# KunLun Energy Company Limited

(incorporated in Bermuda with limited liability)

# 昆 侖 能 源 有 限 公 司

(Stock Code: 00135.HK)

(Formerly known as CNPC (Hong Kong) Limited 中國（香港）石油有限公司)

## Annual Report 2009

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

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

## COMPANY SECRETARY

Mr Lau Hak Woon

## BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
Clarendon House
Church Street
Hamilton HM11, Bermuda

## 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
00135.HK

## WEBSITE

http://www.kunlun.com.hk
http://www.irasia.com/listco/hk/kunlun

## PRINCIPAL BOARD COMMITTEES

### Audit Committee

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

### Remuneration Committee

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

## SOLICITORS

Clifford Chance
Baker & McKenzie

## REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11, Bermuda

## PRINCIPAL OFFICE

Room 3907-3910, 39/F.
118 Connaught Road West
Hong Kong
Telephone: 2522 2282
E-mail: info@kunlun.com.hk
Fax: 2868 1741

## 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 STATEMENT

I would like to report to the shareholders on behalf of the Board that, for the year ended 31 December 2009 (the "Year"), the Group recorded profit attributable to owners of the Company of HK$1,204 million, representing a decrease of HK$2,181 million or 64.44% compared with HK$3,385 million (restated) for the previous year.

Sales volume of crude oil for the Year was 16 million barrels (2008: 16 million barrels), representing a decrease of 293,000 barrels or 1.78% compared with the previous year. In addition, with the substantial fall in international crude oil prices, profit before income tax expense of the Group decreased by HK$3,919 million. As compared with the previous year, the weighted average realised crude oil price per barrel of the Group was approximately US$50.69, representing a decrease of US$27.57 or 35.23% as compared with US$78.26 in the previous year.

The decrease in profit was mainly due to a drop in oil prices and adjustment for tax duties expense by CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") project.

## BUSINESS REVIEW

### Natural Gas Business

2009 was a crucial year for the Group. We have started to develop the end-users sale and utilisation of natural gas business in accordance with our corporate strategy.

During the Year, through equity acquisitions and capital injections, we have established the foundation for the Company's business transition and the development of natural gas business.

As the natural gas business is still in the developing stage, it has not contributed much to the Group. The natural gas business contributed HK$214 million to the Group's profit during the Year.

### Exploration and Production Business

The Group currently has eleven oil fields located in seven different countries, four of them are exploration projects. In 2009, each oil field underwent comprehensive exploration and development as planned, remaining the sound cash flows to seek to increase production volume in light of high oil prices, so as to generate considerable returns for shareholders.

In 2009, the exploration and production business contributed HK$1,081 million to the Group's profit.

For the year 2009, total sales of crude oil and natural gas by Aktobe was 40 million barrels and 82,772 million cu.ft (2008: crude oil 39 million barrels; natural gas 62,576 million cu.ft.) respectively. Sales of crude oil increased by 1 million barrels or 3.5%, while sales of natural gas increased by 20,196 million cu.ft. or 32.3%. On a pro rata basis, the Group's share of crude oil amounted to 6 million barrels and natural gas amounted to12,475 million cu.ft. (2008: crude oil 6 million barrels; natural gas 9,431 million cu.ft). According to the production schedule, the sales volume will be increased year by year.

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, 1.08 million barrels (2008: 1.01 million barrels) of crude oil and 458 million cu. ft. (2008: 720 million cu. ft.) of natural gas were sold by the oil field, representing an increase of 6.9% and a decrease of 36.4% compared to previous year respectively. 2010 is a key year for the Group. In order to increase the production volume, we will large-scaly exploit the secondary oil seams and implement the rolling development of the offshore oil zone in the northwest area of Block VI.

Under the unremitting efforts of the management of Continental GeoPetro (Bengara-II) Limited ("CGB-II"), in February 2009, the Indonesian Petroleum Department eventually agreed to extend the exploration period to December 2011. Therefore, 2010 will be a crucial year to CGB-II. The Company will arrange the 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.

The existing exploration and production business is still a main profit stream to the Group, and it will continue to grow. With the benefit from the rising of the oil price and the sales volume increase, it is expected to generate considerable profits to the Group.

## BUSINESS PROSPECT

After PetroChina Company Limited ("PetroChina") has become the controlling shareholder of the Group in 2008, the Group has positioned to focus on the development of end-users sale and comprehensive utilisation of natural gas business as a principal business in the future.

Under the wave of low-carbon economy which sweeps across the world, the future competition among enterprises will be carried out under a low-carbon economic pattern. Energy-saving and emission reduction is the core of low-carbon economy. Among the fossil heavily used at present, natural gas is a clean, low-carbon energy resource. There is ample room for development in terms of both the scope of application and degree of utilisation, especially the promotion and application of power equipment using natural gas as fuel, i.e. replacing gasoline and diesel with natural gas as power fuel for motor vehicles and ships. This will open a broader high-end market for the future application of natural gas for certain. Therefore, the Company has adopted the application of liquefied natural gas ("LNG") as its strategic business approach, and has carried out the planning and deployment of LNG resource and market across the country.

PetroChina, as the PRC's largest manufacturer and provider of oil and gas, has developed its natural gas business as a strategic growth business. Being an important segment of natural gas industry chain, the Group will be responsible for the natural gas downstream end-users sale and comprehensive utilisation business. Hence, the Group will have strong support from the parent company in areas of manpower, technology and resources, etc., with a view to creating synergy in its development with the parent company, in terms of exploitation of natural gas resource as well as sales and marketing.

With the support of PetroChina, the Group insists on leading in the direction of energy-saving, less emission and greener development, paying more efforts in developing the low-carbon clean energy and new energy business. Under the premise of maintaining stable operation of the existing exploration and development business, actively promoting the swift development of natural gas end-users sale and comprehensive utilisation business, striving to attain a balance in earnings from both new and existing businesses in the coming two years. Therefore, the Company has officially changed its name to KunLun Energy Company Limited on 22 March 2010, so as to better promote the concept of "Low-Carbon Economy Green Development", that the Company upholds, and broadens the content of its business development.

The Group will continue to adopt the approach of capital utilisation and physical operation in its future business development. The Company will integrate the related assets of natural gas end-users sale and comprehensive utilisation as well as the new energy resources business, especially the related assets of the parent company by means of assets injection, so as to continue improving the structure and plan of the Company's business development, and realise a striding development for the new business of the Company. The Company will consolidate the existing market through the controlled business entities, so as to cultivate and develop the market for new business, especially the high-end sales market of LNG business.

With a strong financial position and prudent business approach, the Group aims to develop into an international energy corporation mainly engaging in the natural gas end-users sale and comprehensive utilisation businesses, generating a considerable return to our shareholders.

## FINAL DIVIDEND

The Board of Directors recommended the payment of a final dividend of HK7 cents (2008: HK15 cents) per share. The proposed dividend will be paid on or about 15 June 2010 to the shareholders whose names appear on the Register on 7 May 2010, 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 3 May 2010 to 7 May 2010 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 2010 in order to qualify for the proposed final dividend.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS

The financial results of the Group for the year ended 31 December 2009 were affected to a certain extent by the combined effects of the global financial crisis, a tax reform and export custom duties in Kazakhstan in which the Group's principal associate operates and merging the operating results of the newly acquired natural gas businesses. Profit before income tax expense of the Group was approximately HK$1,855 million (2008: HK$5,774 million), representing a decrease of 67.8% compared with 2008. Profit attributable to owners of the Company was approximately HK$1,204 million (2008: HK$3,385 million), representing a decrease of 64.4% compared with 2008.

Excluding the effect of tax reform and export custom duties in Kazakhstan, totalling approximately HK$2,058 million (2008: HK$645 million), the profit before income tax expense of the Company and profit attributable to owners of the Company were approximately HK$3,913 million and HK$2,439 million respectively, representing a decrease of 32.2% and 27.9%.

### Revenue

Revenue decreased by 22.2% from approximately HK$6,788 million in 2008 to approximately HK$5,280 million in 2009. This was mainly due to the decrease of the crude oil selling prices and changes in the sales volume of major products including crude oil and natural gas.

### Other Gains, Net

Other gains, net decreased by 83.0% from approximately HK$206 million in 2008 to approximately HK$35 million in 2009. This was mainly due to stabilisation in exchange rates of Renminbi against Hong Kong dollar during the year ended 31 December 2009.

### Interest Income

Interest income decreased by 66.1% from approximately HK$115 million in 2008 to approximately HK$39 million in 2009. This was mainly due to a reduction in interest rates on bank deposits.

### Purchases Service and Others

Purchases, service and others increased by 15.9% from approximately HK$2,019 million in 2008 to approximately HK$2,340 million in 2009. This was mainly due to (1) an increase in the lifting costs of crude oil operation; and (2) an increase in purchase volume of natural gas which is in line with the market conditions.

### Employee Compensation Costs

Employee compensation costs of the Group was approximately HK$368 million in 2009, representing an increase of 9.5% compared with that of 2008. This increase in employee compensation costs was mainly due to expansion of the Group's natural gas businesses.

### Exploration Costs

Exploration costs slightly decreased by 27.3% from approximately HK$44 million in 2008 to approximately HK$32 million in 2009. This was mainly due to less exploration activities undertaken in the Group's overseas oil fields.

### Depreciation, Depletion and Amortisation

Depreciation, depletion and amortisation decreased by 30.2% from approximately HK$797 million in 2008 to approximately HK$556 million in 2009. This was primarily due to a revision of estimation of oil and gas reserves at the beginning of the year.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 38.8% from approximately HK$832 million in 2008 to approximately HK$509 million in 2009. This was mainly due to a decrease in royalty expenses of the Group's overseas oil fields in line with a reduction in global crude oil selling prices.

### Taxes other than Income Taxes

Taxes other than income taxes decreased by 69.2% from approximately HK$425 million in 2008 to approximately HK$131 million in 2009. The decrease was mainly due to a decrease of approximately HK$294 million compared with 2008 in the payment of the special levy on the sale of domestic crude oil by the Group as the average crude oil prices remained low throughout the whole year of 2009.

### Other Income/Expenses, Net

Other income, net was approximately HK$64 million for the year ended 31 December 2009, while other expenses, net was approximately HK$113 million for the year ended 31 December 2008. This was mainly due to reversal of impairment provision on loans to jointly controlled entities in 2009 and provision for impairment loss on loans to jointly controlled entities in 2008.

### Interest Expenses

Interest expenses decreased by 18.2% from approximately HK$165 million in 2008 to approximately HK$135 million in 2009. This was mainly due to the borrowings at lower interest rate from related parties financial institution for the Group's expansion in natural gas businesses.

### Share of Profits less Losses of Associates

Share of profits less losses of associates decreased by 92.10% from approximately HK$3,236 million in 2008 to approximately HK$256 million in 2009. This decrease was mainly due to share of export custom duties and tax reform in Kazakhstan.

### Share of Profits less Losses of jointly controlled entities

Share of profits less losses of jointly controlled entities increased by 55.6% from approximately HK$162 million in 2008 to approximately HK$252 million in 2009 because of the increase in profit in 華油鋼管有限公司 ("Steel Pipes Factory").

### Profit before Income Tax Expense

Profit before income tax expense decreased by 67.88% from approximately HK$5,774 million in 2008 to approximately HK$1,855 million in 2009.

### Income Tax Expense

Income tax expense decreased by 64.3% from approximately HK$1,094 million in 2008 to approximately HK$391 million in 2009. The decrease was mainly due to a reduction in the taxable income for 2009.

### Profit for the year and Profit attributable to Owners of the Company

As a result of the factors discussed above, profit for the year and profit attributable to owners of the Company decreased by 68.73% from approximately HK$4,681 million in 2008 to approximately HK$1,463 million in 2009 and decreased by 64.44% from approximately HK$3,385 million in 2008 to approximately HK$1,204 million in 2009 respectively. The table below sets out the external sales volume and profit attributable to the Group for major products sold by the Group for 2008 and 2009 and percentages of change during these two years.

| | Sales volume | | | Profits attributable to the Group | | |
|---|---|---|---|---|---|---|
| | 2009 ('000 barrel) | 2008 ('000 barrel) | Percentage of change | 2009 (HK$ million) | 2008 (HK$ million) | Percentage of change |
| Exploration and Production | | | | | | |
| Liaohe Leng Jiapu | 3,267 | 4,147 | -21.2% | 163 | 700 | -76.6% |
| Xinjiang Karamay | 2,770 | 2,824 | -2.0% | 367 | 431 | -14.9% |
| Peru Talara | 542 | 507 | 6.9% | 85 | 133 | -36.1% |
| Azerbaijian K&K | 910 | 910 | 0.1% | 18 | 106 | -82.8% |
| Thailand Sukhothai | 373 | 347 | 7.4% | 67 | 62 | 8.1% |
| Thailand L21/43 | 169 | 258 | -34.5% | 19 | 78 | -75.6% |
| Indonesia Bengara-II | N/A | N/A | N/A | -33 | -11 | -212.9% |
| Oman | 2,037 | 1,574 | 29.4% | 184 | 123 | 50.0% |
| Kazakhstan Aktobe | 6,134 | 5,925 | 3.5% | 144 | 1,672 | -91.4% |
| Azerbaijian Gobustan | N/A | 2 | N/A | 67 | -108 | 161.7% |
| Total of Exploration and Production | 16,202 | 16,494 | -1.78% | 1,081 | 3,186 | -66.1% |
| | ('000 cubic metre) | ('000 cubic metre) | | | | |
| Natural gas distribution | 1,380 | 855 | 61.4% | 214 | 80 | 167.9% |
| Other business | | | | | | |
| Steel Pipes Factory | N/A | N/A | N/A | 61 | 34 | 83.1% |
| BOPP and CPP | N/A | N/A | N/A | 2 | 2 | -30.1% |
| Total of other business | N/A | N/A | N/A | 63 | 36 | 75% |

## LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2009, the carrying value of total assets of the Group is approximately HK$21,417 million, representing an increase of HK$4,135 million or 23.93% as compared with 31 December 2008.

The major changes of the total assets are as follows:

| | Increase<br>HK$ million |
|---|---|
| Property, plant and equipment | 1,121 |
| Investments in jointly controlled entities | 178 |
| Investments in associates | 67 |
| Account receivables, prepaid expenses and other current assets | 282 |
| Bank balances and cash | 2,180 |
| Net increase in assets | 3,828 |

The gearing ratio of the Group was 10.68% as at 31 December 2009 compared with 14.69% (restated) as at 31 December 2008. It is computed by dividing the total borrowings of HK$1,958 million (2008: HK$2,272 million (restated)) by the total of total equity and borrowings of HK$18,332 million (2008: HK$15,461 million (restated)).

During the year ended 31 December 2009, capital expenditure injection into Leng Jiapu oil field as development costs amounted to RMB242 million (approximately HK$274 million) (2008:RMB394 million (approximately HK$446 million)).

In accordance with the Karamay Contract, RMB106 million (approximately HK$120 million) was paid out of profit and re-invested as development costs of the Karamay oil field (2008: RMB106 million) (approximately HK$121 million)).

The Group paid interest expenses of approximately HK$135 million (2008: HK$165 million) during the year ended 31 December 2009.

The Group received dividends of approximately HK$14 million (2008: HK$1,606 million) from associates.

The Group paid RMB944 million (approximately HK$1,071 million) in aggregate (2008: Nil) as considerations to acquire a subsidiary and an associate and injected additional capital of RMB565 million (approximately HK$641 million) in aggregate (2008: Nil) into two newly acquired subsidiaries and a jointly controlled entities (華油天然氣股份有限公司, CNPC Shennan Oil Technology Development Co. Ltd. and 山西國興煤層氣輸配有限公司) during the year ended 31 December 2009.

The Group raised new borrowings of HK$1,819 million and repaid HK$2,133 million to financial institutions and related parties resulting a net decrease in borrowings of HK$314 million.

## USE OF PROCEEDS

On 10 December 2009, the Company completed a placement of 450,000,000 shares of HK$0.01 each at a subscription price of HK$8.270 per share and received the net amount of HK$3,642,684,000 after deducting the handling charges.

During the year ended 31 December 2009, certain senior executives of the Company exercised their share options. As a result, the Company issued 45,740,000 new shares (2008: 11,360,000 new shares) and received subscription amount of HK$52 million (2008: HK$14 million).

2008 final dividend of HK$0.15 per share (2007: HK$0.12 per share) amounting to approximately HK$669 million (2007: HK$581 million) was distributed to owners of the Company during the year ended 31 December 2009.

Taking into account the cashflow from the operating activities, the Group as at 31 December 2009 has a bank balance and cash of approximately HK$7,408 million (2008: HK$5,288 million).

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

## NEW INVESTMENTS

During the year ended 31 December 2009, the Group has made the following new investments:

| Announcement date | Investees | Percentage of holding | Investment amount | Payment date |
|---|---|---|---|---|
| 19 December 2008 | CNPC Shennan Oil Technology Development Co., Ltd | 50.98% | RMB95 million (approximately HK$108 million) | Fully paid on 14 January 2009 |
| 9 January 2009 | Xinjiang Xinjie Co Ltd | 97.26% | RMB328 million (approximately HK$372 million) | Fully paid on 15 December 2009 |
| 16 February 2009 | 華油天然氣股份有限公司 | 51.01% | RMB435 million (approximately HK$494 million) | Fully paid on 25 June 2009 |
| 12 May 2009 | Xi'an Qinggang Clean Energy Technology Company Limited | 51.00% | RMB51 million (approximately HK$58 million) | US$3,750,000 paid on 21 July 2009 |
| 12 May 2009 | Hebei Huagang City Gas Company Limited | 51.00% | RMB102 million (approximately HK$116 million) | Fully paid on 22 December 2009 |
| 11 June 2009 | Xing Jing Bridge Energy Limited | 75.00% | RMB375 million (approximately HK$425 million) | US$8,245,000 paid on 30 October 2009 |

| Announcement date | Investees | Percentage of holding | Investment amount | Payment date |
|---|---|---|---|---|
| 3 September 2009 | Shanxi Guoxing Coal Seam Gas Transmission and Distribution Limited Company | 35.00% | RMB35 million (approximately HK$40 million) | Fully paid on 12 November 2009 |
| 10 September 2009 | CNPC Shennan Oil Technology Development Co., Ltd | 29.41% | RMB61 million (approximately HK$69 million) | Fully paid on 28 October 2009 |
| 16 September 2009 | 中油中泰燃氣有限責任公司 | 49.00% | RMB 616 million (approximately HK$696 million) | Fully paid on 8 December 2009 |

## EMPLOYEE

On 31 December 2009, the Group had approximately 4,587 staff (excluding the staff under entrustment contracts) (2008: 3,813 staff (restated)) 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the “Model Code” throughout the year ended 31 December 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 2009.

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 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 established in April 2007 on division of functions reserved to the Board and delegated to the management.

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 3 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 six directors:
*Executive Directors:*
Mr Li Hualin *(Chairman)*
Mr Zhang Bowen *(Chief Executive Officer)*
Mr Cheng Cheng

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

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

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

During the year ended 31 December 2009, 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 Zhang Bowen and Dr Liu Xiao Feng shall retire by rotation and being eligible offer themselves for re-election at the forthcoming annual general meeting.

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

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

## Training for Directors

Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his 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 2009, twelve regular Board meetings, two Audit Committee meetings and one 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 2009 is set out below:

| | Attendance/Number of Meetings | | |
|---|---|---|---|
| Directors | Board | Audit Committee | Remuneration Committee |
| *Executive Director:* | | | |
| Mr Li Hualin *(Chairman)* | 12/12 | – | – |
| Mr Zhang Bowen *(Chief Executive Officer)* | 12/12 | – | – |
| Mr Cheng Cheng | 12/12 | – | – |
| *Independent Non-Executive Director:* | | | |
| Dr Lau Wah Sum | 12/12 | 2/2 | 1/1 |
| Mr Li Kwok Sing Aubrey | 11/12 | 2/2 | 1/1 |
| Dr Liu Xiao Feng | 11/12 | 2/2 | 1/1 |

*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, 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 one meeting during the year ended 31 December 2009 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.

## 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 independent auditor before submission to the Board.

(b) To review the relationship with the independent auditor by reference to the work performed by the independent auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of the 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 2009, the Audit Committee held two 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 2009 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 the independent auditor.

## MODEL CODE FOR SECURITIES TRANSACTIONS

Code provision A.5.4 stipulates that directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers (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 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 2009.

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 2009.

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 pages 31 and 32.

The remuneration paid or payable to the independent auditor of the Company in respect of audit services and non-audit services for the year ended 31 December 2009 amounted to HK$4,673,000 and HK$1,896,000 (2008: HK$3,050,000 and HK$115,000) respectively. The said non-audit services related to the interim review, the tax compliance services and the internal control review 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 two websites at http://www.kunlun.com.hk and http://www.irasia.com/listco/hk/kunlun, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

## INTERNAL CONTROLS

It is the responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders investment and the Company's assets. The internal control system of the Company comprises a well-established organisational structure and comprehensive policies and standards.

The Board, through the Audit Committee, assesses annually 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, the adequacy of resources, qualification and experiences of staff of the Company's accounting and financial functions, and their training programs and budget.

During the year, the external consulting firm of the Group reviewed the key processes of a number of management selected business units and provided recommendation on improvement of the internal control system of the Group. No major issue in relation to financial reporting has been identified.

The directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 33.

A final dividend for the year ended 31 December 2008 of HK15 cents per share amounting to HK$668,854,000 was paid during the year. The directors recommend the payment of a final dividend of HK7 cents per share for the year ended 31 December 2009, totalling HK$345,557,000.

## 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 123.

## RESERVES

Movements in the reserves of the Group and of the Company during the year ended 31 December 2009 are set out in the consolidated statement of changes in equity on pages 39 and 40, and Note 31 to the financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year ended 31 December 2009 are set out in Note 18 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2009 are set out in Note 30 to the financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2009 and 2008 were as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Contributed surplus | 133,795 | 133,795 |
| Retained earnings | 6,341,899 | 6,888,414 |
| | 6,475,694 | 7,022,209 |

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

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

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

## PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2009.

## 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 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 Zhang Bowen and Dr. Liu Xiao Feng shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

Mr Li Hualin *(Chairman)*

Age 47, 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 and General Manager of CNPC Canada Ltd in Canada and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation ("CNODC"). 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 and 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, Company Secretary and authorised representative in June 2009.

Mr Zhang Bowen *(Chief Executive Officer)*

Aged 43, 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 CNODC, 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.

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

### Directors (continued)

Mr Cheng Cheng *(Executive Director)*

Aged 42, 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)*

Aged 81, 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)*

Aged 60, was appointed as an Independent Non-Executive Director of the Company in 1998. He is chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 30 years' experience in merchant banking and commercial banking. He is a non-executive director of The Bank of East Asia Limited, an independent non-executive director of Cafe de Coral Holdings Limited, China Everbright International Limited, Kowloon Development Company Limited and Pokfulam Development Company Limited, and within the past three years, had been a non-executive director of ABC Communications (Holdings) Limited and 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)*

Aged 47, was appointed as an Independent Non-Executive Director of the Company in 2004. He is currently a Managing Director at China Resources Capital Holdings Company Limited. He has worked in various international financial institutions since 1993, including N.M. Rothschild & Sons, JP Morgan, and DBS. He 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 of Hong Kong Limited (the "Stock Exchange").

### Senior Management

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

Aged 57, 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 holding companies 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 2009, the interests or short positions of the Directors and chief executives 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 Commencement of the Securities and Futures 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 Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (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 Hualin | 14,000,000 | Beneficial owner | 0.28% |
| Li Kwok Sing Aubrey | 1,000,000 | Beneficial owner | 0.02% |

Notes: The interests held by Mr Li Hualin and 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 companies a party to any arrangement to enable the directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

## SHARE OPTIONS

Particulars of the share option schemes of the Company are set out in Note 30 to the financial statements.

The following table discloses the movements in the number of share options of the Company during the year ended 31 December 2009 which have been granted to the directors and employees of the Company:

Shares options were granted to the Directors, chief executives and employees of the Company under the executive share option scheme approved by the Board on 3 June 2002, details of which are set out below:

| | | | | | Number of Share Options | | |
|---|---|---|---|---|---|---|---|
| Name | Date of Grant | Exercise Period | Exercise Price HK$ | Outstanding at 1 January 2009 | Granted during the year | Exercised during the year | Outstanding at 31 December 2009 |
| Directors | | | | | | | |
| Li Hualin | 27 April 2005 | 27 July 2005 – 26 April 2010 | 1.224 | 20,000,000 | – | (20,000,000) | – |
| | 8 January 2007 | 8 April 2007 – 7 January 2012 | 4.186 | 25,000,000 | – | – | 25,000,000 |
| | 26 May 2008 | 26 August 2008 – 25 May 2013 | 4.240 | 3,200,000 | – | – | 3,200,000 |
| | 26 March 2009 | 26 June 2009 – 25 March 2014 | 3.250 | – | 3,200,000 | – | 3,200,000 |
| Zhang Bowen | 8 January 2007 | 8 April 2007 – 7 January 2012 | 4.186 | 20,000,000 | – | – | 20,000,000 |
| | 26 May 2008 | 26 August 2008 – 25 May 2013 | 4.240 | 2,400,000 | – | – | 2,400,000 |
| | 26 March 2009 | 26 June 2009 – 25 March 2014 | 3.250 | – | 2,400,000 | – | 2,400,000 |
| Cheng Cheng | 25 June 2004 | 25 September 2004 – 24 June 2009 | 0.940 | 15,640,000 | – | (15,640,000) | – |
| | 8 January 2007 | 8 April 2007 – 7 January 2012 | 4.186 | 10,000,000 | – | – | 10,000,000 |
| | 26 May 2008 | 26 August 2008 – 25 May 2013 | 4.240 | 1,500,000 | – | – | 1,500,000 |
| | 26 March 2009 | 26 June 2009 – 25 March 2014 | 3.250 | – | 1,500,000 | – | 1,500,000 |
| Liu Xiao Feng | 27 April 2005 | 27 July 2005 – 26 April 2010 | 1.224 | 1,600,000 | – | (1,600,000) | – |
| Employees | 27 April 2005 | 27 July 2005 – 26 April 2010 | 1.224 | 26,000,000 | – | (8,500,000) | 17,500,000 |
| | 8 January 2007 | 8 April 2007 – 7 January 2012 | 4.186 | 25,000,000 | – | – | 25,000,000 |
| | 14 September 2007 | 14 December 2007 – 13 September 2012 | 4.480 | 20,000,000 | – | – | 20,000,000 |
| | 26 May 2008 | 26 August 2008 – 25 May 2013 | 4.240 | 7,000,000 | – | – | 7,000,000 |
| | 26 March 2009 | 26 June 2009 – 25 March 2014 | 3.250 | – | 7,000,000 | – | 7,000,000 |
| | | | | 177,340,000 | 14,100,000 | (45,740,000) | 145,700,000 |

## SHARE OPTIONS (continued)

The closing prices of the Company's shares immediately before 26 March 2009, the date of grant of the options, was HK$3.16.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised was HK$6.355.

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2009, 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, chief executives and employees of the Company.

| Name | Number of Shares Direct Interest | Number of Shares Indirect Interest | Percentage of the total number of Shares in issue |
|---|---|---|---|
| Sun World Limited ("Sun World") [(1)] | 2,513,917,342 (L) | – | 50.92% |
| PetroChina Hong Kong (BVI) Ltd. ("PetroChina (BVI)") [(1)] | – | 2,513,917,342 (L) | 50.92% |
| PetroChina Hong Kong Ltd. ("PetroChina Hong Kong") [(1)] | – | 2,513,917,342 (L) | 50.92% |
| PetroChina [(1)] | – | 2,513,917,342 (L) | 50.92% |
| CNODC [(2)] | – | 113,640,000 (L) | 2.30% |
| CNPC International Ltd. ("CNPCI") [(2)] | – | 113,640,000 (L) | 2.30% |
| Fairy King Investments Ltd. | 113,640,000 (L) | – | 2.30% |
| CNPC [(1) (2)] | – | 2,627,557,342 (L) | 53.23% |

Notes:

(1) Sun World is a wholly-owned subsidiary of PetroChina (BVI), which in turn is wholly owned by PetroChina Hong Kong. PetroChina Hong Kong is wholly owned by PetroChina, which is in turn owned as to 86.42% by CNPC. Accordingly, CNPC is deemed to have interest in the 2,513,917,342 shares held by Sun World. 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, which is a substantial shareholder of the Company (within the meaning of Part XV of the SFO).

(2) Fairy King Investments Ltd. is a wholly-owned subsidiary of CNPCI, which in turn is wholly owned by CNODC, which is in turn owned as to 100.00% by CNPC. Accordingly, CNPC is deemed to have interest in the 113,640,000 shares held by Fairy King Investments Ltd.

Save as disclosed above, as at 31 December 2009, the Directors and the chief executives 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 2009, the Directors and the chief executives of the Company were not aware of any person (other than a Director 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.

## CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than share options as set out in Note 30 to the financial statements, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2009 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 Listing Rules. The Company considers all of the independent non-executive directors are independent.

## CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in Note 38 to the financial statements constituted continuing connected transactions under the 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 rule 14A.38 of the 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 Note 37 to the financial statements.

## 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 | 37% |
| Percentage of purchases attributable to the Group's five largest suppliers | 44% |
| Percentage of sales attributable to the Group's largest customer | 46% |
| Percentage of sales attributable to the Group's five largest customers | 62% |

PetroChina, a listed subsidiary of CNPC, is the Group's largest supplier and customer.

Save for the above, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in the major suppliers or customers noted above.

## DONATIONS

During the year, the Group made charitable and other donations amounting to 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.

## COMPETING BUSINESS

During the year ended 31 December 2009, the following director of the Company had interests in the following businesses (apart from the Company's businesses) conducted through the company named below, their subsidiaries, associated corporations or other investment forms which are considered to compete or be likely to compete, either directly or indirectly, with the principal businesses of the Company conducted during the year required to be disclosed pursuant to the rule 8.10 of the Listing Rules:

| Name of director | Name of company | Nature of interest | Nature of competing business |
|---|---|---|---|
| Mr Li Hualin | PetroChina | Vice-President, Company Secretary and authorised representative | Exploration, development and production and marketing of crude oil and natural gas |

As the Board of Directors is independent of the board of the above entity, the Company has therefore been capable of carrying on its businesses independently of, and at arm's length from, the above business.

## EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Details of events after the date of the statement of financial position are set out in Note 41 to the financial statements.

## AUDITOR

Mr Deloitte Touche Tohmatsu were appointed as the auditor of the Company in 2006 upon the retirement of Mr PricewaterhouseCoopers, who acted as the auditor of the Company for the year ended 31 December 2005. Mr Deloitte Touche Tohmatsu has acted as the auditor of the Company for the years ended 31 December 2006 and 2007. During the year ended 31 December 2008, Mr PricewaterhouseCoopers were appointed as the auditor of the Company to fill the casual vacancy upon the resignation of Mr Deloitte Touche Tohmatsu.

The financial statements for the year ended 31 December 2009 have been audited by Mr PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Hualin
*Chairman*

Hong Kong, 25 March 2010

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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TO THE SHAREHOLDERS OF KUNLUN ENERGY COMPANY LIMITED
*(Formerly known as CNPC (Hong Kong) Limited)*
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Kunlun Energy Company Limited (Formerly known as CNPC (Hong Kong) Limited) (the "Company") and its subsidiaries (together, the "Group") set out on pages 33 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, 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 Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

PRICEWATERHOUSECOOPERS

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.

## 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 2009 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 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 (Note 40) |
|---|---|---|---|
| Revenue | 6 | 5,280,185 | 6,787,923 |
| Other gains, net | 7 | 34,592 | 205,634 |
| Interest income | 8 | 39,067 | 115,294 |
| Purchases, services and others | | (2,340,132) | (2,019,359) |
| Employee compensation costs | 9 | (368,323) | (336,253) |
| Exploration expenses, including exploratory dry holes | | (31,766) | (43,705) |
| Depreciation, depletion and amortisation | | (556,364) | (797,456) |
| Selling, general and administrative expenses | | (508,517) | (832,402) |
| Taxes other than income taxes | 10 | (130,573) | (424,874) |
| Other income/(expenses) | | 64,425 | (112,886) |
| Interest expenses | 11 | (134,975) | (165,488) |
| Share of profits less losses of: | | | |
| – Associates | | 255,681 | 3,236,422 |
| – Jointly controlled entities | | 251,646 | 161,518 |
| Profit before income tax expense | 12 | 1,854,946 | 5,774,368 |
| Income tax expense | 14 | (391,484) | (1,093,867) |
| Profit for the year | | 1,463,462 | 4,680,501 |
| Other comprehensive (loss)/income: | | | |
| Currency translation differences | | (921,910) | 154,471 |
| Fair value gain/(loss) from available-for-sale financial assets | | 32,859 | (81,028) |
| Other comprehensive (loss)/income, net of tax | | (889,051) | 73,443 |
| Total comprehensive income for the year | | 574,411 | 4,753,944 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000<br>(Note 40) |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| – Owners of the Company | 15 | 1,203,948 | 3,385,208 |
| – Non-controlling interest | | 259,514 | 1,295,293 |
| | | 1,463,462 | 4,680,501 |
| Total comprehensive (loss)/income for the year attributable to: | | | |
| – Owners of the Company | | 705,311 | 3,395,933 |
| – Non-controlling interest | | (130,900) | 1,358,011 |
| | | 574,411 | 4,753,944 |
| Earnings per share for profit attributable to owners of the Company | 16 | | |
| – Basic (HK cents) | | 26.79 | 71.09 |
| – Diluted (HK cents) | | 26.40 | 70.37 |
| Dividend proposed after the date of the statement of financial position | 17 | 345,557 | 666,118 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000<br>(Note 40) |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 5,778,135 | 4,656,759 |
| Advanced operating lease payments | 19 | 106,962 | 73,659 |
| Investments in jointly controlled entities | 20 | 1,112,544 | 934,530 |
| Investments in associates | 21 | 5,231,412 | 5,164,024 |
| Available-for-sale financial assets | 22 | 105,468 | 56,081 |
| Intangibles and other non-current assets | 24 | 217,080 | 52,927 |
| Deferred tax assets | 34 | 78,598 | 89,769 |
| | | 12,630,199 | 11,027,749 |
| Current assets | | | |
| Inventories | 25 | 43,574 | 35,822 |
| Accounts receivable | 26 | 242,530 | 157,073 |
| Prepaid expenses and other current assets | 27 | 449,341 | 252,349 |
| Time deposits with maturities over three months | 28 | 30,644 | 476,677 |
| Cash and cash equivalents | 28 | 7,376,882 | 4,751,176 |
| | | 8,142,971 | 5,673,097 |
| Assets held for sale | 29 | 643,587 | 580,796 |
| | | 8,786,558 | 6,253,893 |
| Total assets | | 21,416,757 | 17,281,642 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2009

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000<br>(Note 40) |
|---|---|---|---|
| Equity | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 30 | 49,365 | 44,408 |
| Retained earnings | | 10,879,639 | 10,419,989 |
| Reserves | 31 | 3,281,531 | 386,331 |
| | | 14,210,535 | 10,850,728 |
| Non-controlling interest | | 2,165,151 | 2,339,285 |
| | | 16,375,686 | 13,190,013 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 32 | 1,901,433 | 901,269 |
| Income tax payable | | 83,354 | 43,331 |
| Other tax payable | | 128,296 | 24,259 |
| Short-term borrowings | 33 | 163,319 | 1,248,323 |
| | | 2,276,402 | 2,217,182 |
| Non-current liabilities | | | |
| Long-term borrowings | 33 | 1,793,401 | 1,022,248 |
| Deferred tax liabilities | 34 | 963,888 | 852,199 |
| Other long-term obligations | | 7,380 | - |
| | | 2,764,669 | 1,874,447 |
| Total liabilities | | 5,041,071 | 4,091,629 |
| Total equity and liabilities | | 21,416,757 | 17,281,642 |
| Net current assets | | 6,510,156 | 4,036,711 |
| Total assets less current liabilities | | 19,140,355 | 15,064,460 |

Li Hualin
*Chairman*

Zhang Bowen
*Chief Executive Office*

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

# STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 483 | 460 |
| Investments in jointly controlled entities | 20 | 321,070 | 281,076 |
| Investments in associates | 21 | 785,915 | – |
| Investments in subsidiaries | 23 | 1,417,966 | 156,035 |
| Intangibles and other non-current assets | 24 | 89,913 | 46,150 |
| | | 2,615,347 | 483,721 |
| Current assets | | | |
| Prepaid expenses and other current assets | 27 | 4,098,701 | 4,141,988 |
| Cash and cash equivalents | 28 | 3,985,162 | 2,872,122 |
| | | 8,083,863 | 7,014,110 |
| Total assets | | 10,699,210 | 7,497,831 |

# STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Equity | | | |
| Capital and reserves attributable to owners of the Company | | | |
| Share capital | 30 | 49,365 | 44,408 |
| Retained earnings | | 6,341,899 | 6,888,414 |
| Reserves | 31 | 4,241,505 | 538,110 |
| | | 10,632,769 | 7,470,932 |
| Liabilities | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 32 | 66,441 | 23,176 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 34 | – | 3,723 |
| Total liabilities | | 66,441 | 26,899 |
| Total equity and liabilities | | 10,699,210 | 7,497,831 |
| Net current assets | | 8,017,422 | 6,990,934 |
| Total assets less current liabilities | | 10,632,769 | 7,474,655 |

| Li Hualin | Zhang Bowen |
|---|---|
| *Chairman* | *Chief Executive Office* |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

| | Note | Attributable to owners of the Company | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|
| | | Share capital | Retained earnings | Reserves | Sub-total | | |
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Balances at 31 December 2007 | | 48,450 | 7,728,413 | 1,237,609 | 9,014,472 | 987,569 | 10,002,041 |
| Business combinations under common control | 40 | – | (91,176) | 222,666 | 131,490 | 616,930 | 748,420 |
| Balances at 1 January 2008 | | 48,450 | 7,637,237 | 1,460,275 | 9,145,962 | 1,604,499 | 10,750,461 |
| Total comprehensive income for the year ended 31 December 2008 | | – | 3,385,208 | 10,725 | 3,395,933 | 1,358,011 | 4,753,944 |
| Transfer between reserves | | – | (4,202) | 4,202 | – | – | – |
| Final dividend for 2007 | 17 | – | (581,399) | – | (581,399) | – | (581,399) |
| Recognition of equity settled share-based payments | 31 | – | – | 18,740 | 18,740 | – | 18,740 |
| Issue of shares upon exercise of share options | 30, 31 | 114 | – | 13,518 | 13,632 | – | 13,632 |
| Repurchase of shares | 30 | (4,156) | – | (1,121,129) | (1,125,285) | – | (1,125,285) |
| Capital contributions by non-controlling interest | | – | – | – | – | 16,369 | 16,369 |
| Dividends to former owners of the Natural Gas Projects | | – | (16,855) | – | (16,855) | (20,303) | (37,158) |
| Dividends paid to non-controlling interest | | – | – | – | – | (619,291) | (619,291) |
| Balances at 31 December 2008 | | 44,408 | 10,419,989 | 386,331 | 10,850,728 | 2,339,285 | 13,190,013 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2009

| | Note | Share capital HK$'000 | Retained earnings HK$'000 | Reserves HK$'000 | Sub-total HK$'000 | Non-controlling interest HK$'000 | Total equity HK$'000 |
|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | |
| Balances at 31 December 2008 | | 44,408 | 10,466,146 | 147,369 | 10,657,923 | 1,619,895 | 12,277,818 |
| Business combinations under common controls | 40 | – | (46,157) | 238,962 | 192,805 | 719,390 | 912,195 |
| Balances at 1 January 2009 | | 44,408 | 10,419,989 | 386,331 | 10,850,728 | 2,339,285 | 13,190,013 |
| Total comprehensive income/(expenses) for the year | | – | 1,203,948 | (498,637) | 705,311 | (130,900) | 574,411 |
| Transfer between reserves | | – | (75,444) | 75,444 | – | – | – |
| Final dividend for 2008 | 17 | – | (668,854) | – | (668,854) | – | (668,854) |
| Recognition of equity settled share-based payments | 31 | – | – | 14,123 | 14,123 | – | 14,123 |
| Issue of shares upon placement | 30, 31 | 4,500 | – | 3,717,000 | 3,721,500 | – | 3,721,500 |
| Share issue expenses | 31 | – | – | (78,815) | (78,815) | – | (78,815) |
| Issue of shares upon exercise of share options | 30, 31 | 457 | – | 51,087 | 51,544 | – | 51,544 |
| Acquisition of the Natural Gas Projects | | – | – | (379,049) | (379,049) | – | (379,049) |
| Dividends paid to non-controlling interest | | – | – | – | – | (38,937) | (38,937) |
| Purchase of non-controlling interest in a subsidiary | | – | – | (5,953) | (5,953) | (69,210) | (75,163) |
| Capital contributions from non-controlling interest | | – | – | – | – | 64,913 | 64,913 |
| Balances at 31 December 2009 | | 49,365 | 10,879,639 | 3,281,531 | 14,210,535 | 2,165,151 | 16,375,686 |

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

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

| | Note | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| Cash flows from operating activities | 35 | 1,544,071 | 2,516,617 |
| Cash flows from investing activities | | | |
| Dividend received from associates | | 13,547 | 1,606,403 |
| Dividend received from jointly controlled entities | | 94,264 | 79,386 |
| Dividend received from available-for-sale financial assets | | 1,371 | 3,735 |
| Acquisitions of subsidiaries and a plant engaging in LNG business | | (491,270) | – |
| Acquisitions of associates | | (704,097) | (24,171) |
| Capital contributions to jointly controlled entities | | (39,994) | – |
| Acquisitions of available-for-sale financial assets | | (13,046) | (8,012) |
| Prepayments for acquisition of a subsidiary | | (89,161) | (45,398) |
| Purchase of non-controlling interest | | (75,163) | – |
| Purchase of other non-current assets | | – | (752) |
| Capital contributions to associates | | (82,499) | – |
| Proceeds from disposal of available-for-sale financial assets | | 16,977 | – |
| Proceeds of disposal of property, plant and equipment | | 167,040 | 68,055 |
| Receipt in advance on disposal of assets held for sale | | 663,747 | – |
| Capital expenditure | | (1,554,438) | (1,231,533) |
| Interest received | | 39,067 | 115,294 |
| Decrease in deposits with maturities more than three months | | 446,033 | 151,384 |
| Net cash (used in)/generated from investing activities | | (1,607,622) | 714,391 |
| Cash flows from financing activities | | | |
| Capital contributions from non-controlling interest | | 64,913 | 16,369 |
| Dividend paid to owners of the Company | | (668,854) | (581,399) |
| Dividends paid to non-controlling interest | | (38,937) | (619,291) |
| Dividend paid to former owner of natural gas projects | | – | (37,158) |
| Increase in other long-term obligations | | 7,380 | – |
| Issue of shares, net of share issue expenses | | 3,694,229 | 13,632 |
| Repurchase of shares | | – | (1,125,285) |
| Increase in borrowings | | 1,819,175 | 867,900 |
| Repayments of borrowings | | (2,133,025) | (594,923) |
| Interest paid | | (69,014) | (325,122) |
| Net cash generated from/(used in) financing activities | | 2,675,867 | (2,385,277) |
| Increase in cash and cash equivalents | | 2,612,316 | 845,731 |
| Cash and cash equivalents at 1 January | | 4,751,176 | 3,791,476 |
| Effect of foreign exchange rate changes | | 13,390 | 113,969 |
| Cash and cash equivalents at 31 December | 28 | 7,376,882 | 4,751,176 |

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Kunlun Energy Company Limited (Formerly known as 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 2009, PetroChina indirectly owned 50.92% 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, associates 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"), and the sale of natural gas and transmission of natural gas in the PRC.

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 Note 37.

These consolidated financial statements have been approved for issue by the Company's Board of Directors on 25 March 2010.

## 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 with 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 or 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 non-controlling interest. 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.

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.

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.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of consolidation (continued)

For purposes of the presentation of the Company's statement of financial position, 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 43.

### (b) Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are 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 associates 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 associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

For purpose of the presentation of the Company's statement of financial position, investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

A listing of the Group's principal associates is shown in Note 44.

### (c) Investments 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 investments in jointly controlled entities are 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 statement of financial position, 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 45.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (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.

### (e) Transactions with non-controlling interest

The Group applies a policy of treating transactions with non-controlling interest as transactions with equity participants of the Group. Gains and losses resulting from the disposals to non-controlling interest 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 non-controlling 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 Company'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 statement of comprehensive income.

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

## 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each statement of comprehensive income 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 statement of comprehensive income 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 | 40 years or over the remaining period of respective leases whichever is the shorter |
| Equipment and machinery | 4-30 years |
| Motor vehicles | 4-14 years |
| Others | 5-12 years |

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

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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.

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

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. 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.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities.

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.

### (i) Intangible assets

***(i) Goodwill***

Goodwill represents the excess of  the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate and jointly controlled entity at the date of acquisition Goodwill on acquisitions of subsidiaries is included in 'intangible assets' whereas goodwill on acquisitions of associates and jointly controlled entities is included in the investments in associates and jointly controlled entities respectively, and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment test. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

***(ii) Other intangible assets***

Expenditure on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using straight line method over their estimated useful lives, generally less than 10 years. Intangible assets are not subsequently revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss indicate that the carrying amount of an asset exceeds its recoverable amount and is recognised in the consolidated income statement. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the estimated net present value of future cash flows to be derived from the assets.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (j) 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.

#### *(i) 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 statement of financial position 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 statement of financial position. The recognition methods for loans and receivables are disclosed in the respective policy notes.

#### *(ii) 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 statement of financial position 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 statement of financial position date whether there is objective evidence that an available-for-sale financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (k) 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.

### (l) 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.

Transactions with related parties do not include those with providers of public utilities (including electricity, telecommunications and postal services) and government departments and agencies which are conducted in the ordinary course of business at arm's length market prices.

### (m) Inventories

Inventories include crude oil and marina club debentures and wet berths held for sale 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.

### (n) 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.

### (o) 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.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (p) Accounts payable

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

### (q) 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 statement of financial position date.

### (r) Income tax

The income 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 statement of financial position 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 substantively enacted by the statement of financial position 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.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (s) 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.

### (t) 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.

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.

### (u) 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 expenditure 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.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (v) 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.

### (w) 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 statement of financial position 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.

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.

### (x) 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 owners 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.

### (y) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount to be recovered principally through a sale transaction rather than through continuing use.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (z) New accounting developments

#### *(i) New and amended standards adopted by the Group*

The Group adopted the following relevant new and amended HKFRSs as of 1 January 2009:

HKFRS 7 "Financial instruments – Disclosures" (Amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The amendment did not have a material impact on the disclosures in the consolidated financial statements.

HKFRS 8 "Operating segments" – effective 1 January 2009. HKFRS 8 replaces HKAS 14 "Segment reporting". It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes (Note 39).

HKAS 1 (Revised) "Presentation of financial statements" – effective 1 January 2009. The revised standard requires all changes in equity arising from transactions with owners in their capacity as owners and the related current and deferred tax impacts be presented separately from non-owner changes in equity. Recognised income and expenses shall be presented in a single statement (a statement of comprehensive income) or in two statements (a statement of profit and loss and a statement of comprehensive income), separately from owner changes in equity.

The Group has elected to present recognised income and expenses in a single statement of comprehensive income and these consolidated financial statements have been prepared under the revised disclosure requirements.

HKAS 19 (Amendment) "Employee benefits" – effective 1 January 2009. The amendment clarifies that the distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 23 (Amendment) "Borrowing costs" – effective 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment did not have any impact on the consolidated financial statements as the Group did not incur borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset throughout the year.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (z) New accounting developments (continued)

#### *(i) New and amended standards adopted by the Group (continued)*

HKAS 24 (Revised) "Related party disclosures" – effective 1 January 2011. The revised standard exempts disclosures in relation to related party transactions and outstanding balances, including commitments, with a government that has control, joint control or significant influence over the reporting entity and another entity that is related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The Group has elected to early adopt the partial exemption in paragraphs of the revised standard for government-related entities from 1 January 2009.

HKAS 28 (Amendment) "Investments in associates" – effective 1 January 2009. The amendment requires an investment in an associate be treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 36 (Amendment) "Impairment of assets" – effective 1 January 2009. The amendment requires that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment did not have any significant impact on the consolidated financial statements.

HKAS 38 (Amendment) "Intangible assets" – effective 1 January 2009. The amendment requires a prepayment only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment did not have any significant impact on the consolidated financial statements.

#### *(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following relevant HKFRSs, amendments to existing HKFRSs and interpretation of HKFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2010 or later periods and have not been early adopted by the Group:

HKFRS 2 (Amendments) "Group cash-settled share-based payment transactions" – effective 1 January 2010. In addition to incorporating HK(IFIRC)-Int 8 "Scope of HKFRS 2" and HK(IFRIC)-int 11 "HKFRS 2 – Group and treasury share transactions", the amendments expand on the guidance in HK(IFIRC)-int 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the consolidated financial statements.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (z) New accounting developments (continued)

#### *(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

HKFRS 3 (Revised) "Business combinations" – effective 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group is currently evaluating the impact of the revised standard on the consolidated financial statements. The Group will apply the revised standard prospectively to all business combinations from 1 January 2010.

HKFRS 5 (Amendment) "Non-current assets held for sale and discontinued operations" – effective 1 July 2009. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

HKFRS 5 (Amendment) "Measurement of non-current assets (or disposal groups) classified as held-for-sale" – effective 1 January 2010. The amendment is part of the HKICPA's annual improvements project published in April 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group is currently evaluating the impact of the amendment on the disclosures in the consolidated financial statements but it is not expected to have any significant impact.

HKFRS 9 "Financial instruments" – effective 1 January 2013. This standard is the first part of a project to replace HKAS 39. It addresses the classification and measurement of financial assets. The Group will apply HKFRS 9 from 1 January 2013.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (z) New accounting developments (continued)

#### *(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

HKAS 1 (Amendment) "Presentation of financial statements" – effective 1 January 2010. The amendment is part of the HKICPA's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issuance of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

HKAS 27 (Revised) "Consolidated and separate financial statements" – effective 1 July 2009. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. HKAS 27 (Revised) also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply the revised standard prospectively to transactions with non-controlling interests from 1 January 2010.

HKAS 32 (Amendment) "Classification of right issues" – effective 1 February 2011. It clarifies that rights issues are equity instruments when they are denominated in a currency other than the issuer's functional currency and are issued pro-rata to an entity's existing shareholders for a fixed amount of currency. The Group will apply HKAS 32 (Amendment) from 1 January 2011.

HKAS 38 (Amendment) "Intangible assets" – effective 1 January 2010. The amendment is part of the HKICPA's annual improvements project published in April 2009 and the Group will apply HKAS 38 (Amendment) from the date HKFRS 3 (Revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The Group is currently evaluating the impact of the amendment on the consolidated financial statements but it is not expected to have any significant impact.

HK(IFRIC)-Int 14 (Amendments) "Prepayments of a minimum funding requirement" – effective 1 January 2011. These amendments require an entity to recognise an asset for a prepayment that will reduce future minimum funding contributions required by the entity. The Group will apply HK(IFRIC)-Int 14 (amendments) from 1 January 2011.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

### (z) New accounting developments (continued)

***(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)***

HK(IFRIC)-Int 17 "Distribution of non-cash assets to owners" – effective 1 July 2009. The interpretation is part of the HKICPA's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group is currently evaluating the impact of the interpretation on the consolidated financial statements but it is not expected to have any significant impact.

HK(IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments" – effective 1 April 2010. It provides guidance on the application of HKAS 39 and HKAS 32 when an entity issues its own equity instruments to extinguish all or part of a financial liability. The Group will apply HK(IFRIC)-Int 19 from 1 January 2011.

## 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.

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

#### *(a) Market risk (continued)*

- Foreign exchange rate risk (continued)

  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 2009 and 2008, except for bank balances amounting to HK$4,121,607,000 (2008: HK$29,656,000), 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 2009, if US dollar had weakened/strengthened by 5% against Renminbi, which is the functional currency of the Group's operating entities in the PRC, with all other variables held constant, profit for the year would have been HK$174,487,000 (2008: HK$156,725,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of 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 borrowings at fixed interest rates. The fair value of borrowings at fixed interest rates are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

  The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances and deposits, loans to jointly controlled entities and borrowings at floating interest rates. The Group's cash flow interest rate is mainly concentrated on the fluctuation of London Interbank Offered Rate ("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 2009, if interest rates on bank balances and deposits, loan to a jointly controlled entity and borrowings at floating interest rates had been 50 base-point higher/lower with all other variables held constant, post-tax profit for the year would have been HK$26,179,000 (2008: HK$16,072,000) higher/lower, mainly as a result of higher/lower interest income on floating rate bank balances and deposits, loan to a jointly controlled entity and borrowings at floating interest rates.

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.1 Financial risk factors (continued)

***(a) Market risk (continued)***

- 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 statement of financial position 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 2009, 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$8,232,000 (2008: HK$3,898,000) 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 statement of financial position 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.

## 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 2009 and 2008, the Group's and the Company's contractual obligations mature within one year except for long-term borrowings. The table below analyses the Group's borrowings, into relevant maturity groups based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Less than 1 year | 280,412 | 1,360,264 |
| Between 1 and 2 years | 503,632 | 107,761 |
| Between 2 and 5 years | 1,356,685 | 764,194 |
| Over 5 years | 208,417 | 432,271 |
| | 2,349,146 | 2,664,490 |

### 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 owners and to reduce its cost of capital. In meeting its objectives of managing capital, the Group may issue new shares, adjust its debt levels or the mix between short-term and long-term borrowings.

The Group monitors capital on the basis of the gearing ratio which is calculated as borrowings divided by the sum of total equity and total borrowings. The gearing ratio at 31 December 2009 is 10.68% (2008: 14.69%).

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 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 2009 and 2008 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, accrued liabilities and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 33.

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| Available-for-sale financial assets | 82,321 | – | 23,147 | 105,468 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily listed equity investments classified as available-for-sale.

## 4 FINANCIAL RISK MANAGEMENT (continued)

### 4.3 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

## 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

Estimates of 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. 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. As at 1 January 2009, management has revised the Group's proved developed reserve estimates with reference to the latest professional valuers resulting in an increase in profit for the year ended 31 December 2009 amounting to approximately HK$247,421,000.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (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. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plans. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

### (c) Provisions

Management judgement is required in assessing the quantum of provisions at each statement of financial position date, which are made based on an estimation of historical and anticipated claims, the merits of the claims against the Group, its associates and/or jointly controlled entities, and the existence of any obligation under the terms of relevant agreements with the counter parties.

The basis of estimation is reviewed on an on-going basis and revised where appropriate. Changing the assumptions selected by management to determine the level, if any, of provisions, could affect the present value of the expenditure expected to be required to settle the obligation and as a result affect the Group's financial position and results of operations.

### (d) Income taxes

The Group is subject to income taxes in numerous jurisdictions where new and revised tax laws and regulations are issued from time to time and some of which may take effect on a retrospective basis and may subject to further interpretation and guidance. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due taking into account the existing tax legislations and past practice. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

## 6 REVENUE AND TURNOVER

Turnover represents revenue from the sale of crude oil and natural gas, and from the transportation of crude oil. Analysis of revenue by segment is shown in Note 39.

## 7 OTHER GAINS, NET

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Net exchange gains | 14,580 | 174,516 |
| Rental income | 2,584 | 4,607 |
| Dividend income from available-for-sale financial assets | 1,371 | 3,735 |
| Government grants related to reinvestment of profits generated from oil production sharing contracts (Note) | – | 9,544 |
| Others | 16,057 | 13,232 |
| | 34,592 | 205,634 |

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.

## 8 INTEREST INCOME

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Interest income on: | | |
| – Bank deposits | 39,067 | 111,677 |
| – Loans to jointly controlled entities | – | 3,617 |
| | 39,067 | 115,294 |

## 9 EMPLOYEE COMPENSATION COSTS

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Salaries, wages and allowances | 332,839 | 293,708 |
| Retirement benefits scheme contributions | 21,361 | 23,805 |
| Share-based payment expenses (Note 31) | 14,123 | 18,740 |
| | 368,323 | 336,253 |

## 10 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes for the year ended 31 December 2009 include HK$105,067,000 (2008: HK$405,967,000) special levies which were paid or payable on the portion of income realised from the sales of domestically-produced crude oil at prices above certain level.

## 11 INTEREST EXPENSES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank loans, wholly repayable within five years | 22,240 | 76,153 |
| Loans other than bank loans, wholly repayable within five years, from: | | |
| – Fellow subsidiaries | 26,805 | – |
| – Non-controlling interest of subsidiaries | 8,739 | 12,144 |
| Loans other than bank loans, not wholly repayable within five years, from: | | |
| – A fellow subsidiary | 77,191 | 32,163 |
| – Immediate holding company | – | 45,028 |
| | 134,975 | 165,488 |

## 12 PROFIT BEFORE INCOME TAX EXPENSE

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit before income tax expense is arrived at after (crediting) and charging the following items: | | |
| Amortisation on advanced operating lease payments, intangibles and other non-current assets | 3,337 | 2,647 |
| Auditor's remuneration | 6,592 | 5,315 |
| Cost of inventories recognised as expense | 3,227,521 | 3,612,595 |
| Depreciation on property, plant and equipment | 553,027 | 794,809 |
| (Reversal of provision)/provision for loans to and amounts due from jointly controlled entities (Note 29) | (70,083) | 112,886 |
| Operating lease expenses | 12,646 | 10,137 |
| Repairs and maintenance | 71,726 | 130,336 |
| Loss on disposal of property, plant and equipment | 9,123 | 6,608 |

## 13 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of the emoluments of directors for the years ended 31 December 2009 and 2008 are as follows:

| | 2009 | | | | | 2008 |
|---|---|---|---|---|---|---|
| | Fees<br>HK$'000 | Salaries and other benefits<br>HK$'000 | Retirement benefits scheme contributions<br>HK$'000 | Share option benefit expenses<br>HK$'000 | Total<br>HK$'000 | Total<br>HK$'000 |
| Mr Li Hualin | 1,750 | 2,030 | – | 3,505 | 7,285 | 11,584 |
| Mr Zhang Bowen | – | 4,305 | 375 | 2,629 | 7,309 | 9,063 |
| Mr Wang Mingcai (Note) | – | – | – | – | – | 6,449 |
| Mr Cheng Cheng | – | 3,328 | 300 | 1,643 | 5,271 | 6,449 |
| Dr Lau Wah Sum | 450 | – | – | – | 450 | 450 |
| Mr Li Kwok Sing Aubrey | 300 | – | – | – | 300 | 300 |
| Dr Liu Xiao Feng | 250 | – | – | – | 250 | 250 |
| | 2,750 | 9,663 | 675 | 7,777 | 20,865 | 34,545 |

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

The five individuals whose emoluments were the highest in the Group for the year including three (2008: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2008: one) individual during the year are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Salaries, wages and allowances | 6,656 | 4,000 |
| Retirement benefits scheme contributions | 600 | 300 |
| Share-based payment expenses | 2,720 | 1,751 |
| | 9,976 | 6,051 |
| The emoluments fell within the following bands: | | |
| HK$4,500,001 to HK$5,000,000 | 2 | – |
| HK$6,000,001 to HK$6,500,000 | – | 1 |

Note:

Mr Wang Mingcai resigned as the director of the Company with effect from 1 January 2009.

## 14 INCOME TAX EXPENSE

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Current tax | | |
| – PRC | 180,048 | 309,846 |
| – Overseas | 92,033 | 492,066 |
| | 272,081 | 801,912 |
| Deferred tax (Note 34) | 119,403 | 291,955 |
| | 391,484 | 1,093,867 |

Hong Kong profits tax has not been provided for as the Group has no assessable profit for the year (2008: Nil).

The Group's subsidiaries in Mainland China are subject to corporate income tax of Mainland China at a statutory rate of 25% for the year ended 31 December 2009 (2008: 25%).

## 14 INCOME TAX EXPENSE (continued)

The Group's certain subsidiaries operating in certain regions in Mainland China are qualified for certain tax incentives in a form of reduced corporate income tax rate. For the year ended 31 December 2009, those subsidiaries enjoy preferential income tax rates ranging from 10% to 20% (2008: 10% to 20%).

Income tax on overseas (other than the PRC) 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 income tax expense is withholding tax of HK$2,573,000 (2008: HK$240,906,000) in respect of dividend received from an associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe"), which is charged at 20% (2008: 15%).

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2009 (2008: Nil).

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

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit before income tax expense | 1,854,946 | 5,774,368 |
| Tax calculated at a tax rate of 25% (2008: 25%) | 463,737 | 1,443,592 |
| Effect of the use of different tax rate in operations outside the PRC | 26,191 | (185,316) |
| Effect of preferential tax rate | (85,883) | (107,515) |
| Tax effect of income not subject to tax | (30,439) | (78,095) |
| Tax effect of expenses not deductible for tax purposes | 23,508 | 69,183 |
| Tax effect of share of profits less losses of associates | (42,187) | (533,273) |
| Tax effect of share of profits less losses of jointly controlled entities | (41,522) | (26,650) |
| Withholding tax on dividends received and receivable | 73,796 | 511,941 |
| Under provision in prior years | 4,283 | – |
| Tax charge | 391,484 | 1,093,867 |

The domestic income 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.

## 15 PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$122,339,000 (2008: HK$2,451,528,000).

## 16 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK$1,203,948,000 (2008: HK$3,385,208,000) and weighted average number of ordinary shares in issue during the year of approximately 4,493,935,000 shares (2008: 4,761,936,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$1,203,948,000 (2008: HK$3,385,208,000), and the weighted average number of ordinary shares of approximately 4,560,515,000 shares (2008: 4,810,754,000 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 66,580,000 shares (2008: 48,818,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

## 17 DIVIDEND ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Proposed final dividend attributable to owners of the Company for 2009 (Note (a)) | 345,557 | – |
| Final dividend attributable to owners of the Company for 2008 (Notes (b) and (c)) | – | 666,118 |

Notes:

(a) At the meeting on 25 March 2010, the Board of Directors proposed final dividend attributable to owners of the Company in respect of 2009 of HK7 cents per share amounting to a total of HK$345,557,000. The amount is based on approximately 4,936,524,000 shares in issue as at 25 March 2010. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2010 when approved at the forthcoming Annual General Meeting.

(b) Final dividend attributable to owners of the Company in respect of 2008 of HK15 cents per share amounting to a total of HK$666,118,000 were approved by the shareholders in the Annual General Meeting on 25 May 2009 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2009, and were paid on 1 June 2009. The amount is based on approximately 4,440,784,000 shares in issue as at 25 March 2009.

(c) The actual final dividend paid for 2008 was approximately HK$668,854,000 due to additional shares issued during the period from 22 March 2009 to 30 April 2009, the date of closure of the register of members.

(d) Final dividend attributable to owners 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. The amount is based on approximately 4,844,994,000 shares in issue as at 11 April 2008.

## 18 PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | | | Company |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2008 | Buildings HK$'000 | Oil and gas properties HK$'000 | Equipment and machinery HK$'000 | Motor vehicles HK$'000 | Others HK$'000 | Construction in progress HK$'000 | Total HK$'000 | Others HK$'000 |
| Cost | | | | | | | | |
| Balances at 31 December 2007 | 64,428 | 7,115,677 | 139,286 | 35,474 | 216,015 | 28,705 | 7,599,585 | 4,275 |
| Business combinations under common controls | 116,366 | 236,196 | 1,557,240 | 202,509 | 43,692 | 130,719 | 2,286,722 | – |
| Balances at 1 January 2008 | 180,794 | 7,351,873 | 1,696,526 | 237,983 | 259,707 | 159,424 | 9,886,307 | 4,275 |
| Exchange differences | 12,514 | 365,664 | 107,315 | 15,556 | 6,310 | 8,142 | 515,501 | – |
| Additions | 7,993 | 87,970 | 67,751 | 29,637 | 40,956 | 975,589 | 1,209,896 | 77 |
| Transfers | – | 1,005,140 | (26,185) | – | (13,478) | (965,477) | – | – |
| Disposals | (1,587) | (2,667) | (29,111) | (3,550) | (56,513) | – | (93,428) | – |
| Reclassified to assets held for sale | (17,107) | – | (951,473) | (15,050) | – | (66,786) | (1,050,416) | – |
| Balances at 31 December 2008 | 182,607 | 8,807,980 | 864,823 | 264,576 | 236,982 | 110,892 | 10,467,860 | 4,352 |
| Accumulated depletion, depreciation and impairment | | | | | | | | |
| Balances at 31 December 2007 | 32,330 | 4,329,318 | 66,965 | 21,719 | 88,958 | – | 4,539,290 | 3,402 |
| Business combinations under common controls | 18,762 | 49,646 | 531,774 | 50,155 | 10,578 | – | 660,915 | – |
| Balances at 1 January 2008 | 51,092 | 4,378,964 | 598,739 | 71,874 | 99,536 | – | 5,200,205 | 3,402 |
| Exchange differences | 4,897 | 244,358 | 40,142 | 4,842 | 15,869 | – | 310,108 | – |
| Charge for the year | 14,213 | 620,035 | 123,680 | 26,243 | 10,638 | – | 794,809 | 490 |
| Disposals | (1,071) | (748) | (8,123) | (786) | (8,036) | – | (18,764) | – |
| Reclassified to assets held for sale | (6,204) | – | (464,261) | (4,792) | – | – | (475,257) | – |
| Balances at 31 December 2008 | 62,927 | 5,242,609 | 290,177 | 97,381 | 118,007 | – | 5,811,101 | 3,892 |
| Net book value at 31 December 2008 | 119,680 | 3,565,371 | 574,646 | 167,195 | 118,975 | 110,892 | 4,656,759 | 460 |

## 18 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Group | | | | | | | Company |
|---|---|---|---|---|---|---|---|---|
| Year ended 31 December 2009 | Buildings HK$'000 | Oil and gas properties HK$'000 | Equipment and machinery HK$'000 | Motor vehicles HK$'000 | Others HK$'000 | Construction in progress HK$'000 | Total HK$'000 | Others HK$'000 |
| Cost | | | | | | | | |
| Balances at 31 December 2008 | 72,464 | 8,451,200 | 127,155 | 40,977 | 152,066 | 59,991 | 8,903,853 | 4,352 |
| Business combinations under common controls | 110,143 | 356,780 | 737,668 | 223,599 | 84,916 | 50,901 | 1,564,007 | – |
| Balances at 1 January 2009 | 182,607 | 8,807,980 | 864,823 | 264,576 | 236,982 | 110,892 | 10,467,860 | 4,352 |
| Exchange differences | – | 102,441 | 1,063 | 358 | 6,339 | – | 110,201 | – |
| Additions | 28,114 | 630,103 | 150,896 | 116,835 | 161,616 | 437,650 | 1,525,214 | 363 |
| Additions through business combinations | 34,463 | – | 247,421 | 20,750 | 7,316 | – | 309,950 | – |
| Disposals | (2,510) | (1,981) | (27,292) | (25,464) | (156,466) | (13,454) | (227,167) | – |
| Transfers | 289 | (20,536) | 147,027 | (139) | 991 | (127,632) | – | – |
| Balances at 31 December 2009 | 242,963 | 9,518,007 | 1,383,938 | 376,916 | 256,778 | 407,456 | 12,186,058 | 4,715 |
| Accumulated depletion, depreciation and impairment | | | | | | | | |
| Balances at 31 December 2008 | 43,705 | 5,164,678 | 82,504 | 26,816 | 102,509 | – | 5,420,212 | 3,892 |
| Business combinations under common controls | 19,222 | 77,931 | 207,673 | 70,565 | 15,498 | – | 390,889 | – |
| Balances at 1 January 2009 | 62,927 | 5,242,609 | 290,177 | 97,381 | 118,007 | – | 5,811,101 | 3,892 |
| Exchange differences | 1,460 | 50,647 | 2,857 | 18,232 | 2,225 | – | 75,421 | – |
| Charge for the year | 8,491 | 396,529 | 108,506 | 26,907 | 12,594 | – | 553,027 | 340 |
| Additions through business combinations | 1,125 | – | 9,996 | 6,602 | 1,655 | – | 19,378 | – |
| Disposals | (449) | (21,343) | (17,198) | (10,939) | (1,075) | – | (51,004) | – |
| Balances at 31 December 2009 | 73,554 | 5,668,442 | 394,338 | 138,183 | 133,406 | – | 6,407,923 | 4,232 |
| Net book value at 31 December 2009 | 169,409 | 3,849,565 | 989,600 | 238,733 | 123,372 | 407,456 | 5,778,135 | 483 |

## 18 PROPERTY, PLANT AND EQUIPMENT (continued)

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:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Medium-term lease (10 to 50 years) | 137,901 | 93,722 |
| Long-term lease (more than 50 years) | 31,508 | 25,958 |
| | 169,409 | 119,680 |

The buildings of the Group are mainly 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.

As at 31 December 2009, certain of the Group's property, plant and equipment amounting to approximately HK$36,822,000 (2008: HK$193,022,000) were pledged as security for certain bank borrowings of the Group (Note 33).

## 19 ADVANCED OPERATING LEASE PAYMENTS

The Group's advanced operating lease payments comprise:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Leasehold interest in land outside Hong Kong: | | |
| Leases of between 10 to 50 years | 102,010 | 73,158 |
| Leases of over 50 years | 4,952 | 501 |
| | 106,962 | 73,659 |
| Balance as at 31 December | 3,418 | 3,560 |
| Business combination under common controls | 70,241 | 52,663 |
| Balance as at 1 January | 73,659 | 56,223 |
| Exchange differences | 338 | 4,100 |
| Additions | 35,899 | 21,337 |
| Reclassified to assets held for sales | – | (5,637) |
| Amortisation for the year | (2,934) | (2,364) |
| Balance as at 31 December | 106,962 | 73,659 |

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

As at 31 December 2009, advanced operating lease payments amounting to approximately HK$3,931,000 (2008: HK$9,888,000) were pledged as security for certain bank borrowings of the Group (Note 33).

## 20 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Unlisted shares, at cost | – | – | 276,164 | 236,170 |
| Share of net assets | 1,067,638 | 889,624 | – | – |
| | 1,067,638 | 889,624 | 276,164 | 236,170 |
| Loans to jointly controlled entities | 44,906 | 265,052 | 44,906 | 44,906 |
| Less: Impairment losses | – | (220,146) | – | – |
| | 44,906 | 44,906 | 44,906 | 44,906 |
| | 1,112,544 | 934,530 | 321,070 | 281,076 |

Loans to jointly controlled entities are unsecured, interest free and not repayable within one year. As at 31 December 2008, included in the loans to jointly controlled entities is an amount of HK$220,146,000 which bears interest at LIBOR plus 3.75% per annum and the effective interest rate is 6.68% per annum.

Except for the amount of approximately HK$220,146,000, as at 31 December 2009 and 2008, 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$113,379,000 in 2009 (2008: HK$79,386,000).

## 20 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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 | Liabilities | Revenue | Profit | Interest held % | Type of shares |
|---|---|---|---|---|---|---|---|
| | | HK$'000 | HK$'000 | HK$'000 | HK$'000 | | |
| As at or for the year ended 31 December 2009 | | | | | | | |
| 華油鋼管有限公司 | PRC | 846,083 | 538,961 | 2,101,688 | 65,238 | 39.56% | Equity joint venture |
| Mazoon Petrogas (BVI) Limited | British Virgin Islands | 793,606 | 150,819 | 908,974 | 184,105 | 50% | Ordinary shares |
| Others | | 170,658 | 52,929 | 96,038 | 2,303 | | |
| | | 1,810,347 | 742,709 | 3,106,700 | 251,646 | | |
| 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 | | |

## 20 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

Movements in share of net assets of jointly controlled entities are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1 January | 889,624 | 787,078 |
| Capital contributions | 39,994 | – |
| Share of profits | 251,646 | 161,518 |
| Dividend income received and receivable | (113,379) | (79,386) |
| Share of exchange reserves | (247) | 20,414 |
| At 31 December | 1,067,638 | 889,624 |

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 2009 and 2008, are set out in Note 45.

## 21 INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Unlisted shares, at cost | – | – | 785,915 | – |
| Share of net assets | 4,833,673 | 5,164,024 | – | – |
| Goodwill | 397,739 | – | – | – |
| | 5,231,412 | 5,164,024 | 785,915 | – |

## 21 INVESTMENTS IN ASSOCIATES (continued)

The Group's interest in its principal associates (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 2009 | | | | | | | |
| Aktobe | Kazakhstan | 6,436,690 | 2,058,966 | 4,576,236 | 235,084 | 25.12% | Common shares |
| 中油中泰燃氣有限責任公司 | PRC | 975,505 | 575,948 | 209,412 | 14,856 | 49% | Equity joint venture |
| Others | | 64,902 | 8,510 | 62,131 | 5,741 | | |
| | | 7,477,097 | 2,643,424 | 4,847,779 | 255,681 | | |
| As at or for the year ended 31 December 2008 | | | | | | | |
| Aktobe | Kazakhstan | 7,241,192 | 2,159,448 | 6,716,518 | 3,231,962 | 25.12% | Common shares |
| Others | | 91,961 | 9,681 | 69,658 | 4,460 | | |
| | | 7,333,153 | 2,169,129 | 6,786,176 | 3,236,422 | | |

Included in investments in associates is an investment in Aktobe which 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 effect 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. During the year ended 31 December 2008, Aktobe has paid approximately HK$2,871,900,000 of which an amount of HK$531,282,000 (equivalent to the Group's share, net of tax, of HK$106,000,000) is related to January 2009. The unpaid duties amounted to HK$1,378,526,000, of which the Group shares approximately HK$292,000,000, net of tax.

## 21 INVESTMENTS IN ASSOCIATES (continued)

By the end of 2008, Aktobe initiated a claim to the local court against the actions of the relevant government authorities of Kazakhstan, which resulted in illegal imposition on Aktobe of obligation to pay export custom duties. In July 2009, a judgement was made by the local court against Aktobe requiring it to settle the export custom duties in full. Aktobe paid the entire amount in July 2009.

Taking into account of the decision made by the court of Kazakhstan, management of Aktobe considered exposure becomes probable and recognised the remaining amount of HK$1,909,808,000 (equivalent to the Group's share, net of tax, of HK$398,000,000) during the year ended 31 December 2009. Included in the Group's share of profits less losses of associates is an amount of the Group's share of provision for export custom duties of Aktobe including penalties, net of tax, amounting to HK$398,000,000 (2008: HK$499,769,000) recognised during the year ended 31 December 2009.

During the year ended 31 December 2009, Kazakhstan Tenge, the functional currency of Aktobe, was devalued by approximately 20% against US dollar with effect from 4 February 2009 resulting a reduction of share of net assets of associates by HK$926,241,000 and corresponding reduction in translation reserve by the same amount.

Dividends received from associates amounted to approximately HK$13,547,000 for the year ended 31 December 2009 (2008: HK$1,606,403,000).

Movements in share of net assets of associates are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1 January | 5,164,024 | 3,459,516 |
| Acquisitions of associates | 306,358 | – |
| Capital contributions | 82,499 | 24,171 |
| Share of profits | 255,681 | 3,236,422 |
| Dividend income received | (13,547) | (1,606,403) |
| Share of exchange reserves | (961,342) | 50,318 |
| At 31 December | 4,833,673 | 5,164,024 |

## 21 INVESTMENTS IN ASSOCIATES (continued)

Movements in goodwill included in investments in associates are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1 January | – | – |
| Acquisitions of associates | 397,739 | – |
| At 31 December | 397,739 | – |

Details of the principal associates, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2009 and 2008, are set out in Note 44.

## 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Listed shares: | | |
| Equity securities listed in Hong Kong | 37,092 | 7,392 |
| Equity securities listed in Australia | 45,229 | 31,593 |
| | 82,321 | 38,985 |
| Unlisted shares: | | |
| Equity securities in the PRC | 23,147 | 17,096 |
| | 105,468 | 56,081 |

At the date of the statement of financial position, all the listed equity securities are stated at fair values, which have been determined by reference to bid prices quoted in the Stock Exchange and Australian Stock Exchange respectively, except for the equity securities in the PRC amounted to HK$23,147,000 (2008: HK$17,096,000), which are stated at cost. Those securities do not have quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted equity instruments.

## 22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Australian dollar | 45,229 | 31,593 |
| Renminbi | 23,147 | 17,096 |
| Hong Kong dollar | 37,092 | 7,392 |
| | 105,468 | 56,081 |

Movements in available-for-sale financial assets are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1 January | 56,081 | 135,950 |
| Exchange differences | 9,110 | (6,853) |
| Additions | 13,046 | 8,012 |
| Additions through business combinations | 11,349 | – |
| Disposals | (16,977) | – |
| Increase/(decrease) in fair value | 32,859 | (81,028) |
| At 31 December | 105,468 | 56,081 |

## 23 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Unlisted shares, at cost | 1,417,966 | 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 2009 and 2008, are set out in Note 43.

## 24 INTANGIBLES AND OTHER NON-CURRENT ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Prepayments for acquisitions (Note 41(a)) | 89,161 | 45,398 | 89,161 | 45,398 |
| Intangibles (Note) | 4,829 | 4,615 | – | – |
| Prepaid construction costs | 120,074 | – | – | – |
| Others | 3,016 | 2,914 | 752 | 752 |
| | 217,080 | 52,927 | 89,913 | 46,150 |

Note:

The intangibles mainly compose franchised rights and computer software costs. The movements in intangibles are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| At 1 January | 4,615 | 4,312 |
| Exchange differences | – | 285 |
| Additions | 847 | 301 |
| Amortisation for the year | (403) | (283) |
| Disposals | (230) | – |
| At 31 December | 4,829 | 4,615 |

## 25 INVENTORIES

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Crude oil in tanks | 29,972 | 22,220 |
| Marina club debentures and wet berths | 13,602 | 13,602 |
| | 43,574 | 35,822 |

## 26 ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Accounts receivable due from | | |
| – Third parties | 151,132 | 118,181 |
| – Related parties | 91,398 | 38,892 |
| | 242,530 | 157,073 |

Amounts due from related parties are interest free and unsecured.

The aging analysis of accounts receivable at 31 December 2009 and 2008 is as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Within 3 months | 218,663 | 127,915 |
| Between 3 to 6 months | – | 23,787 |
| Over 6 months | 23,867 | 5,371 |
| | 242,530 | 157,073 |

The Group's sales of crude oil are generally collectable within a period ranging from 30 to 90 days from the invoice date while the sales of natural gas are made in cash or on credit terms no more than 90 days. As at 31 December 2009, accounts receivable of HK$23,867,000 (2008: HK$14,220,000) were past due but for which the Group has not provided for impairment loss. These accounts receivable relate to companies for whom there is no recent history of default. The aging analysis of the accounts receivable which are past due but not impaired is disclosed in the above aging analysis.

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

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| US dollar | 61,731 | 57,885 |
| Renminbi | 156,202 | 83,741 |
| Other currencies | 24,597 | 15,447 |
| | 242,530 | 157,073 |

## 27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Other receivables | 217,695 | 159,260 | 46,907 | 4,914 |
| Amounts due from related parties | | | | |
| – Subsidiaries | – | – | 4,459,910 | 4,185,721 |
| – Others | 3,278 | 1,805 | – | – |
| | 220,973 | 161,065 | 4,506,817 | 4,190,635 |
| Less: Impairment losses | – | – | (428,568) | (50,826) |
| | 220,973 | 161,065 | 4,078,249 | 4,139,809 |
| Dividends receivable from | | | | |
| a jointly controlled entity | 19,115 | – | 19,115 | – |
| Prepaid income taxes | 37,173 | – | – | – |
| Value-added tax recoverable | 20,723 | – | – | – |
| Prepaid expenses | 139,412 | 90,512 | 1,112 | 2,051 |
| Other current assets | 11,945 | 772 | 225 | 128 |
| | 449,341 | 252,349 | 4,098,701 | 4,141,988 |

The amounts due from related parties 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 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hong Kong dollar | 1,507 | 3,035 | 17,289 | 14,528 |
| US dollar | 37,767 | 5,168 | 399,909 | 789,468 |
| Renminbi | 395,465 | 242,620 | 3,681,503 | 3,337,992 |
| Other currencies | 14,602 | 1,526 | – | – |
| | 449,341 | 252,349 | 4,098,701 | 4,141,988 |

## 28 TIME DEPOSITS, BANK BALANCES AND CASH

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cash at bank and on hand | 3,683,080 | 4,751,176 | 606,390 | 64,215 |
| Short-term bank deposits | 3,724,446 | 476,677 | 3,378,772 | 2,807,907 |
| | 7,407,526 | 5,227,853 | 3,985,162 | 2,872,122 |
| Less: Bank deposits with original maturity more than three months | (30,644) | (476,677) | – | – |
| Cash and cash equivalents | 7,376,882 | 4,751,176 | 3,985,162 | 2,872,122 |

Bank deposits with original maturity more than three months carry fixed interest at market rate at 1.98% per annum (2008: 3.51% 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 0.26% per annum (2008: 0.79% per annum).

The carrying amounts of the bank deposits, bank balances and cash are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hong Kong dollar | 3,981,985 | 16,525 | 3,588,452 | 15,242 |
| US dollar | 754,652 | 3,112,944 | 396,247 | 2,855,737 |
| Renminbi | 2,529,023 | 1,952,701 | 463 | 1,143 |
| Other currencies | 141,866 | 145,683 | – | – |
| | 7,407,526 | 5,227,853 | 3,985,162 | 2,872,122 |

Included in bank deposits, bank balances and cash are amounts of approximately HK$2,529,023,000 or RMB2,228,322,000 (2008: HK$1,952,701,000 or RMB1,720,526,000) 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.

## 29 ASSETS HELD FOR SALE

The major classes of assets classified as held for sale are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Property, plant and equipment (Note (i)) | 567,867 | 575,159 |
| Advanced operating lease payments (Note (i)) | 5,637 | 5,637 |
| Investment in a jointly controlled entity (Note (ii)) | 70,083 | – |
| | 643,587 | 580,796 |

Notes:

(i) The assets related to the transmission of crude oil business ("Pipeline Business"), which is part of the Natural Gas Distribution segment, have been presented as held for sale following the Group's decision to dispose of this operation in service provision for crude oil transmission in December 2008. The assets of the Pipeline Business are a disposal group. However, the Pipeline Business is not a discontinued operation at 31 December 2009, as it does not represent a major line of business of the Group.

The assets of the Pipeline Business were remeasured at the lower of carrying amount and fair value less cost to sell at the date of the classification. Depreciation of relevant non-current assets of the Pipeline Business ceased at the date of such classification resulting in a decrease in depreciation charge for the year ended 31 December 2009, net of tax, amounting to approximately HK$53,800,000 (2008: Nil).

On 18 December 2009, the Group entered into a disposal agreement with PetroChina to dispose of its entire interest in the Pipeline Business at a consideration of approximately RMB584,827,000 (approximately HK$663,747,000) which has been received as at 31 December 2009 and classified as receipt in advance (Note 32).

On 28 January 2010, the disposal of the Pipeline Business was completed.

(ii) Pursuant to an agreement dated 15 January 2010, the Group disposed of its entire interest in a jointly controlled entity, Commonwealth Gobustan Limited ("CGL"), which had been fully provided for in prior years, for the consideration of US$9,500,000 (approximately HK$73,910,000). Accordingly, the Group recognised a reversal of impairment provision of approximately HK$70,083,000 for the year ended 31 December 2009 and was classified as held for sale as at 31 December 2009.

(iii) As at 31 December 2009, no assets held for sale were pledged as security for certain bank borrowings of the Group (2008: HK$544,268,000).

## 30 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 2008, 31 December 2008 and 2009 | 8,000,000 | 80,000 |
| Issue and fully paid: | | |
| Ordinary shares of HK$0.01 each | | |
| At 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 and 1 January 2009 | 4,440,784 | 44,408 |
| Issue of shares upon exercise of share options (Note (i)) | 45,740 | 457 |
| Issue of shares upon placement (Note (iii)) | 450,000 | 4,500 |
| At 31 December 2009 | 4,936,524 | 49,365 |

Notes:

(i) During the year, the Company allotted and issued 45,740,000 shares (2008: 11,360,000 shares) of HK$0.01 each for cash at the exercise price ranged from HK$0.940 to HK$1.224 (2008: HK$0.940 to HK$1.362) per share as a result of the exercise of share options.

## 30 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

### (a) Share capital (continued)

Notes (continued):

(ii) During the year ended 31 December 2008, the Company repurchased a total of 415,570,000 of its own shares on the Stock Exchange at a price ranging from HK$2.039 to HK$3.374 per share, for a total consideration of approximately HK$1,125,285,000.

| Month of repurchase | Number of ordinary shares of HK$0.10 each '000 | Highest HK$ | Lowest HK$ | Aggregate consideration paid 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.

(iii) On 10 December 2009, the Company completed a placement of 450,000,000 shares of HK$0.01 each at a subscription price of HK$8.270 per share. Accordingly, 450,000,000 shares of HK$0.01 each were issued at a premium of HK$8.260 each. The premium on issue of shares of HK$3,717,000,000 was credited to the share premium account. These shares rank pari pasu in all respects with the existing shares.

### (b) Share option schemes

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

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

## 30 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 of the right to accept an offer of an option. Options granted are exercisable at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee. All of the options were vested to the option holders after 3 months from the date on which the options are granted.

Pursuant to the resolution of the Company passed on 26 March 2009, 7,100,000 and 7,000,000 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 March 2009, the date of grant of the options, was HK$3.250.

The fair values of share options granted in 2009 and 2008 were calculated using the Binomial model. The inputs into the model were as follows:

| | Granted on 26 March 2009 to | | Granted on 26 May 2008 to | |
|---|---|---|---|---|
| | Directors | Employees | Directors | Employees |
| Share price at grant date | HK$3.250 | HK$3.250 | HK$4.220 | HK$4.220 |
| Exercise price | HK$3.250 | HK$3.250 | HK$4.240 | HK$4.240 |
| Expected volatility | 46.8% | 46.8% | 46.0% | 46.0% |
| Risk-free rate | 1.600% | 1.600% | 2.629% | 2.629% |
| Expected dividend yield | 3.20% | 3.20% | 3.02% | 3.02% |
| Exercise multiple | 2.0 | 1.5 | 2.0 | 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$7,778,000 (2008: HK$12,321,000) and HK$6,345,000 (2008: HK$6,419,000), respectively.

## 30 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

### (b) Share option schemes (continued)

The number of shares in respect of which options had been granted and outstanding at 31 December 2009 under the 2002 Share Option Scheme was 145,700,000 shares (2008: 177,340,000 shares), representing 2.95% (2008: 3.99%) of the issued share capital of the Company at 31 December 2009.

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 2008 | Granted during the year | Exercised during the year | Outstanding at 31 December 2008 and 1 January 2009 | Granted during the year | Exercised during the year | Outstanding at 31 December 2009 |
| Directors | | | | | | | | |
| Mr Li Hualin | 2005 (Note (iii)) | 20,000,000 | – | – | 20,000,000 | – | (20,000,000) | – |
| | 2007 (Note (iv)) | 25,000,000 | – | – | 25,000,000 | – | – | 25,000,000 |
| | 2008 (Note (vi)) | – | 3,200,000 | – | 3,200,000 | – | – | 3,200,000 |
| | 2009 (Note (vii)) | – | – | – | – | 3,200,000 | – | 3,200,000 |
| Mr Zhang Bowen | 2007 (Note (iv)) | 20,000,000 | – | – | 20,000,000 | – | – | 20,000,000 |
| | 2008 (Note (vi)) | – | 2,400,000 | – | 2,400,000 | – | – | 2,400,000 |
| | 2009 (note (vii)) | – | – | – | – | 2,400,000 | – | 2,400,000 |
| Mr Cheng Cheng | 2004 (Note (ii)) | 20,000,000 | – | (4,360,000) | 15,640,000 | – | (15,640,000) | – |
| | 2007 (Note (iv)) | 10,000,000 | – | – | 10,000,000 | – | – | 10,000,000 |
| | 2008 (Note (vi)) | – | 1,500,000 | – | 1,500,000 | – | – | 1,500,000 |
| | 2009 (Note (vii)) | – | – | – | – | 1,500,000 | – | 1,500,000 |
| Dr Lau Wah Sum | 2004 (Note (i)) | 3,500,000 | – | (3,500,000) | – | – | – | – |
| Mr Li Kwok Sing Aubrey | 2004 (Note (i)) | 3,500,000 | – | (3,500,000) | – | – | – | – |
| Dr Liu Xiao Feng | 2005 (Note (iii)) | 1,600,000 | – | – | 1,600,000 | – | (1,600,000) | – |
| Sub-total | | 103,600,000 | 7,100,000 | (11,360,000) | 99,340,000 | 7,100,000 | (37,240,000) | 69,200,000 |

## 30 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

### (b) Share option schemes (continued)

| | | Number of share options | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name or category of participants | Option Type | Outstanding at 1 January 2008 | Granted during the year | Exercised during the year | Outstanding at 31 December 2008 and 1 January 2009 | Granted during the year | Exercised during the year | Outstanding at 31 December 2009 |
| Other employees | 2005 (Note (iii)) | 26,000,000 | – | – | 26,000,000 | – | (8,500,000) | 17,500,000 |
| | 2007 (Note (iv)) | 25,000,000 | – | – | 25,000,000 | – | – | 25,000,000 |
| | 2007 (Note (v)) | 20,000,000 | – | – | 20,000,000 | – | – | 20,000,000 |
| | 2008 (Note (vi)) | – | 7,000,000 | – | 7,000,000 | – | – | 7,000,000 |
| | 2009 (Note (vii)) | – | – | – | – | 7,000,000 | – | 7,000,000 |
| Sub-total | | 71,000,000 | 7,000,000 | – | 78,000,000 | 7,000,000 | (8,500,000) | 76,500,000 |
| Total | | 174,600,000 | 14,100,000 | (11,360,000) | 177,340,000 | 14,100,000 | (45,740,000) | 145,700,000 |

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) These options were granted on 26 March 2009 with exercise price of HK$3.250 and exercisable from 26 June 2009 to 25 March 2014.

## 30 SHARE CAPITAL AND SHARE OPTION SCHEMES (continued)

### (b) Share option schemes (continued)

Notes (continued):

(viii) The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2009 are ranged from HK$3.210 (2008: HK$2.410) to HK$8.610 (2008: HK$2.510).

(ix) Mr Wang Mingcai resigned as the director of the Company with effect from 1 January 2009 and the movements in his share options from 1 January 2008 to 31 December 2008 was reclassified under other employees to conform with the current presentation.

## 31 RESERVES

| | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Contributed surplus HK$'000 | Employee share-based compensation reserve HK$'000 | Merger reserve HK$'000 | Available-for-sale financial assets reserve HK$'000 | Translation reserve HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| For the year ended 31 December 2008 | | | | | | | | | |
| Balances at 31 December 2007 | 1,358,934 | 134,323 | 134,252 | (960,519) | 98,838 | 471,781 | – | 7,728,413 | 8,966,022 |
| Business combinations under common control | – | – | – | 207,087 | – | – | 15,579 | (91,176) | 131,490 |
| Balances at 1 January 2008 | 1,358,934 | 134,323 | 134,252 | (753,432) | 98,838 | 471,781 | 15,579 | 7,637,237 | 9,097,512 |
| Total comprehensive (loss)/income for the year | – | – | – | 13,702 | (81,028) | 78,051 | – | 3,385,208 | 3,395,933 |
| Transfer between reserves | – | – | – | – | – | – | 4,202 | (4,202) | – |
| Final dividend for 2007 | – | – | – | – | – | – | – | (581,399) | (581,399) |
| Recognition of equity-settled share-based payments (Note 9) | – | – | 18,740 | – | – | – | – | – | 18,740 |
| Exercise of share options | 16,393 | – | (2,875) | – | – | – | – | – | 13,518 |
| Repurchase of shares | (1,121,129) | – | – | – | – | – | – | – | (1,121,129) |
| Dividends to former owners of the Natural Gas Projects | – | – | – | – | – | – | – | (16,855) | (16,855) |
| Balances at 31 December 2008 | 254,198 | 134,323 | 150,117 | (739,730) | 17,810 | 549,832 | 19,781 | 10,419,989 | 10,806,320 |

## 31 RESERVES (continued)

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share premium HK$'000 | Contributed surplus HK$'000 | Employee share-based compensation reserve HK$'000 | Merger reserve HK$'000 | Available-for-sale financial assets reserve HK$'000 | Translation reserve HK$'000 | Other reserves HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
| For the year ended 31 December 2009 | | | | | | | | | |
| Balances at 31 December 2008 | 254,198 | 134,323 | 150,117 | (960,519) | 17,810 | 551,440 | – | 10,466,146 | 10,613,515 |
| Business combinations under common control | – | – | – | 220,789 | – | (1,608) | 19,781 | (46,157) | 192,805 |
| Balances at 1 January 2009 | 254,198 | 134,323 | 150,117 | (739,730) | 17,810 | 549,832 | 19,781 | 10,419,989 | 10,806,320 |
| Total comprehensive (loss)/income for the year | – | – | – | – | 32,859 | (531,496) | – | 1,203,948 | 705,311 |
| Transfer between reserves | – | – | – | – | – | – | 75,444 | (75,444) | – |
| Final dividend for 2008 | – | – | – | – | – | – | – | (668,854) | (668,854) |
| Recognition of equity-settled share-based payments (Note 9) | – | – | 14,123 | – | – | – | – | – | 14,123 |
| Issue of shares upon placement | 3,717,000 | – | – | – | – | – | – | – | 3,717,000 |
| Exercise of share options | 62,197 | – | (11,110) | – | – | – | – | – | 51,087 |
| Share issue expenses | (78,815) | – | – | – | – | – | – | – | (78,815) |
| Acquisition of the Natural Gas Projects | – | – | – | (379,049) | – | – | – | – | (379,049) |
| Purchase of non-controlling interest in subsidiaries | – | – | – | (5,953) | – | – | – | – | (5,953) |
| Balances at 31 December 2009 | 3,954,580 | 134,323 | 153,130 | (1,124,732) | 50,669 | 18,336 | 95,225 | 10,879,639 | 14,161,170 |

## 31 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 31 December 2008 | 1,358,934 | 133,795 | 134,252 | 5,018,285 | 6,645,266 |
| Profit 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) |
| Final dividend for 2007 | – | – | – | (581,399) | (581,399) |
| Balances at 31 December 2008 | 254,198 | 133,795 | 150,117 | 6,888,414 | 7,426,524 |
| Profit for the year | – | – | – | 122,339 | 122,339 |
| Recognition of equity-settled share-based payments | – | – | 14,123 | – | 14,123 |
| Final dividend for 2008 | – | – | – | (668,854) | (668,854) |
| Issue of shares upon placement | 3,717,000 | – | – | – | 3,717,000 |
| Exercise of share options | 62,197 | – | (11,110) | – | 51,087 |
| Share issue expenses | (78,815) | – | – | – | (78,815) |
| Balances at 31 December 2009 | 3,954,580 | 133,795 | 153,130 | 6,341,899 | 10,583,404 |

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.

## 32 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Accounts payable | | | | |
| – Third parties | 207,139 | 241,622 | – | – |
| – Related parties | 216,705 | 272,913 | – | – |
| | 423,844 | 514,535 | – | – |
| Advances from customers | 69,909 | 45,853 | – | – |
| Salaries and welfare payable | 71,291 | 76,863 | 17,257 | 14,496 |
| Accrued expenses | 18,476 | 3,528 | – | – |
| Dividends payable by subsidiaries to non-controlling interest | 43,850 | 30,629 | – | – |
| Interest payable | 67,578 | 1,617 | – | |
| Construction fee and equipment cost payables | 119,825 | – | – | – |
| Amounts due to related parties | | | | |
| – Subsidiaries | – | – | 44,731 | 7,363 |
| – Others | 51,392 | 111,192 | – | – |
| Consideration payables (Notes 40(b) and 40(c)) | 168,789 | – | – | – |
| Receipts in advance (Note 29) | 663,747 | – | – | – |
| Other payables | 202,732 | 117,052 | 4,453 | 1,317 |
| | 1,901,433 | 901,269 | 66,441 | 23,176 |

The aging analysis of accounts payable is as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Within 3 months | 327,876 | 403,799 |
| Between 3 to 6 months | 64 | 6,377 |
| Over 6 months | 95,904 | 104,359 |
| | 423,844 | 514,535 |

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.

## 32 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hong Kong dollar | 27,668 | 17,496 | 66,212 | 23,176 |
| US dollar | 263,657 | 175,536 | 229 | – |
| Renminbi | 1,583,443 | 703,770 | – | – |
| Thai Baht | 26,665 | 4,467 | – | – |
| | 1,901,433 | 901,269 | 66,441 | 23,176 |

## 33 BORROWINGS

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Short-term borrowings | | |
| – Secured | 14,754 | 687,516 |
| – Unsecured | 148,565 | 560,807 |
| | 163,319 | 1,248,323 |
| Long-term borrowings | | |
| – Secured | – | 28,374 |
| – Unsecured | 1,793,401 | 993,874 |
| | 1,956,720 | 2,270,571 |

## 33 BORROWINGS (continued)

The carrying amounts of the borrowings are denominated in the following currencies:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| US dollar | 964,891 | 993,874 |
| Renminbi | 991,829 | 1,276,697 |
| | 1,956,720 | 2,270,571 |

For borrowings denominated in Renminbi with floating interest rates, the interest rates are re-set annually on the respective anniversary dates based on interest rates announced by the PRC.

Borrowings of the Group of approximately HK$488,026,000 (2008: HK$87,833,000) were guaranteed by CNPC and its subsidiaries as at 31 December 2009, and no borrowings of subsidiaries of the Company were guaranteed by the Company and third parties at 31 December 2009 (2008: Nil).

As at 31 December 2008, secured short-term and long-term borrowings are secured by property, plant and equipment, advanced operating lease payments and assets held for sale with aggregate carrying values of HK$747,178,000.

As at 31 December 2009, secured short-term and long-term borrowings are secured by property, plant and equipment, advanced operating lease payments with aggregate carrying values of HK$40,753,000.

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Total borrowings: | | |
| – Interest free | – | 177,738 |
| – At fixed rates | 1,953,315 | 1,866,050 |
| – At floating rates | 3,405 | 226,783 |
| | 1,956,720 | 2,270,571 |
| Weighted average effective interest rates: | | |
| – Bank loans | 4.69% | 6.92% |
| – Loans other than bank loans | 6.16% | 6.68% |

## 33 BORROWINGS (continued)

The carrying amounts and fair values of long-term borrowings are as follows:

| | Group | |
|---|---|---|
| | 2009 | 2008 |
| | HK$'000 | HK$'000 |
| Carrying amounts | 1,793,401 | 1,022,248 |
| Fair values | 2,074,372 | 1,269,964 |

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the dates of the statement of financial position. Such discount rates ranged from 0.23% to 4.32% (2008: 2.60% to 7.74%) per annum as of 31 December 2009 depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair values.

The borrowings can be analysed as follows:

| | Short-term borrowings | | Long-term borrowings | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Bank loans, wholly repayable within five years | 14,754 | 948,706 | – | 28,374 |
| Loans other than bank loans | | | | |
| – Wholly repayable within five years | 148,565 | 299,617 | 828,510 | – |
| – Not wholly repayable within five years | – | – | 964,891 | 993,874 |
| | 163,319 | 1,248,323 | 1,793,401 | 1,022,248 |

Loans other than bank loans are borrowings from China Petroleum Finance Company Limited ("CP Finance"), a finance company controlled by CNPC, other fellow subsidiaries and non-controlling interest of subsidiaries.

## 33 BORROWINGS (continued)

As at 31 December 2009 and 2008, the Group's short-term borrowings were repayable within one year and the Group's long-term borrowings were repayable as follows:

| | Bank loans | | Loans other than bank loans | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Between one to two years | – | 28,374 | 397,268 | – |
| Between two to five years | – | – | 1,203,155 | 414,939 |
| After five years | – | – | 192,978 | 578,935 |
| | – | 28,374 | 1,793,401 | 993,874 |

## 34 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 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January | (762,430) | (478,750) | (3,723) | – |
| Exchange differences | (3,457) | 8,275 | – | – |
| (Charged)/credited to the income statement (Note 14) | (119,403) | (291,955) | 3,723 | (3,723) |
| At 31 December | (885,290) | (762,430) | – | (3,723) |
| Representing: | | | | |
| Deferred tax assets | 78,598 | 89,769 | – | – |
| Deferred tax liabilities | (963,888) | (852,199) | – | (3,723) |
| | (885,290) | (762,430) | – | (3,723) |

## 34 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 | Others HK$'000 | Total HK$'000 | Withholding tax HK$'000 |
| At 1 January 2008 | (103,710) | (450,336) | 75,296 | (478,750) | – |
| Exchange differences | 8,275 | – | – | 8,275 | – |
| Charged to the income statement | (26,349) | (282,242) | 16,636 | (291,955) | (3,723) |
| At 31 December 2008 | (121,784) | (732,578) | 91,932 | (762,430) | (3,723) |
| Exchange differences | (3,457) | – | – | (3,457) | – |
| (Charged)/credited to the income statement | (35,396) | (54,244) | (29,763) | (119,403) | 3,723 |
| At 31 December 2009 | (160,637) | (786,822) | 62,169 | (885,290) | – |

As at 31 December 2009, the Group has unrecognised deferred tax assets of approximately HK$10,347,000 (2008: HK$9,320,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authorities) which can be carried forward indefinitely.

## 35 CASH FLOWS FROM OPERATING ACTIVITIES

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Profit for the year | 1,463,462 | 4,680,501 |
| Adjustments for: | | |
| Income tax expense | 391,484 | 1,093,867 |
| Depreciation, depletion and amortisation | 556,364 | 797,456 |
| Share of profits less losses of associates | (255,681) | (3,236,422) |
| Share of profits less losses of jointly controlled entities | (251,646) | (161,518) |
| (Reversal of provision)/impairment for loans to and amounts due from jointly controlled entities | (70,083) | 112,886 |
| Employee share-based payment expense | 14,123 | 18,740 |
| Dividend income from available-for-sale financial assets | (1,371) | (3,735) |
| Loss on disposal of property, plant and equipment | 9,123 | 6,608 |
| Net exchange gains | (14,580) | (174,516) |
| Interest income | (39,067) | (115,294) |
| Interest expense | 134,975 | 165,488 |
| Changes in working capital: | | |
| Accounts receivable and prepaid expenses and other current assets | (339,882) | 171,699 |
| Inventories | (7,752) | 5,291 |
| Accounts payable and accrued liabilities | 149,486 | 27,500 |
| Cash generated from operations | 1,738,955 | 3,388,551 |
| Income tax paid | (194,884) | (871,934) |
| Net cash generated from operating activities | 1,544,071 | 2,516,617 |

## 36 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 30 years and usually do not contain renewal options. Future minimum lease payments as of 31 December 2009 and 2008 under non-cancellable operating leases are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Not later than 1 year | 14,033 | 6,492 | 746 | 746 |
| Later than 1 year and not later than 5 years | 40,932 | 11,909 | 1,991 | 2,737 |
| More than 5 years | 118,647 | 12,464 | – | – |
| | 173,612 | 30,865 | 2,737 | 3,483 |

### (b) Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Contracted but not provided for: | | | | |
| Development cost under the Xinjiang Contract | 133,943 | 222,610 | – | – |
| Development cost under the Leng Jiapu Contract | 419,317 | 391,556 | – | – |
| Development cost for Onshore Exploration Block No. L21/43 in Thailand | – | 140,166 | – | – |
| Development cost for Azerbaijan Kursangi and Kurabagli oil field | 106,843 | 70,083 | – | – |
| Acquisitions of/capital contributions to investments | 232,049 | – | 595,383 | – |
| Other property, plant and equipment | 559,015 | – | – | – |
| | 1,451,167 | 824,415 | 595,383 | – |

## 36 COMMITMENTS (continued)

### (b) Capital commitments (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Authorised but not contracted for: | | | | |
| Development cost for Onshore Exploration Block No. L21/43 in Thailand | 137,051 | – | – | – |
| Development cost for Indonesia Bengara-II | 169,227 | – | – | – |
| Development cost for Peru Talara oil field | 223,409 | 81,764 | – | – |
| Development cost for Oman oil field | 115,442 | – | – | – |
| Acquisitions of/capital contributions to investments | 725,593 | – | 2,685,637 | – |
| Other property, plant and equipment | 6,452,584 | – | – | – |
| | 7,823,306 | 81,764 | 2,685,637 | – |

## 37 OIL PRODUCTION SHARING CONTRACTS

### (a) Xinjiang Contract

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

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

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the "JMC") set up by the Group and PetroChina pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1 September 1996. The first phase of the Xinjiang Contract ended on 31 August 2008. In April 2008, the Group and PetroChina, having obtained the approval of the State Council of the PRC, extended the production period for further eight years to expire on 31 August 2016. The second phase of the Xinjiang Contract commenced on 1 September 2008.

## 37 OIL PRODUCTION SHARING CONTRACTS (continued)

### (a) 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:

| | | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| (i) | Results for the year | | |
| | Income | 940,399 | 1,572,974 |
| | Expenses | (573,259) | (889,327) |
| (ii) | Assets and liabilities | | |
| | Oil and gas properties | 307,030 | 230,305 |
| | Other non-current assets | 4,536 | 6,788 |
| | Current assets | 449,082 | 422,879 |
| | Current liabilities | (119,509) | (78,930) |
| | Net assets | 641,139 | 581,042 |
| (iii) | Capital commitments | | |
| | Contracted but not provided for | 133,943 | 222,610 |

### (b) Leng Jiapu Contract

Pursuant to the Leng Jiapu Contract signed in 1997, the Group agreed to acquire 70% of the production sharing interest for RMB1,008,000,000 (approximately HK$942,000,000) and to fund its share of cost of the development carried out for the realisation of oil production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "LJP Contract Area"), at an estimated cost of US$65,500,000 (approximately HK$506,000,000) in the first two years of the development period and be further responsible for 70% of the development cost after the first two years, in exchange for a 70% share in the oil production from the LJP Contract Area.

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

## 37 OIL PRODUCTION SHARING CONTRACTS (continued)

### (b) Leng Jiapu Contract (continued)

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

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

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

| | | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| (i) | Results for the year | | |
| | Income | 1,145,903 | 1,831,674 |
| | Expenses | (996,760) | (1,399,679) |
| (ii) | Assets and liabilities | | |
| | Oil and gas properties | 2,042,531 | 2,023,854 |
| | Current assets | 1,269,378 | 1,341,469 |
| | Current liabilities | (343,145) | (398,268) |
| | Non-current liabilities | (104,284) | (93,057) |
| | Net assets | 2,864,480 | (2,873,998) |
| (iii) | Capital commitments | | |
| | Contracted but not provided for | 419,317 | 391,556 |

## 37 OIL PRODUCTION SHARING CONTRACTS (continued)

### (c) 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:

| | | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| (i) | Results for the year | | |
| | Income | 310,704 | 651,993 |
| | Expenses | (292,477) | (545,964) |
| (ii) | Assets and liabilities | | |
| | Oil and gas properties | 592,648 | 544,648 |
| | Current assets | 29,887 | 61,210 |
| | Current liabilities | (8,502) | (6,572) |
| | Net assets | 614,033 | 599,286 |
| (iii) | Capital commitments | | |
| | Contracted but not provided for | 106,843 | 70,083 |

## 38 RELATED PARTY TRANSACTIONS

CNPC, the controlling shareholder of the Company, is a state-controlled enterprise directly controlled by the PRC Government. The PRC Government is the ultimate controlling party of the Company. Related parties include CPNC and its subsidiaries, other state-owned enterprises and their subsidiaries which the PRC Government has control, joint control or significant influence over and enterprises which the Group is able to control, jointly control or exercise significant influence over, key management personnel of the Company and CNPC and their close family members.

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) Transactions with CNPC and its subsidiaries and associates

The Group has extensive transactions with other companies in the CNPC Group. Due to these relationships, 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 principal related party transactions with the CNPC Group and associates of the Group which were carried out in the ordinary course of business, are as follows:

(i) 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, which was subsequently amended in 2006 pursuant to the First Supplement Agreement.

On 25 March 2009, the Group and CNPC entered into the Second Supplement Agreement for expansion of the scope of products and services to be provided by the CNPC Group under the Master Agreement, and also for the extension of the term of the Master Agreement to expire on 31 December 2011.

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. Whereas, the Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects.

## 38 RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with CNPC and its subsidiaries and associates (continued)

(i) (continued)

- Provision of products and services by the CNPC Group to the Group in relation to oil exploration and production projects amounted to approximately HK$809,356,000 (2008: HK$1,199,816,000) in the year ended 31 December 2009.

- Purchase of the Group's share of crude oil production by the CNPC Group amounted to approximately HK$2,079,949,000 (2008: HK$3,384,058,000) in the year ended 31 December 2009.

- Supply of crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products by the CNPC Group to the Group amounted to approximately HK$971,891,000 (2008: HK$2,151,073,000) in the year ended 31 December 2009.

- Assistance fee paid to the CNPC Group amounted to approximately HK$652,000 (2008: HK$482,000) in the year ended 31 December 2009.

- Training fee paid to the CNPC Group amounted to approximately HK$708,000 (2008: HK$541,000) in the year ended 31 December 2009.

(ii) Purchases of financial service principally represent interest charged on the loans and advances obtained from CNPC and fellow subsidiaries, insurance fee, etc. The total amount of these transactions amounted to approximately HK$112,735,000 in the year ended 31 December 2009 (2008: HK$79,661,000). Information on loans from related parties are included in Note 33.

(iii) The Group has entered into agreements for the sales of natural gas to certain associates of the Group amounted to approximately HK$85,328,000 in the year ended 31 December 2009 (2008: HK$62,449,000).

(iv) The Group has entered into agreements for the provision of services in connection with the transportation of crude oil to the CNPC Group by the Pipeline Business, which was disposed of on 28 January 2010 (Note 29), amounted to approximately HK$222,737,000 in the year ended 31 December 2009 (2008: HK$228,100,000).

## 38 RELATED PARTY TRANSACTIONS (continued)

### (b) Key management compensation:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Salaries and allowances | 22,500 | 25,249 |
| Retirement benefits – defined contribution scheme | 1,275 | 1,275 |
| Share-based payments | 10,497 | 14,072 |
| | 34,272 | 40,596 |

### (c) Transactions with other state-controlled entities in the PRC

Apart from transactions with CNPC, its subsidiaries, associates and jointly controlled entities, the Group has transactions with other state-controlled entities include but not limited to (i) sales and purchases of goods and services; (ii) purchases of assets; (iii) lease of assets; and (iv) bank deposits and borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

## 39 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker which is determined as the Board of Directors of the Company.

The Group organises its business around products and services. From the products and services perspective, the Group is engaged in a broad range of petroleum related activities and derives its revenue from its two operating segments: Exploration and Production, and Natural Gas Distribution.

The Exploration and Production segment is engaged in the exploration, development, production and sale of crude oil and natural gas. It is further evaluated on a geographic basis (PRC, South America and other territories).

The Natural Gas Distribution segment is engaged in the sale of natural gas and the transmission of natural gas in the PRC.

No sales between operating segments are undertaken. The Board of Directors assesses the performance of the operating segments based on each segment's profit/(loss) before income tax expense, share of profits less losses of associates and jointly controlled entities ("segment results").

Total assets exclude deferred and current taxes, available-for-sale financial assets, investments in associates and jointly controlled entities, all of which are managed on a central basis ("segment assets").

Corporate income and expenses, net, mainly refers to interest income earned from time deposits with maturities over three months and cash and cash equivalents, and general and administration expenses incurred at corporate level.

Corporate assets mainly comprise time deposits with maturities over three months and cash and cash equivalents held at corporate level.

## 39 SEGMENT INFORMATION (continued)

The segment information provided to the Board of Directors for the reportable segments for the years ended 31 December 2009 and 2008 are as follows:

| | Exploration and Production | | | Natural Gas Distribution | | |
|---|---|---|---|---|---|---|
| | PRC | South America | Others | PRC | Corporate | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| For the year ended 31 December 2009 | | | | | | |
| Revenue from external customers | 2,079,949 | 528,163 | 542,990 | 2,129,083 | – | 5,280,185 |
| Segment results | 638,384 | 252,080 | 118,777 | 406,708 | (68,330) | 1,347,619 |
| Share of profits less losses of: | | | | | | |
| – Associates | | | | | | 255,681 |
| – Jointly controlled entities | | | | | | 251,646 |
| Profit before income tax expense | | | | | | 1,854,946 |
| Income tax expense | | | | | | (391,484) |
| Profit for the year | | | | | | 1,463,462 |
| Segment results included: | | | | | | |
| Interest income | 21,891 | 1,365 | 3,358 | 6,714 | 5,739 | 39,067 |
| Depreciation, depletion and amortisation | 293,124 | 32,372 | 76,787 | 153,545 | 536 | 556,364 |
| Interest expense | – | – | 77,191 | 57,784 | – | 134,975 |
| As at 31 December 2009 | | | | | | |
| Non-current assets | 2,463,406 | 276,741 | 1,187,567 | 2,040,387 | 96,903 | 6,065,004 |
| Current assets | 1,912,030 | 204,504 | 296,679 | 2,305,995 | 4,067,350 | 8,786,558 |
| Segment assets | 4,375,436 | 481,245 | 1,484,246 | 4,346,382 | 4,164,253 | 14,851,562 |
| Investments in jointly controlled entities | | | | | | 1,112,544 |
| Investments in associates | | | | | | 5,231,412 |
| Available-for-sale financial assets | | | | | | 105,468 |
| Deferred tax assets | | | | | | 78,598 |
| Prepaid income taxes | | | | | | 37,173 |
| Total assets | | | | | | 21,416,757 |

## 39 SEGMENT INFORMATION (continued)

| | PRC HK$'000 | Exploration and Production South America HK$'000 | Others HK$'000 | Natural Gas Distribution PRC HK$'000 | Corporate HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| For the year ended 31 December 2008 | | | | | | |
| Revenue from external customers | 3,384,058 | 763,025 | 1,061,264 | 1,579,576 | – | 6,787,923 |
| Segment results | 1,397,431 | 407,215 | 182,100 | 215,556 | 174,126 | 2,376,428 |
| Share of profits less losses of: | | | | | | |
| – Associates | | | | | | 3,236,422 |
| – Jointly controlled entities | | | | | | 161,518 |
| Profit before income tax expense | | | | | | 5,774,368 |
| Income tax expense | | | | | | (1,093,867) |
| Profit for the year | | | | | | 4,680,501 |
| Segment results included: | | | | | | |
| Interest income | 33,270 | 4,581 | 8,651 | 2,255 | 66,537 | 115,294 |
| Depreciation, depletion and amortisation | 503,075 | 39,352 | 89,168 | 165,077 | 784 | 797,456 |
| Interest expense | – | – | 77,191 | 88,297 | – | 165,488 |
| As at 31 December 2008 | | | | | | |
| Non-current assets | 2,254,431 | 190,290 | 1,042,002 | 1,247,974 | 48,648 | 4,783,345 |
| Current assets | 1,764,075 | 199,025 | 283,890 | 1,117,011 | 2,889,892 | 6,253,893 |
| Segment assets | 4,018,506 | 389,315 | 1,325,892 | 2,364,985 | 2,938,540 | 11,037,238 |
| Investments in jointly controlled entities | | | | | | 934,530 |
| Investments in associates | | | | | | 5,164,024 |
| Available-for-sale financial assets | | | | | | 56,081 |
| Deferred tax assets | | | | | | 89,769 |
| Total assets | | | | | | 17,281,642 |

## 39 SEGMENT INFORMATION (continued)

Neither the Group's revenue is derived from nor the Group's non-current assets are located in the place of domicile of the Company.

For the year ended 31 December 2009, revenue of approximately HK$2,997,910,000 (2008: HK$4,445,179,000) is derived from two single customers. The revenue is attributable to the Exploration and Production and Natural Gas Distribution segments.

## 40 ACQUISITIONS

### (a) Business combinations under common control

The Board of Directors of the Company approved the acquisitions by the Company of (i) a 97.26% equity interest in 新疆新捷股份有限公司 for a cash consideration of approximately RMB328,057,000 (approximately HK$379,049,000) on 9 January 2009; (ii) a 51.01% equity interest in 華油天然氣股份有限公司 for a cash consideration of approximately RMB435,155,000 (approximately HK$493,476,000) on 16 February 2009; and (iii) a 50.98% equity interest in CNPC Shennan Oil Technology Development Co., Ltd. for a cash consideration of approximately RMB95,091,000 (approximately HK$108,325,000) on 19 December 2008. The acquisitions were completed on 13 March 2009, 30 June 2009 and 9 February 2009 respectively. The acquisitions of 華油天然氣股份有限公司 and CNPC Shennan Oil Technology Development Co., Ltd. were by means of capital injection. 新疆新捷股份有限公司, 華油天然氣股份有限公司 and CNPC Shennan Oil Technology Development Co., Ltd. are collectively referred to as the "Natural Gas Projects".

These acquisitions are business combinations under common control since the Company and the Natural Gas Projects are under the common control of CNPC. As a result, the Company has accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at carryover predecessor values to CNPC (net assets of approximately HK$822,590,000 in aggregate and attributable to the Group at the effective dates).

The consolidated financial statements have been restated to give effect to these acquisitions with all periods presented as if the operations of the Group and the Natural Gas Projects have always been combined. The difference between the consideration and the net assets of Natural Gas Projects acquired has been adjusted against equity.

## 40 ACQUISITIONS (continued)

### (a) Business combinations under common control (continued)

The summarised results of operations for the year ended 31 December 2008 and the financial position as at 31 December 2008 for the separate entities and on a consolidation basis are set out below:

| | Group (as previously reported) HK$'000 | Natural Gas Projects HK$'000 | Group (as restated) HK$'000 |
|---|---|---|---|
| Results of operations for the year ended 31 December 2008 | | | |
| Revenue | 5,208,347 | 1,579,576 | 6,787,923 |
| Profit for the year | 4,519,626 | 160,875 | 4,680,501 |
| Earnings per share for profit attributable to owners of the Company | | | |
| – Basic (HK cents) | 69.70 | 1.39 | 71.09 |
| – Diluted (HK cents) | 68.99 | 1.38 | 70.37 |
| Financial position as at 31 December 2008 | | | |
| Non-current assets | | | |
| Property, plant and equipment | 3,483,641 | 1,173,118 | 4,656,759 |
| Other non-current assets | 6,195,163 | 175,827 | 6,370,990 |
| | 9,678,804 | 1,348,945 | 11,027,749 |
| Current assets | 5,136,882 | 1,117,011 | 6,253,893 |
| | 14,815,686 | 2,465,956 | 17,281,642 |
| Current liabilities | | | |
| Short-term borrowings | - | 1,248,323 | 1,248,323 |
| Other current liabilities | 722,593 | 246,266 | 968,859 |
| | 722,593 | 1,494,589 | 2,217,182 |
| Non-current liabilities | 1,815,275 | 59,172 | 1,874,447 |
| | 2,537,868 | 1,553,761 | 4,091,629 |
| Net assets | 12,277,818 | 912,195 | 13,190,013 |

## 40 ACQUISITIONS (continued)

### (b) Acquisition of a plant engaging in Liquified Natural Gas ("LNG") operation

On 26 October 2009, the Group acquired a LNG processing plant located at Fushan Town, Chengmai Country, Hainan Province, PRC with an annual production capacity of 80,000 tonnes and its associated assets including, but not limited to, production equipment, land and buildings on which the plant was located, vehicles, machinery and equipment and the staff of such LNG processing plant for RMB201,630,000 (approximately HK$227,842,000). The acquired business contributed revenue of HK$9,587,000 and net profit of HK$5,370,000 to the Group for the period from 1 November 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, revenue would have been HK$9,587,000, and profit before allocations would have been HK$5,370,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

| | 2009<br>HK$'000 |
|---|---|
| Purchase consideration: | |
| – Cash paid | 113,519 |
| – Consideration payables as at 31 December 2009 | 115,344 |
| – Direct costs relating to the acquisition | 26,813 |
| Total purchase consideration | 255,676 |

The assets and liabilities as of 26 October 2009 arising from the acquisition are as follows:

| | Fair value<br>HK$'000 | Acquiree's carrying amount<br>HK$'000 |
|---|---|---|
| Property, plant and equipment (Note 18) | 237,723 | 237,723 |
| Prepaid expenses and other current assets | 17,953 | 17,953 |
| Fair value of net assets acquired and total purchase consideration | 255,676 | 255,676 |

There was no acquisition in the year ended 31 December 2008.

## 40 ACQUISITIONS (continued)

### (c) Acquisition of a subsidiary

On 30 September 2009, the Group acquired 100% equity interest in Qingyang Xinda Technique Engineering Limited Liability Company ("Qingyang Xinda"), Qingyang Xinda is principally engaged in the supply of liquified hydrocarbon, chemical and petroleum construction projects, sales of LPG and light oil and provide other services in Qingyang City, Gansu Province, PRC for a consideration of RMB47,090,000 (approximately HK$53,445,000). The acquired business contributed revenue of approximately HK$7,363,000 and net profit of approximately HK$2,415,000 to the Group for the period from 1 October 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, revenue would have been HK$45,738,000, and profit before allocations would have been HK$4,017,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

| | 2009<br>HK$'000 |
|---|---|
| Total purchase consideration payables as at 31 December 2009 | 53,445 |

The assets and liabilities as of 30 September 2009 arising from the acquisition are as follows:

| | Fair value<br>HK$'000 | Acquiree's carrying amount<br>HK$'000 |
|---|---|---|
| Property, plant and equipment (Note 18) | 52,849 | 52,849 |
| Available-for-sales financial assets (Note 22) | 11,349 | 11,349 |
| Cash and cash equivalents | 1,298 | 1,298 |
| Accounts receivable | 13,233 | 13,233 |
| Prepaid expenses and other current assets | 4,116 | 4,116 |
| Accounts payable and accrual liabilities | (29,400) | (29,400) |
| Fair value of net assets and total purchase consideration | 53,445 | 53,445 |
| Cash and cash equivalents in subsidiary acquired and cash inflow on acquisition | 1,298 | |

There was no acquisition in the year ended 31 December 2008.

## 40 ACQUISITIONS (continued)

### (d) Acquisition of an associate

On 20 October 2009, the Group successfully completed the acquisition of 49% equity interest in 中油中泰燃氣有限責任公司 ("Zhongyou Zhongtai"), a sino-foreign joint venture established under the PRC laws, from a fellow subsidiary at a total consideration of approximately RMB615,537,000 (approximately HK$701,973,000). Zhongyou Zhongtai is principally engaged in the construction, operation and management of city gas pipeline network and ancillary facilities, comprehensive development and utilisation and sale of liquefied petroleum gas, and provision of safety testing, maintenance and emergency repair of the city gas transportation and distribution equipment and other services in the PRC.

The share of assets and liabilities as of 20 October 2009 arising from the acquisition are as follows:

| | HK$'000 |
|---|---|
| Purchase consideration: | |
| – Cash paid | 701,973 |
| – Direct costs relating to the acquisition | 2,124 |
| | 704,097 |
| Less: 49% share of fair value of net assets acquired | (306,358) |
| Goodwill included in investments in associates | 397,739 |

## 41 EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Save as disclosed elsewhere in the consolidated financial statements, the following is a summary of significant events after the date of the statement of financial position:

(a) On 30 December 2009, the Group entered into an acquisition agreement with a non-controlling interest to acquire 92,250,000 shares of 華油天然氣股份有限公司 from the non-controlling interest, representing approximately 26.58% of the share capital of 華油天然氣股份有限公司, at a consideration of RMB260,151,000 (approximately HK$293,971,000). Upon completion of the acquisition, the Group's equity interest in 華油天然氣股份有限公司 will increase from 51.01% to 77.59%. As at 31 December 2009, a deposit amounting to approximately HK$89,161,000 (Note 24) was paid by the Company.

(b) On 15 January 2010, one of the wholly-owned subsidiary of the Group entered into the agreement with a third party to dispose of its entire 8,450 shares of CGL (Note 29) for a consideration of US$9,500,000 (equivalent to approximately HK$73,977,000) and to assign and transfer the loans to the third party for a consideration of US$1 (equivalent to approximately HK$8).

## 42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 25 March 2010 and will be submitted to the shareholders for approval at the forthcoming annual general meeting.

## 43 PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2009 and 2008, are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Nominal value of issued and fully paid ordinary shares/ registered capital | Percentage of equity interest attributable to the Group |
|---|---|---|---|
| Investment holdings | | | |
| FSC (B.V.I.) Limited | British Virgin Islands | US$50,000 | 100% |
| FSC Investment Holdings Limited | Hong Kong | HK$222,396,617 | 100% |
| Goldstein International Limited | British Virgin Islands | US$1 | 100% |
| Bestcode Company Limited | British Virgin Islands | US$1 | 100% |
| Thai Offshore Petroleum Limited | Thailand | Baht 175,000,000 (fully paid)<br>Baht 125,000,000 (25% paid up) | 74% |
| Modern Ahead Developments Limited | British Virgin Islands | US$1 | 100% |
| Bestory Company Inc. | British Virgin Islands | US$1 | 100% |
| CNPC International (Caspian) Ltd | British Virgin Islands | US$100 | 60% |
| Smart Achieve Developments Limited | British Virgin Islands | US$1 | 100% |
| CNPCHK (Indonesia) Limited | British Virgin Islands | US$1 | 100% |
| Green Ever Company Limited | Hong Kong | HK$10,000,000 | 60% |
| Exploration, production and sales of crude oil in the PRC | | | |
| Hafnium Limited | British Virgin Islands | US$1 | 100% |
| Beckbury International Limited | British Virgin Islands | US$1 | 100% |
| Exploration, productions and sales of crude oil 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) |

## 43 PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ establishment | Nominal value of issued and fully paid ordinary shares/ registered capital | Percentage of equity interest attributable to the Group |
|---|---|---|---|
| Exploration, production and sales of crude oil 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% |
| Exploration, production and sales of crude oil in Azerbaijan | | | |
| Fortunemate Assets Limited | British Virgin Islands | US$1 | 100% |
| Exploration, production and sales of crude oil in Indonesia | | | |
| Continental GeoPetro (Bengara-II) Limited | British Virgin Islands | US$50,000 | 70% |
| Holdings of marina club debentures and wet berths | | | |
| Marina Ventures Hong Kong Limited | Hong Kong | HK$1,000 | 65% |
| Natural gas distribution in the PRC | | | |
| CNPC Shennan Oil Technology Development Co., Ltd. | PRC | RMB102,000,000 | 80.39% |
| 海口島州貿易有限公司 | PRC | RMB300,000 | 80.39% |
| 華油天然氣股份有限公司 | PRC | RMB347,000,000 | 51.01% |
| 成都華油茂源天然氣開發有限公司 | PRC | RMB16,800,000 | 26.02% |
| 鄂爾多斯市華氣新聖燃氣技術有限公司 | PRC | RMB5,000,000 | 48.46% |
| 雙流華油天然氣有限責任公司 | PRC | RMB1,200,000 | 40.81% |
| 大邑華油能源壓縮天然氣有限責任公司 | PRC | RMB1,000,000 | 20.40% |
| 淄博華油天然氣利用有限公司 | PRC | RMB1,000,000 | 45.91% |
| 泰安中油華氣天然氣利用有限公司 | PRC | RMB30,000,000 | 26.02% |
| 成都公交壓縮天然氣股份有限公司 | PRC | RMB30,000,000 | 31.85% |
| 包頭華氣新能源開發有限責任公司 | PRC | RMB14,000,000 | 35.71% |

## 43 PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ establishment | Nominal value of issued and fully paid ordinary shares/ registered capital | Percentage of equity interest attributable to the Group |
|---|---|---|---|
| Natural gas distribution in the PRC (continued) | | | |
| 山東濟南華油天然氣利用有限公司 | PRC | RMB10,000,000 | 40.81% |
| 河北華油天然氣有限責任公司 | PRC | RMB60,000,000 | 26.02% |
| 涇陽華氣安然壓縮天然氣有限公司 | PRC | RMB10,000,000 | 44.38% |
| 內江華氣公交壓縮天然氣有限責任公司 | PRC | RMB2,000,000 | 33.16% |
| 安塞華油天然氣有限公司 | PRC | RMB100,000,000 | 51.01% |
| 鄂爾多斯市華氣達昌燃氣有限責任公司 | PRC | RMB12,260,000 | 30.61% |
| 華油天然氣廣安有限公司 | PRC | RMB80,000,000 | 51.01% |
| 中油廣安天然氣有限公司 | PRC | RMB50,000,000 | 40.81% |
| 內蒙古華油天然氣有限責任公司 | PRC | RMB20,000,000 | 51.01% |
| 陝西安然能源科技有限公司 | PRC | RMB50,000,000 | 46.93% |
| 巴彥淖爾華油天然氣有限責任公司 | PRC | RMB50,000,000 | 51.01% |
| 華油天然氣廣元有限公司 | PRC | RMB100,000,000 | 51.01% |
| 新疆新捷股份有限公司 | PRC | RMB200,012,000 | 97.26% |
| 新疆新捷燃氣有限責任公司 | PRC | RMB130,780,000 | 68.26% |
| 北京金捷能源投資有限公司 | PRC | RMB58,130,000 | 97.26% |
| 新疆中亞油氣有限責任公司 | PRC | RMB10,976,000 | 79.96% |
| 浙江新捷中油天然氣利用有限公司 | PRC | RMB30,000,000 | 58.36% |
| 河北華港燃氣有限公司 | PRC | RMB131,400,000 | 51% |
| Xi'an Qinggang Clean Energy Technology Company Limited | PRC | RMB50,000,000 | 51% |
| Qingyang Xinda Technique Engineering Limited Liability Company | PRC | RMB47,000,000 | 51% |

## 43 PRINCIPAL SUBSIDIARIES (continued)

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.

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 2009 or at any time during the year.

## 44 PRINCIPAL ASSOCIATES

At 31 December 2009 and 2008, the Group had interest in the following principal associates:

| Name of associate | Place of incorporation/ establishment and type of legal entity | Nominal value of issued and fully paid ordinary share | Percentage of interest held by the Group | Principal activities |
|---|---|---|---|---|
| Aktobe | Kazakhstan, Joint-stock company | 8,946,470 common shares of 1,500 tenge each | 25.12% (Note) | Exploration and production of petroleum |
| 中油中泰燃氣有限責任公司 | PRC, equity joint venture | RMB400,152,000 | 49% | Natural gas distribution |

Note:

The Group through 60% owned subsidiary, holds a 25.12% interest in Aktobe. The Group effectively holds 15.07% interest in Aktobe.

## 45 PRINCIPAL JOINTLY CONTROLLED ENTITIES

As at 31 December 2009 and 2008, the Group had interest in the following principal 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 |
| 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 |
| 山西國興煤層氣輸配有限責任公司 | PRC, equity joint venture | RMB100,000,000 | 35% | Coal steam gas operation in the PRC |

# FIVE YEAR FINANCIAL SUMMARY

| Movements in retained earnings | 2009<br>HK$'000 | 2008<br>HK$'000<br>(Restated) | 2007<br>HK$'000<br>(Restated) | 2006<br>HK$'000<br>(Restated) | 2005<br>HK$'000<br>(Restated) |
|---|---|---|---|---|---|
| Retained earnings as at 1 January | 10,419,989 | 7,637,237 | 6,055,061 | 4,194,672 | 2,441,968 |
| Profit attributable to owners of the Company | 1,203,948 | 3,385,208 | 2,075,302 | 2,258,300 | 1,959,408 |
| Dividend paid | (668,854) | (581,399) | (484,409) | (386,727) | (165,693) |
| Dividends paid to former owners of the Natural Gas Projects | – | (16,855) | (8,717) | (11,184) | (41,011) |
| Transfer to other reserves | (75,444) | (4,202) | – | – | – |
| Retained earnings as at 31 December | 10,879,639 | 10,419,989 | 7,637,237 | 6,055,061 | 4,194,672 |
| **Assets and liabilities** | | | | | |
| Total assets | 21,416,757 | 17,281,642 | 14,278,121 | 11,419,596 | 10,379,754 |
| Total liabilities | (5,041,071) | (4,091,629) | (3,543,240) | (3,037,448) | (3,895,616) |
| Total equity | 16,375,686 | 13,190,013 | 10,734,881 | 8,382,148 | 6,484,138 |

# RESERVE QUANTITIES INFORMATION

## PROVEN DEVELOPED 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 2009 | 185.3 | 3.2 | 91.9 | 6.5 | 10.9 | 297.8 |
| Revision | (139.5) | – | (13.1) | – | – | (152.6) |
| Production | (6.4) | (0.5) | (7.6) | (0.6) | (2.0) | (17.1) |
| As at 31 December 2009 | 39.4 | 2.7 | 71.2 | 5.9 | 8.9 | 128.1 |

### Natural gas

| | South America (million cu.feet) | Central Asia (million cu.feet) | Total (million cu.feet) |
|---|---|---|---|
| As at 1 January 2009 | 1,797.9 | 56,522.5 | 58,320.4 |
| Revision | (429.9) | 60,940.6 | 60,510.7 |
| Production | (229.0) | (16,343.0) | (16,572.0) |
| As at 31 December 2009 | 1,139.0 | 101,120.1 | 102,259.1 |

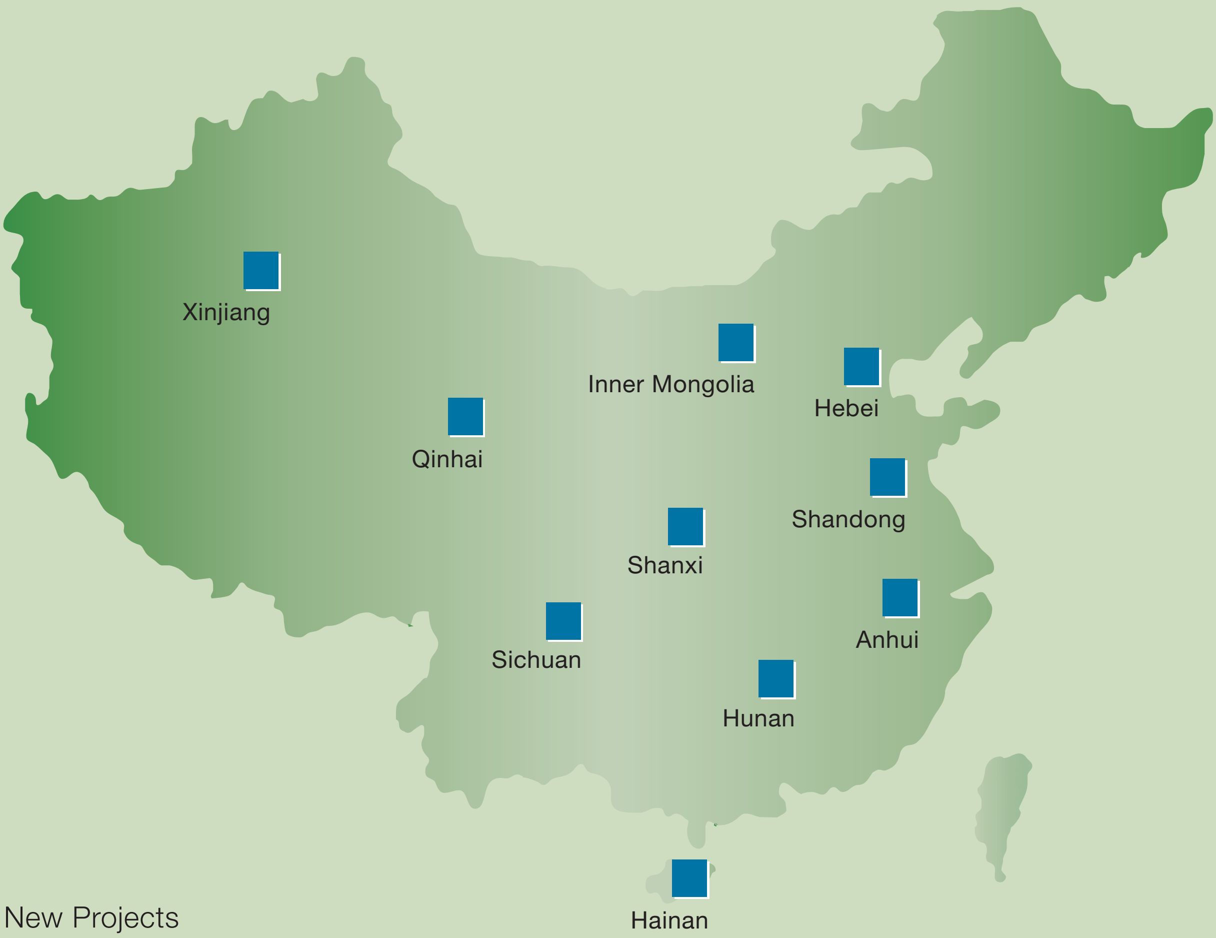
Notes:

(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.

(c) The revision is due to the change from proved reserve to proved developed reserve.

# LOCATIONS OF NATURAL GAS DISTRIBUTION ACTIVITIES IN PRC




New Projects

| Province | CNG Station | LNG Station | LNG Plant | Total | In Operation | Under Construction CNG Station | Under Construction LNG Station | Under Construction LNG Plant | Total |
|---|---|---|---|---|---|---|---|---|---|
| Xinjiang | 47 | – | – | 47 | 47 | – | – | – | 47 |
| Hainan | 20 | 2 | 1 | 23 | 19 | 2 | 2 | – | 23 |
| Shandong | 13 | – | – | 13 | 10 | 3 | – | – | 13 |
| Sichuan | 11 | – | 2 | 13 | 9 | 2 | – | 2 | 13 |
| Hebei | 9 | 1 | – | 10 | 10 | – | – | – | 10 |
| Inner Mongolia | 8 | – | 1 | 9 | 8 | – | – | 1 | 9 |
| Shanxi | 1 | – | 1 | 2 | 1 | – | – | 1 | 2 |
| Qinhai | 5 | – | 2 | 7 | 7 | – | – | – | 7 |
| Hunan | 1 | – | – | 1 | 1 | – | – | – | 1 |
| Anhui | 1 | – | – | 1 | 1 | – | – | – | 1 |
| | 116 | 3 | 7 | 126 | 113 | 7 | 2 | 4 | 126 |

Note: include natural gas stations & LNG plants owned by an associated Company.

# LOCATIONS OF CRUDE OIL EXPLORATION AND PRODUCTION BUSINESS
# 原 油 勘 探 及 生 產 業 務 分 佈 圖


Kazakhstan
哈薩克斯坦
Xinjiang
新疆
Azerbaijan
阿塞拜疆
Beijing
北京
Liaohe
遼河
Hebei
河北
Qingdao
青島
Yang zhou
揚州
Hong Kong
香港
Oman
阿曼
Thailand
泰國
Indonesia
印尼