December 2008

19 PROPERTY, PLANT AND EQUIPMENT (continued)

The depreciation charge of the Group for the year ended 31 December 2007 included HK$314,000 relating to impairment provision for property, plant and equipment, analysed by segment as follows:

	2008 HK$'000	2007 HK$'000
South East Asia	–	314

Buildings owned by the Group are under lease. The net book values of the buildings owned by the Group can be analysed by the following categories of lease terms:

	2008 HK$'000	2007 HK$'000
Medium-term lease (10 to 50 years)	1,074	1,111
Long-term lease (more than 50 years)	50	68
	1,124	1,179

The buildings of the Group are located in the PRC.

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.

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For the year ended 31 December 2008

20 ADVANCED OPERATING LEASE PAYMENTS

The Group's advanced operating lease payments comprise:

	Group	
	2008	2007
	HK$'000	HK$'000
Leasehold interest in land outside Hong Kong:		
Leases of over 50 years	147	150
Leases of between 10 to 50 years	3,271	3,410
	3,418	3,560

These advance operating lease payments are amortised over the related lease terms using the straight-line method.

21 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Unlisted shares, at cost	511,078	511,274	236,170	236,170
Share of post-acquisition profits and reserves	378,546	275,804	–	–
Share of net assets	889,624	787,078	236,170	236,170
Loans to jointly controlled entities	265,052	333,341	44,906	46,306
Less: Impairment losses	(220,146)	(191,318)	–	–
	44,906	142,023	44,906	46,306
	934,530	929,101	281,076	282,476

Loans to jointly controlled entities are unsecured and not repayable within one year. Except for an amount of HK$44,906,000 (2007: Nil), which is interest free, the remaining amount of HK$220,146,000 (2007: HK$333,341,000) bears interest at London Interbank Offered Rate ("LIBOR") plus 3.75% (2007: fixed rate of 5% or LIBOR plus 3.75%) per annum. The effective interest rate is 6.68% (2007: 8%).

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21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

In 2008, the Group recognised an impairment loss of HK$111,307,000 (2007: HK$32,642,000) 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 2008 and 31 December 2007, the carrying amounts of loans to jointly controlled entities are not past due and not impaired.

Dividends received and receivable from jointly controlled entities are approximately HK$79,386,000 in 2008 (2007: HK$127,876,000).

The Group's interests in its principal jointly controlled entities (all of which are unlisted), together with its share of their respective assets, liabilities, revenue and profit are as follows:

Name	Country of incorporation/ establishment	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Profit HK$'000	Interest held %	Type of shares
As at or for the year ended 31 December 2008							
華油鋼管有限公司	PRC	1,182,652	921,653	2,350,377	37,236	50%	Equity joint venture
Mazoon Petrogas (BVI) Limited	British Virgin Islands	726,387	173,440	1,250,769	122,671	50%	Ordinary shares
Others		131,183	55,505	107,042	1,611		
		2,040,222	1,150,598	3,708,188	161,518		
As at or for the year ended 31 December 2007							
華油鋼管有限公司	PRC	768,191	548,529	514,484	18,037	50%	Equity joint venture
Mazoon Petrogas (BVI) Limited	British Virgin Islands	602,576	104,580	675,846	163,887	50%	Ordinary shares
Others		128,193	58,773	102,108	3,893		
		1,498,960	711,882	1,292,438	185,817		

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21 INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

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:

	2008 HK$'000	2007 HK$'000
Unrecognised share of losses of jointly controlled entities for the year	9,771	26,110
Accumulated unrecognised share of losses of jointly controlled entities	48,433	38,662

Details of the principal jointly controlled entities, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2008 and 2007, are set out in Note 47.

22 INTEREST IN AN ASSOCIATE

	2008 HK$'000	2007 HK$'000
Unlisted shares, at cost	1,176,586	1,176,586
Share of post-acquisition profits and reserves	3,905,158	2,219,940
Share of net assets	5,081,744	3,396,526

The Group's interest in its associate (which is unlisted), together with its share of assets, liabilities, revenue and profit are as follows:

Name	Country of incorporation	Assets HK$'000	Liabilities HK$'000	Revenue HK$'000	Profit HK$'000	Interest held %	Type of shares
As at or for the year ended 31 December 2008							
CNPC-Aktobemunaigas Joint Stock Company	Kazakhstan	7,241,192	2,159,448	6,716,518	3,231,962	25.12%	Common shares
As at or for the year ended 31 December 2007							
CNPC-Aktobemunaigas Joint Stock Company	Kazakhstan	6,410,979	3,014,453	4,990,253	2,021,239	25.12%	Common shares

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22 INTEREST IN AN ASSOCIATE (continued)

Aktobe is engaged in oil and gas fields exploration, development, and production in Aktobe region of Kazakhstan, and other activities supporting oil and gas production, and sale of oil, gas and oil products.

In April 2008, the government of Kazakhstan issued a decree for charging export custom duties on crude oil exported out of Kazakhstan with effective from 16 May 2008. Aktobe was originally not within the scope of these duties and therefore no payment was made from May to September 2008. In October 2008, the local government issued a notice demanding Aktobe for payment of these duties. Aktobe has paid approximately HK$2,178,342,000. Management of Aktobe, taking into account the advice from its legal counsel, considers Aktobe has a reasonable ground to exempt from such duties and applied to the local court for a reimbursement of the amount paid. Total duties paid and payable for 2008 amounted to approximately HK$3,612,941,000.

Management of Aktobe recognised the amount paid as an expense for the current year in view of the outcome of the dispute is uncertain as of 31 December 2008.

Should Aktobe be subject to these duties, the Group's profit for the year, interest in an associate and deferred tax liabilities would reduce by approximately HK$306,031,000 HK$360,037,000 and HK$54,006,000 respectively, being the Group's share of unpaid portion of the duties for 2008 and corresponding deferred tax effect.

On the other hand, should Aktobe be exempted from these duties and the local government reimburse the amount paid to Aktobe, it has to recognise the amount paid as an asset and additional liability in relation to tax benefits claimed and corresponding penalties. The Group's profit for the year, interest in an associate and deferred tax liabilities would increase by approximately HK$130,491,000, HK$153,519,000 and HK$23,028,000 respectively.

Dividends received and receivable from the associate are approximately HK$1,606,040,000 in 2008 (2007: HK$1,548,075,000).

Details of the associate, which in the directors' opinion materially affect results and/or net assets of the Group at 31 December 2008 and 2007, are set out in Note 46.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2008 HK$'000	2007 HK$'000	2008 HK$'000	2007 HK$'000
Listed shares:				
Equity securities listed in Hong Kong	7,392	71,016	–	–
Equity securities listed in Australia	31,593	55,451	–	–
	38,985	126,467	–	–

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 the Stock Exchange and Australian Stock Exchange respectively.

The carrying amounts of the available-for-sale financial assets are denominated in the following currencies:

	Group	
	2008 HK$'000	2007 HK$'000
Hong Kong dollar	7,392	71,016
Australian dollar	31,593	55,451
	38,985	126,467

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 EXPLORATION AND EVALUATION ASSETS

	Group	
	2008	2007
	HK$'000	HK$'000
At 1 January	–	48,506
Exchange differences	–	132
Additions	–	125,734
Write-off	–	(48,638)
Impairment loss	–	(125,734)
At 31 December	–	–

In 2007, 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 Continental GeoPetro (Bengara-II) Limited, 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. In 2007, exploration and evaluation assets amounting to HK$48,638,000 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.

25 INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	HK$'000
Unlisted shares, at cost	156,035	156,035

Details of the principal subsidiaries, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2008 and 2007, are set out in Note 45.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26 OTHER NON-CURRENT ASSETS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Prepayments for acquisition of a subsidiary (Note 43(b))	45,398	–	45,398	–
Others	2,914	2,162	752	–
	48,312	2,162	46,150	–

27 INVENTORIES

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Crude oil in tanks	22,220	16,889	–	–
Marina club debentures and wet berths	13,602	13,602	–	–
	35,822	30,491	–	–

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28 ACCOUNTS RECEIVABLE

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Accounts receivable due from				
– Third parties	73,332	218,595	–	–
– Related parties	16,756	100,184	–	–
	90,088	318,779	–	–

Amounts due from related parties are interest free and unsecured (Note 41).

The Group grants a credit period of 30 to 90 days to its customers. At 31 December 2008 and 31 December 2007, all accounts receivable are 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 accounts receivable and the credit ratings of the customers. The customers of the Group are mainly those international petroleum companies with sound financial background.

The carrying amounts of the accounts receivable are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
US dollar	57,885	50,488	–	–
Renminbi	16,756	198,913	–	–
Thai Baht	15,447	69,378	–	–
	90,088	318,779	–	–

29 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Other receivables	15,104	23,055	4,914	5,288
Amounts due from related parties				
– Subsidiaries	–	–	4,185,721	3,591,155
– Others	–	40,585	–	–
	15,104	63,640	4,190,635	3,596,443
Less: Impairment losses	–	–	(50,826)	(50,826)
	15,104	63,640	4,139,809	3,545,617
Prepaid expenses	2,051	2,487	2,051	2,487
Other current assets	128	65	128	65
	17,283	66,192	4,141,988	3,548,169

The amounts due from related parties (Note 41) are interest free, unsecured and expected to be settled within one year. Except for amounts due from certain subsidiaries, no allowance for doubtful debts for both years.

The carrying amounts of the prepaid expenses and other current assets are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong dollar	7,606	7,840	14,528	55,788
US dollar	2,031	54,564	789,468	766,980
Renminbi	7,646	3,788	3,337,992	2,725,401
	17,283	66,192	4,141,988	3,548,169

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30 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Cash at bank and on hand	1,787,224	424,764	64,215	20,125
Short-term bank deposits	3,206,465	3,819,616	2,807,907	2,694,474
	4,993,689	4,244,380	2,872,122	2,714,599
Less: Bank deposits with original maturities over three months	(476,677)	(901,089)	–	–
Cash and cash equivalents	4,517,012	3,343,291	2,872,122	2,714,599

Bank deposits with original maturities over three months carry fixed interest at market rate at 3.51% per annum (2007: 3.00% per annum). The original maturity ranged from 6 months to 1 year. Cash at bank and bank deposits with original maturity less than three months carry interest at prevailing market rate at 0.79% per annum (2007: 1.44% per annum).

The carrying amounts of the bank deposits with original maturities over three months, cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong dollar	16,374	7,371	15,242	6,225
US dollar	3,112,944	2,948,872	2,855,737	2,708,214
Renminbi	1,718,688	1,188,638	1,143	160
Thai Baht	145,683	99,499	-	-
	4,993,689	4,244,380	2,872,122	2,714,599

Included in bank deposits with original maturities over three months, cash and cash equivalents are amounts of approximately HK$1,718,688,000 or RMB1,514,336,000 (2007: HK$1,188,638,000 or RMB1,116,607,000) denominated in Renminbi which are deposited with banks in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

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31 SHARE CAPITAL AND SHARE OPTION SCHEMES

(a) Share capital

	Number of ordinary shares ‘000	Nominal value of ordinary shares HK$’000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2007, 31 December 2007 and 2008	8,000,000	80,000
Issue and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2007	4,840,094	48,401
Issue of shares upon exercise of share options (Note (i))	4,900	49
At 31 December 2007 and 1 January 2008	4,844,994	48,450
Issue of shares upon exercise of share options (Note (i))	11,360	114
Repurchase of shares (Note (ii))	(415,570)	(4,156)
At 31 December 2008	4,440,784	44,408

Notes:

(i) During the year, the Company allotted and issued 11,360,000 shares (2007: 4,900,000 shares) of HK$0.01 each for cash at the exercise price ranged from HK$0.940 to HK$1.362 (2007: HK$1.224) per share as a result of the exercise of share options.

(ii) During the year, the Company repurchased a total of 415,570,000 of its own shares on the Stock Exchange at a price ranging from HK$1.850 to HK$3.460 per share, for a total consideration of approximately HK$1,125,285,000.

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31 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

(a) Share capital (continued)

Month of repurchase	Number of ordinary shares of HK$0.10 each	Highest	Lowest	Aggregate consideration paid
	’000	HK$	HK$	HK$’000
September 2008	136,200	3.460	2.950	432,474
October 2008	143,470	3.370	1.850	359,496
November 2008	125,410	2.680	2.200	306,860
December 2008	10,490	2.580	2.420	26,455
	415,570			1,125,285

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

(b) Share option schemes

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 number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other shares of the Company) shall not exceed 30% of the shares in issue from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

(b) Share option schemes (continued)

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, 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.

Pursuant to the resolution of the Company passed on 26 May 2008, 8,600,000 and 5,500,000 share options were granted to directors and employees of the Company, respectively, 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 price of the Company's shares immediately before 26 May 2008, the date of grant of the options, was HK$4.34.

The fair values of share options granted in 2008 and 2007 were calculated using the Binomial model. The inputs into the model were as follows:

	Granted on 26 May 2008 to		Granted on 8 January 2007 to		Granted on 14 September 2007 to
	Directors	Employees	Directors	Employees	Employees
Share price at grant date	HK$4.220	HK$4.220	HK$4.010	HK$4.010	HK$4.480
Exercise price	HK$4.240	HK$4.240	HK$4.186	HK$4.186	HK$4.480
Expected volatility	46%	46%	38.6%	38.6%	41.0%
Risk-free rate	2.629%	2.629%	3.7%	3.7%	4.0%
Expected dividend yield	3.02%	3.02%	2.4%	2.4%	2.0%
Exercise multiple	2.0	1.5	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 during the year are HK$12,321,000 (2007: HK$75,614,000) and HK$6,419,000 (2007: HK$40,102,000) respectively.

The number of shares in respect of which options had been granted and outstanding at 31 December 2008 under the 2002 Share Option Scheme was 177,340,000 shares (2007: 174,600,000 shares), representing 3.99% (2007: 3.60%) of the issued share capital of the Company at 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

(b) Share option schemes (continued)

The movements in the share options granted under the 2002 Share Option Scheme during the year are shown in the following table:

		Number of share options						
Name or category of participants	Option Type	Outstanding at 1 January 2007	Granted during the year	Exercised during the year	Outstanding at 31 December 2007 and 1 January 2008	Granted during the year	Exercised during the year	Outstanding at 31 December 2008
Directors								
Mr Li Hualin	2005 (Note (iii))	20,000,000	–	–	20,000,000	–	–	20,000,000
	2007A (Note (iv))	–	25,000,000	–	25,000,000	–	–	25,000,000
	2008 (Note (vi))	–	–	–	–	3,200,000	–	3,200,000
Mr Zhang Bowen	2007A (Note (iv))	–	20,000,000	–	20,000,000	–	–	20,000,000
	2008 (Note (vi))	–	–	–	–	2,400,000	–	2,400,000
Mr Wang Mingcai	2005 (Note (iii))	25,000,000	–	–	25,000,000	–	–	25,000,000
	2007A (Note (iv))	–	10,000,000	–	10,000,000	–	–	10,000,000
	2008 (Note (vi))	–	–	–	–	1,500,000	–	1,500,000
Mr Cheng Cheng	2004B (Note (ii))	20,000,000	–	–	20,000,000	–	(4,360,000)	15,640,000
	2007A (Note (iv))	–	10,000,000	–	10,000,000	–	–	10,000,000
	2008 (Note (vi))	–	–	–	–	1,500,000	–	1,500,000
Dr Lau Wah Sum	2004A (Note (i))	3,500,000	–	–	3,500,000	–	(3,500,000)	–
Mr Li Kwok Sing Aubrey	2004A (Note (i))	3,500,000	–	–	3,500,000	–	(3,500,000)	–
Dr Liu Xiao Feng	2005 (Note (iii))	2,500,000	–	(900,000)	1,600,000	–	–	1,600,000
Sub-total		74,500,000	65,000,000	(900,000)	138,600,000	8,600,000	(11,360,000)	135,840,000
Employees	2005 (Note (iii))	5,000,000	–	(4,000,000)	1,000,000	–	–	1,000,000
	2007A (Note (iv))	–	15,000,000	–	15,000,000	–	–	15,000,000
	2007B (Note (v))	–	20,000,000	–	20,000,000	–	–	20,000,000
	2008 (Note (vi))	–	–	–	–	5,500,000	–	5,500,000
Sub-total		5,000,000	35,000,000	(4,000,000)	36,000,000	5,500,000	–	41,500,000
Total		79,500,000	100,000,000	(4,900,000)	174,600,000	14,100,000	(11,360,000)	177,340,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

31 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

(b) Share option schemes (continued)

Notes:

(i) These options were granted on 8 January 2004 with exercise price of HK$1.362 and exercisable from 8 April 2004 to 7 January 2009.

(ii) These options were granted on 25 June 2004 with exercise price of HK$0.940 and exercisable from 25 September 2004 to 24 June 2009.

(iii) These options were granted on 27 April 2005 with exercise price of HK$1.224 and exercisable from 27 July 2005 to 26 April 2010.

(iv) These options were granted on 8 January 2007 with exercise price of HK$4.186 and exercisable from 8 April 2007 to 7 January 2012.

(v) These options were granted on 14 September 2007 with exercise price of HK$4.480 and exercisable from 14 December 2007 to 13 September 2012.

(vi) These options were granted on 26 May 2008 with exercise price of HK$4.240 and exercisable from 26 August 2008 to 25 May 2013.

(vii) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2008 are ranged from HK$2.410 (2007: HK$3.620) to HK$ 2.510 (2007: HK$5.640).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 RESERVES

	Group								
	Share premium HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Asset revaluation reserve HK$'000	Merger reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balances at 1 January 2007, as previously reported	1,351,711	134,323	19,810	2,713,131	–	50,458	52,378	9,445,910	13,767,721
Prior year adjustments	–	–	–	(2,713,131)	(960,519)	–	(5,817)	(3,196,528)	(6,875,995)
Balances at 1 January 2007, as restated	1,351,711	134,323	19,810	–	(960,519)	50,458	46,561	6,249,382	6,891,726
Gain on fair value changes of available-for-sale financial assets	–	–	–	–	–	48,380	–	–	48,380
Currency translation differences:									
– The Group	–	–	–	–	–	–	223,677	–	223,677
– An associate	–	–	–	–	–	–	175,067	–	175,067
– Jointly controlled entities	–	–	–	–	–	–	26,476	–	26,476
Net gain recognised directly in equity	–	–	–	–	–	48,380	425,220	–	473,600
Profit for the year	–	–	–	–	–	–	–	1,963,440	1,963,440
Total recognised income for the year	–	–	–	–	–	48,380	425,220	1,963,440	2,437,040
Recognition of equity-settled share-based payments (Note 10)	–	–	115,716	–	–	–	–	–	115,716
Exercise of share options	7,223	–	(1,274)	–	–	–	–	–	5,949
2006 final dividend	–	–	–	–	–	–	–	(484,409)	(484,409)
	7,223	–	114,442	–	–	–	–	(484,409)	(362,744)
Balances at 31 December 2007	1,358,934	134,323	134,252	–	(960,519)	98,838	471,781	7,728,413	8,966,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 RESERVES (continued)

	Group								
	Share premium HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Asset revaluation reserve HK$'000	Merger reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balances at 1 January 2008, as previously reported	1,358,934	134,323	134,252	2,713,131	–	98,838	477,598	10,328,803	15,245,879
Prior year adjustments	–	–	–	(2,713,131)	(960,519)	–	(5,817)	(2,600,390)	(6,279,857)
Balances at 1 January 2008, as restated	1,358,934	134,323	134,252	–	(960,519)	98,838	471,781	7,728,413	8,966,022
Loss on fair value changes of available-for-sale financial assets	–	–	–	–	–	(81,028)	–	–	(81,028)
Currency translation differences:									
– The Group	–	–	–	–	–	–	26,469	–	26,469
– An associate	–	–	–	–	–	–	32,777	–	32,777
– Jointly controlled entities	–	–	–	–	–	–	20,413	–	20,413
Net (loss)/gain recognised directly in equity	–	–	–	–	–	(81,028)	79,659	–	(1,369)
Profit for the year	–	–	–	–	–	–	–	3,319,132	3,319,132
Total recognised(expenses)/income for the year	–	–	–	–	–	(81,028)	79,659	3,319,132	3,317,763
Recognition of equity-settled share-based payments (Note 10)	–	–	18,740	–	–	–	–	–	18,740
Exercise of share options	16,393	–	(2,875)	–	–	–	–	–	13,518
Repurchase of shares	(1,121,129)	–	–	–	–	–	–	–	(1,121,129)
2007 final dividend	–	–	–	–	–	–	–	(581,399)	(581,399)
	(1,104,736)	–	15,865	–	–	–	–	(581,399)	(1,670,270)
Balances at 31 December 2008	254,198	134,323	150,117	–	(960,519)	17,810	551,440	10,466,146	10,613,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

32 RESERVES (continued)

	Company				
	Share premium HK$'000	Contributed surplus HK$'000	Employee share-based compensation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balances at 1 January 2007	1,351,711	133,795	19,810	3,871,552	5,376,868
Profit for the year and total recognised income and expense for the year	–	–	–	1,631,142	1,631,142
Recognition of equity-settled share-based payments	–	–	115,716	–	115,716
Exercise of share options	7,223	–	(1,274)	–	5,949
2006 final dividend	–	–	–	(484,409)	(484,409)
Balances at 31 December 2007	1,358,934	133,795	134,252	5,018,285	6,645,266
Profit for the year and total recognised income and expense for the year	–	–	–	2,451,528	2,451,528
Recognition of equity-settled share-based payments	–	–	18,740	–	18,740
Exercise of share options	16,393	–	(2,875)	–	13,518
Repurchase of shares	(1,121,129)		–	–	(1,121,129)
2007 final dividend	–	–	–	(581,399)	(581,399)
Balances at 31 December 2008	254,198	133,795	150,117	6,888,414	7,426,524

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

33 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Accounts payable				
– Third parties	153,506	162,439	–	–
– Related parties	259,630	43,313	–	–
	413,136	205,752	–	–
Salaries and welfare payable	60,718	43,583	14,496	5,546
Amounts due to related parties				
– Subsidiaries	–	–	7,363	282
– Others	111,192	417,524	–	–
Accrued expenses and other payables	84,078	73,639	1,317	2,608
	669,124	740,498	23,176	8,436

Amounts due to related parties are interest free, unsecured and with no fixed terms of repayments (Note 41).

The aging analysis of accounts payable is as follows:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Within 3 months	402,866	196,407	–	–
Between 3 to 6 months	–	2,377	–	–
Over 6 months	10,270	6,968	–	–
	413,136	205,752	–	–

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 fall within the credit time frame.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

33 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

The carrying amounts of the accounts payable and accrued liabilities are denominated in the following currencies:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong dollar	17,496	17,771	23,176	8,436
US dollar	175,536	470,830	–	–
Renminbi	471,625	237,594	–	–
Thai Baht	4,467	14,303	–	–
	669,124	740,498	23,176	8,436

34 OTHER LOANS, WHOLLY REPAYABLE OVER FIVE YEARS

As at 31 December 2008, other loans represent loans from a fellow subsidiary, which were assigned by the immediate holding company on 1 August 2008. They are unsecured, carry fixed interest at 8% per annum and repayable by 5 equal instalments starting from 2011.

As at 31 December 2007, the loans were from the immediate holding company repayable over 5 years, unsecured and carried fixed interest at 8% per annum.

As at 31 December 2008, fair value of other loans is approximately HK$1,341,955,000 (2007: HK$1,151,702,000). The fair value is based on cash flows discounted using a rate based on the borrowing rate of 2.60% (2007: 4.82%).

35 DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using the applicable tax rates which is expected to apply at the time of reversal of the temporary difference.

The movements in net deferred tax assets/(liabilities) are as follows:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Balances at 1 January	(472,969)	(462,306)	–	–
Exchange differences	4,861	(39,590)	–	–
(Charged)/credited to the income statement (Note 15)	(265,119)	28,927	(3,723)	–
Balances at 31 December	(733,227)	(472,969)	(3,723)	–
Representing:				
Deferred tax assets	88,174	71,587	–	–
Deferred tax liabilities	(821,401)	(544,556)	(3,723)	–
	(733,227)	(472,969)	(3,723)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

35 DEFERRED TAX (continued)

The movements in deferred tax assets/(liabilities)(to be recovered/settled after 12 months) during the year without taking into consideration of the offsetting of balances within the same tax jurisdiction, are as follows:

	Group			Company
	Accelerated tax depreciation HK$'000	Withholding tax HK$'000	Total HK$'000	Withholding tax HK$'000
Balances at 1 January 2007	(124,120)	(338,186)	(462,306)	–
Exchange differences	(7,986)	(31,604)	(39,590)	–
Credited/(charged) to the income statement	109,473	(80,546)	28,927	–
Balances at 31 December 2007 and 1 January 2008	(22,633)	(450,336)	(472,969)	–
Exchange differences	4,861	–	4,861	–
Charged to the income statement	(147,127)	(117,992)	(265,119)	(3,723)
Balances at 31 December 2008	(164,899)	(568,328)	(733,227)	(3,723)

As at 31 December 2008, the Group has unrecognised deferred tax assets of approximately HK$8,709,000 (2007: HK$8,709,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authorities) which can be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

36 CASH FLOWS FROM OPERATING ACTIVITIES

	2008 HK$'000	2007 HK$'000
Profit for the year	4,519,626	2,680,186
Adjustments for:		
Taxation	1,034,733	630,546
Depreciation, depletion and amortisation	631,595	653,116
Share of profits of an associate	(3,231,962)	(2,021,239)
Share of profits of jointly controlled entities	(161,518)	(185,817)
Impairment loss and write-off of exploration and evaluation assets	–	174,372
Impairment loss of loans to and amounts due from jointly controlled entities	112,886	32,642
Impairment loss of property, plant and equipment	–	314
Employee share-based payment expense	18,740	115,716
Dividend income	(1,759)	(10,588)
Net exchange gains	(174,516)	(102,729)
Interest income	(113,039)	(111,525)
Interest expense	77,191	76,983
Changes in working capital:		
Accounts receivable and prepaid expenses and other current assets	277,360	(126,662)
Inventories	(6,583)	1,438
Accounts payable and accrued liabilities	86,903	242,707
Cash generated from operations	3,069,657	2,049,460
Taxation paid	(831,569)	(676,605)
Net cash generated from by operating activities	2,238,088	1,372,855

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

37 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from 1 to 15 years and usually do not contain renewal options. Future minimum lease payments as of 31 December 2008 and 2007 under non-cancellable operating leases are as follows:

	Group		Company	
	2008	2007	2008	2007
	HK$'000	HK$'000	HK$'000	HK$'000
Not later than 1 year	3,333	2,875	746	249
Later than 1 year and not later than 5 years	4,217	2,287	2,737	–
Later than 5 years	1,015	976	–	–
	8,565	6,138	3,483	249

(b) Capital commitments

	Group	
	2008	2007
	HK$'000	HK$'000
Contracted but not provided for:		
Development cost under the Xinjiang Contract	222,610	113,361
Development cost under the Leng Jiapu Contract	391,556	549,925
Development cost for Onshore Exploration Block No. L21/43 in Thailand	140,166	132,379
	754,332	795,665

37 COMMITMENTS (continued)

(b) Capital commitments (continued)

	Group	
	2008	2007
	HK$'000	HK$'000
Authorised but not contracted for:		
Development cost for Azerbaijan Kursangi and Kurabagli oil field	70,083	145,309
Development cost for Peru Talara oil field	81,764	46,333
Development cost for Thailand Sukhothai oil field	–	31,148
	151,847	222,790

38 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 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 ended on 31 August 2008. During the year, the Group and PetroChina have succeeded in obtaining the approval for extension of the production period for further eight years. The second phase of the Xinjiang Contract commenced on 1 September 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

38 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:

		2008 HK$'000	2007 HK$'000
(a)	Results for the year		
	Income	1,572,974	959,284
	Expenses	(889,327)	(576,430)
(b)	Assets and liabilities		
	Oil and gas properties	230,305	228,571
	Other non-current assets	6,788	–
	Current assets	422,879	395,434
	Current liabilities	(78,930)	(112,515)
	Net assets	581,042	511,490
(c)	Capital commitments		
	Contracted but not provided for	222,610	113,361

39 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 and share in the production from the LJP Contract Area which shall be allocated firstly towards operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to PetroChina towards investment recovery and profit.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

39 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT (continued)

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:

		2008 HK$'000	2007 HK$'000
(a)	Results for the year		
	Income	1,831,674	1,561,534
	Expenses	(1,399,679)	(1,166,956)
(b)	Assets and liabilities		
	Oil and gas properties	2,023,854	1,752,682
	Current assets	1,341,469	1,012,350
	Current liabilities	(398,268)	(169,635)
	Non-current liabilities	(93,057)	(87,982)
	Net assets	2,873,998	2,507,415
(c)	Capital commitments		
	Contracted but not provided for	391,556	549,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40 OIL PRODUCTION SHARING CONTRACT – K&K CONTRACT

In 2002, the Group acquired 25% of the production sharing interest in Kursangi and Karabagli oil fields in the Azerbaijan ("K&K Contract Area") for US$40,533,000 (approximately HK$316,160,000) from independent third parties.

Pursuant to the K&K Contract, the Group shall bear 25% of the costs in connection with the oil production in the K&K Contract Area.

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 K&K Contract is as follows:

		2008 HK$'000	2007 HK$'000
(a)	Results for the year		
	Income	651,993	516,137
	Expenses	(545,964)	(384,342)
(b)	Assets and liabilities		
	Oil and gas properties	544,648	504,465
	Current assets	61,210	21,062
	Current liabilities	(6,572)	(6,134)
	Net assets	599,286	519,393
(c)	Capital commitments		
	Authorised but not contracted for	70,083	145,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41 RELATED PARTY TRANSACTIONS

CNPC is a state-controlled enterprise directly controlled by the PRC Government. The PRC Government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to the CNPC Group, directly or indirectly controlled by the PRC Government are also related parties of the Group. Neither CNPC nor the PRC Government publishes financial statements available for public use.

The Group has extensive transactions with other companies of the CNPC Group. Because of the relationship, it is possible that the terms of the transactions between the Group and other members of the CNPC Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

The Group entered into (i) the Xinjiang Contract and the Leng Jiapu Contract (together, the "PSAs") with the CNPC Group in 1996 and 1997 respectively and (ii) the Master Agreement in 2003. In 2006, the Company entered into the Supplemental Agreement with CNPC amending certain terms of the Master Agreement. Under the PSAs and the Master Agreement (as amended by the Supplemental Agreement), the CNPC Group provided certain products and services and lease certain properties to the Group. In addition, the Group sold its share of the crude oil production from the PRC oilfields to the CNPC Group under the PSAs.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

(a) Bank deposits

	2008 HK$'000	2007 HK$'000
Bank deposits in state-controlled banks and other financial institutions	3,034,505	2,518,543
Interest income from bank deposits in state-controlled banks and other financial institutions	64,329	57,216

The deposits yield interest at prevailing saving deposit rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41 RELATED PARTY TRANSACTIONS (continued)

(b) Sales of goods

	2008 HK$'000	2007 HK$'000
Purchase of the Group's share of crude oil production by the CNPC Group (Note (i))	3,384,058	2,506,092

Notes:

(i) Sales of goods to the CNPC Group are conducted at market prices.

(ii) The above transactions constituted connected transactions in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

(c) Purchases of goods and services

	2008 HK$'000	2007 HK$'000
Products and services provided by the CNPC Group (Note (i))	1,197,612	939,368
Assistance fee paid to the CNPC Group (Note (ii))	482	467
Training fee paid to the CNPC Group (Note (ii)	541	315
Rental expenses paid to the CNPC Group (Note (iii))	498	373

Notes:

(i) The pricing for the products and services provided to the Group were charged in accordance with the Master Agreement.

(ii) Assistance and training fees paid to the CNPC Group were charged in accordance with the terms of the PSAs.

(iii) Rental expenses paid to the CNPC Group were charged in accordance with the terms of the Supplemental Agreement with reference to prevailing market prices.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41 RELATED PARTY TRANSACTIONS (continued)

(d) Year-end balances arising from sales/purchases of goods and services

	2008 HK$'000	2007 HK$'000
Accounts receivable from related parties at end of the year		
Fellow subsidiaries (CNPC Group)	16,756	100,184
Prepayments and other receivables from related parties		
Fellow subsidiaries (CNPC Group)	–	31,770
Jointly controlled entities	–	8,815
	–	40,585
Accounts payable and accrued liabilities to related parties		
Ultimate holding company	1,409	1,322
Immediate holding company	–	161,251
Fellow subsidiaries (CNPC Group)	320,355	249,206
Minority shareholders of a subsidiary	49,058	49,058
	370,822	460,837

(e) Loans

	2008 HK$'000	2007 HK$'000
Loans to jointly controlled entities		
Balances at 1 January	142,023	126,727
Exchange differences	4,625	(1,898)
Loans advanced during the year	5,948	50,564
Loans repayments received	–	(728)
Interest charged	3,617	4,970
Interest received	–	(4,970)
Provision for impairment	(111,307)	(32,642)
Balances at 31 December	44,906	142,023

Loans to jointly controlled entities are included in interests in jointly controlled entities (Note 21).

Information on loans to related parties are included in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

41 RELATED PARTY TRANSACTIONS (continued)

(e) Loans (continued)

	2008 HK$'000	2007 HK$'000
Loans from immediate holding company		
Balances at 1 January	832,623	828,132
Exchange differences	–	4,491
Interest charged	45,028	76,983
Interest paid	(45,028)	(76,983)
Balance assigned to a fellow subsidiary	(832,623)	–
Balances at 31 December	–	832,623
Loans from fellow subsidiaries		
Balances at 1 January	–	–
Balance assigned from immediate holding company	832,623	–
Interest payables assigned from immediate holding company	161,251	–
Interest charged	32,163	–
Interest paid	(32,163)	–
Balances at 31 December	993,874	–

Information on loans from related parties are included in Note 34.

(f) Key management compensation:

	2008 HK$'000	2007 HK$'000
Salaries and allowances	25,249	12,520
Retirement benefits – defined contribution scheme	1,275	968
Share-based payments	14,072	85,624
	40,596	99,112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

42 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 revenue 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:

	PRC HK$'000	South America HK$'000	Central Asia HK$'000	South East Asia HK$'000	Middle East HK$'000	Total HK$'000
For the year ended 31 December 2008						
Segment revenue	3,384,058	763,025	651,993	409,271	–	5,208,347
Segment results	1,367,589	402,642	(162,497)	255,874	(58)	1,863,550
Unallocated income, net						374,520
Interest expenses						(77,191)
Share of profits less losses of:						
– An associate	–	–	3,231,962	–	–	3,231,962
– Jointly controlled entities	38,847	–	–	–	122,671	161,518
Profit before taxation						5,554,359
Taxation						(1,034,733)
Profit for the year						4,519,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

42 SEGMENT INFORMATION (continued)

	PRC HK$'000	South America HK$'000	Central Asia HK$'000	South East Asia HK$'000	Middle East HK$'000	Total HK$'000
The segment assets and liabilities at 31 December 2008 are as follows:						
Segment assets	2,300,961	204,370	590,497	517,452	–	3,613,280
Interest in an associate	–	–	5,081,744	–	–	5,081,744
Interests in jointly controlled entities	381,582	–	–	–	552,948	934,530
Deferred tax assets	6,788	81,386	–	–	–	88,174
Bank deposits with original maturity more than three months	476,677	–	–	–	–	476,677
Bank balances and cash	1,240,868	184,945	54,570	163,373	–	1,643,756
Other unallocated corporate assets						2,977,525
Total assets						14,815,686
Segment liabilities	461,624	61,925	6,886	91,635	12	622,082
Amount due to ultimate holding company	1,409	–	–	–	–	1,409
Amounts due to minority shareholders of subsidiaries	–	–	–	49,058	–	49,058
Other loans	–	–	993,874	–	–	993,874
Income tax payable	6,286	2,266	–	20,658	–	29,210
Deferred tax liabilities	96,780	–	705,432	19,189	–	821,401
Other unallocated corporate liabilities						20,834
Total liabilities						2,537,868
Other segment information:						
Capital expenditure	630,220	57,588	57,739	203,917	–	949,464
Depletion, depreciation and amortisation	503,075	39,352	17,556	71,612	–	631,595

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

42 SEGMENT INFORMATION (continued)

	PRC HK$'000	South America HK$'000	Central Asia HK$'000	South East Asia HK$'000	Middle East HK$'000	Total HK$'000
For the year ended 31 December 2007						
Segment revenue	2,506,092	577,300	514,746	244,585	–	3,842,723
Segment results	1,072,782	86,382	93,523	(120,876)	(307)	1,131,504
Unallocated income, net						49,155
Interest expenses						(76,983)
Share of profits less losses of:						
– An associate	–	–	2,021,239	–	–	2,021,239
– Jointly controlled entities	25,789	–	–	–	160,028	185,817
Profit before taxation						3,310,732
Taxation						(630,546)
Profit for the year						2,680,186
The segment assets and liabilities at 31 December 2007 are as follows:						
Segment assets	1,912,381	211,415	524,784	518,348	–	3,166,928
Interest in an associate	–	–	3,396,526	–	–	3,396,526
Interests in jointly controlled entities	333,183	–	97,922	–	497,996	929,101
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						12,249,540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

42 SEGMENT INFORMATION (continued)

	PRC HK$'000	South America HK$'000	Central Asia HK$'000	South East Asia HK$'000	Middle East HK$'000	Total HK$'000
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
Income tax payable	31,932	33,545	–	27,801	–	93,278
Deferred tax liabilities	87,981	–	450,336	6,239	–	544,556
Other unallocated corporate liabilities						8,169
Total liabilities						2,247,499
Other segment information:						
Capital expenditure	488,966	22,723	50,146	211,962	–	773,797
Depletion, depreciation and amortisation	551,918	32,401	20,711	48,086	–	653,116
Impairment loss on property, plant and Equipment	–	–	–	314	–	314
Impairment loss and write-off of exploration and evaluation assets	–	–	–	174,372	–	174,372

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

43 SUBSEQUENT EVENTS

(a) On 19 December 2008, the Company entered into a capital injection agreement with CNPC Shennan Oil Technology Development Co., Ltd. ("Shennan Oil") and certain fellow subsidiaries to subscribe for capital in Shennan Oil of RMB52,000,000 (approximately HK$58,869,000) by contributing RMB95,091,000 (approximately HK$107,653,000) in cash to Shennan Oil. Upon the completion of the capital injection, the Group owned 50.98% equity interest in Shennan Oil which became a non-wholly owned subsidiary of the Company.

(b) On 5 January 2009, the Company entered into sale and purchase agreements with PetroChina and certain affiliated companies, which are indirectly controlled by CNPC, to purchase 194,531,100 shares in total, representing 97.26% interest in Xinjiang Xinjie Co., Ltd. ("Xinjiang Xinjie") at a consideration of RMB328,056,900 (approximately HK$371,787,000). Upon the completion of the transactions, the Group will own 97.26% equity interest in Xinjiang Xinjie which will become a non-wholly owned subsidiary of the Company. As at 31 December 2008, a deposit amounting to HK$45,398,000 (Note 26) was paid by the Company.

(c) On 16 February 2009, the Company entered into a capital injection agreement with China Natural Gas Co., Ltd. ("Huayou"), certain fellow subsidiaries and third parties to subscribe for 177,000,000 shares of Huayou at a consideration of RMB435,155,000 (approximately HK$493,596,000). Upon the completion of the capital injection, the Group owned 51.01% equity interest in Huayou which became a non-wholly owned subsidiary of the Company.

These acquisitions are combinations of businesses under common control since the Company, Shennan Oil, Xinjiang Xinjie and Huayou are under the common control of CNPC. As a result, the Company will account for these transactions in a manner similar to a pooling of interests, whereby the assets and liabilities acquired will be accounted for at historical cost to CNPC. The difference between consideration payable and the net assets transferred from CNPC will be adjusted against equity.

44 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 25 March 2009 and will be submitted to the shareholders for approval at the annual general meeting to be held on 12 May 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

45 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2008 and 2007, 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%
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%

45 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			
Smart Achieve Developments Limited	British Virgin Islands	US$1	100%
Investment holding:			
Operated in Indonesia			
CNPCHK (Indonesia) Limited	British Virgin Islands	US$1	100%
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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

45 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 Group has the power to control the financial and operating policies of SAPET Development Corporation ("SAPET"). As a result, SAPET is accounted for as a subsidiary of the Company.

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

These subsidiaries are not audited by PricewaterhouseCoopers.

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 at 31 December 2008 or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

46 ASSOCIATE

As at 31 December 2008 and 2007, 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 ("Aktobe")	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 15.07% interest in Aktobe.

47 JOINTLY CONTROLLED ENTITIES

As at 31 December 2008 and 2007, 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 (Note)	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

Note: Chinnery Assets Limited was disposed of on 30 October 2008.

FIVE YEAR FINANCIAL SUMMARY

	As at 31 December				
	2008 (HK$'000)	2007 (HK$'000) (Restated)	2006 (HK$'000) (Restated)	2005 (HK$'000) (Restated)	2004 (HK$'000) (Restated)
Movement of retained earnings					
Retained earnings b/f	7,728,413	6,249,382	4,389,618	2,626,507	1,946,261
Profit attributable to equity holders of the Company	3,319,132	1,963,440	2,246,491	1,928,804	774,927
Dividends paid	(581,399)	(484,409)	(386,727)	(165,693)	(94,681)
Retained earnings c/f	10,466,146	7,728,413	6,249,382	4,389,618	2,626,507
Assets and liabilities					
Total assets	14,815,686	12,249,540	9,550,100	8,652,788	5,143,861
Total liabilities	(2,537,868)	(2,247,499)	(1,935,750)	(2,795,104)	(1,013,558)
Total equity	12,277,818	10,002,041	7,614,350	5,857,684	4,130,303

RESERVE QUANTITIES INFORMATION

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 2008	36.2	3.7	99.1	7.1	12.6	158.7
Revision	156.7	–	–	–	–	156.7
Production	(7.6)	(0.5)	(7.2)	(0.6)	(1.7)	(17.6)
As at 31 December 2008	185.3	3.2	91.9	6.5	10.9	297.8

Natural gas

	South America (million cu.feet)	Central Asia (million cu.feet)	Total (million cu.feet)
As at 1 January 2008	2,157.8	74,370.0	76,527.8
Production	(359.9)	(17,847.5)	(18,207.4)
As at 31 December 2008	1,797.9	56,522.5	58,320.4

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


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
香港
Oman
阿曼
Thailand
泰國
CGBII
Indonesia
印尼