

CHAIRMAN'S STATEMENT

I am pleased to announce to the shareholders on behalf of the Board that for the year ended 31st December 2005, the Group recorded an operating profit after tax and minority interests of HK\$1,268,563,000, representing an increase of 80.74% and a new high as compared with a profit of HK\$768,034,000 for the previous year. Besides, the Group acquired 20% interest in CNPC International (Caspian) Limited ("Caspian") from an independent third party in October 2005 and recorded negative goodwill amounting to HK\$1,705,847,000, which was credited to the income statement of the current year in accordance with HKFRS 3. With the consolidation of our share of profit in Caspian for the current year of HK\$670,104,000, the consolidated profit of the Group for the year amounted to HK\$3,644,514,000.

As compared with last year, the sales volume decreased 279,000 barrels or 2.26% but the turnover was increased by 33.25%. The weighted average price of crude oil per barrel was approximately US\$41.57, representing an increase of approximately 43.94% compared with last year's US\$28.88. The overall profit attributable to equity holders of the Company increased by 374.53% as compared with last year because of the upsurge in oil price, and the contribution from investment in a petroleum exploration and production company operating in Kazakhstan.

BUSINESS REVIEW

In October 2005, the Group acquired 20% interest in Caspian from an independent third party and its indirect interest in CNPC-Aktobemunaigas Open Joint Stock Company ("Aktobe") increased to 15.072%. In December 2005, the Group entered into an agreement with the Peruvian Government in relation to explore Zones 111 and 113 of Madre de Dios. Currently, the Group has eleven oil exploration and production projects in seven countries. Each oil field is undergoing comprehensive exploration and development, striving to generate considerable returns for shareholders by increasing production in light of the high oil price.

PETROLEUM BUSINESSES

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

Liaohe Leng Jiapu Oil Field

With the effective implementation of various measures by our staff in stabilising production, a total of 1,174,000 tonnes (2004: 1,292,000 tonnes) of crude oil from the Liaohe Leng Jiapu Contract Area were sold, representing a decrease of 9.13% compared with the previous year. On a 70% share basis, profit after tax attributable to the Group was HK\$606,131,000 (2004: HK\$419,177,000), or an increase of 44.60% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and contributed RMB361,109,000 (approximately HK\$342,543,000) (2004: RMB336,000,000 (approximately HK\$316,802,000)) during the year as part of the fund required for exploration, drilling and construction of ground production facilities.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area sold a total of 691,000 tonnes (2004: 699,000 tonnes) of crude oil in 2005, roughly the same as the previous year. On a 54% share basis, profit after tax attributable to the Group was HK\$370,898,000 (2004: HK\$207,451,000) or an increase of approximately 78.79% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and contributed RMB68,748,000 (approximately HK\$65,213,000) (2004: RMB55,887,000 (approximately HK\$52,694,000)) during the year as part of the fund required for stabilising production.

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The Republic of Kazakhstan ("Kazakhstan")

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

On 10th December 2003, the Group acquired 40% equity interest in CNPC International (Caspian) Limited ("Caspian") which owned 25.12% equity interest in Aktobe. As a result of the acquisition, the Group indirectly owned 10.048% interest of Aktobe. Aktobe owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan, and its shares are listed and traded on the Kazakhstan Stock Exchange. In accordance with the accounting standards, Caspian became an associate of the Group, and Caspian's investment in Aktobe was accounted for as a long term investment by Caspian in prior year.

Pursuant to a Board Resolution dated 15th June 2005, Caspian appointed a director to the board of Aktobe to obtain significant influence over the operations of Aktobe. Pursuant to accounting standards, Aktobe was accounted for as if it has been an associate of the Group since the date of initial acquisition.

On 14th October 2005, the Group successfully acquired an addition 20% equity interest in Caspian. The Group currently holds 60% equity interest in Caspian, representing an effective indirect holding of 15.072% equity interest in Aktobe. After assessment of the fair value of underlying assets by independent professional valuer and liabilities of Caspian, a one-time non-recurring negative goodwill of HK\$1,705,847,000 was resulted in this acquisition and was charged to the income statement in year 2005 pursuant to HKFRS3.

Pursuant to accounting standards, the acquisition of Caspian achieved in stages increases the opening reserve as at 1st January 2005 by HK\$2.3 billion and the asset revaluation reserves as at 31st December 2005 by HK\$2.7 billion. The former represents the negative goodwill on acquisition of the original 40% interest in Caspian and the results attributable to the Group from the date of initial acquisition of Aktobe to 31st December 2004. The later being the changes in fair value of the 40% interest in Caspian between the date of initial acquisition and 14th October 2005.

For year 2005, the whole project contributed a profit to the Group of HK\$2,347,258,000 including negative goodwill of HK\$1,705,847,000 as mentioned above.

The Kingdom of Thailand ("Thailand")

Sukhothai Concession

During the year, the Sukhothai Concession in Thailand recorded sales volume of 378,000 barrels (2004: 291,000 barrels), an increase of 29.90% over the corresponding period of last year, and the profit after tax of HK\$73,454,000 (2004: HK\$36,192,000), an increase of 102.96% compared with last year. The Group will continue to exploit the potential of the oil field and input more resources to increase production.

L21/43 Concession

In July 2003, the Group was granted the right to carry out oil exploration in the L21/43 concession located next to Sukhothai Concession by the Thailand Government. The overall exploration, including seismic analysis and other exploration works, has commenced. So far, two exploration wells were drilled with satisfactory initial findings and in-depth analysis and investigation are now being conducted. Exploration cost of HK\$3,155,000 (2004: HK\$18,281,000) for the year was accounted for as expenses of the year.

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Peru

Talara Oil Field

The Group held 50% interest in the rights to explore and produce oil and natural gas in Blocks VI and VII of the Talara Oil Field in Peru. During the year, 1,215,000 barrels (2004: 1,323,000 barrels) of crude oil and 1,176,596,000 cu.ft. (2004: 1,513,591,000 cu.ft.) of natural gas were sold. The Group shared HK\$67,750,000 in profit after tax and minority interests, representing an increase of HK\$32,406,000, or 91.69%, over that of last year.

Blocks 111/113

In December 2005, the Group entered into a blocks exploration agreement with Perupetro, a company wholly-owned by the Peruvian Government, in relation to conducting exploration in Zones 111 and 113 of Madre de Dios, being new blocks for exploration located in Southeast Peru. Exploration will commence in 2006, hoping that findings will bring returns to the Group.

The Sultanate of Oman ("Oman")

Block 5

The Group held 25% interest in the Block 5 oil field in Oman. The Group shared 1,418,000 barrels of oil during the year, increased by 37.40% compared with 1,032,000 barrels last year, and profit after tax attributable to the Group amounted to HK\$107,806,000 (2004: HK\$63,314,000).

The Union of Myanmar

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

The Group held 50% interest in the exploration rights of the oil fields. The overall exploration, including seismic analysis and other exploration works, has commenced. Initial findings were not encouraging and further in-depth investigation would be carried out to determine crude oil reserves and commercial value. The Group's share of exploration cost in the sum of HK\$14,342,000 (2004: HK\$28,352,000) was included as expenses of the year.

The Azerbaijan Republic ("Azerbaijan")

Kursangi and Karabagli Oil Field ("K&K")

The Group owned 25% interest in K&K in Azerbaijan and shared 1,159,000 barrels of oil during the year (2004: 1,193,000 barrels). Profit after tax attributable to the Group amounted to HK\$59,970,000 (2004: HK\$47,785,000), representing an increase of HK\$12,185,000 or 25.50% as compared with last year.

Gobustan Oil Field

The Group held 31.41% equity interest in Commonwealth Gobustan Limited ("CGL"). CGL owned 80% participating interest in an oil field in the Southwest of Gobustan, Azerbaijan. A profit of HK\$30,384,000 (2004: loss of HK\$58,942,000) was contributed to the Group for the year and the profit for the year 2005 was resulted from a gain of HK\$37,740,000 related to restructuring of loan. So far, two natural gas producing wells were drilled in the Gobustan Oil Field with satisfactory initial findings. Sale of natural gas will commence in 2006 in small scale, and large scale development will depend on the results of more in-depth exploration.

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PRC manufacturing business

Steel pipes factory

華油鋼管有限公司 ("North China"), which was set up by the Group together with 華北石油管理局, is famous for the production of high quality steel pipes, providing high quality steel pipes to satisfy the demand for transportation of natural gas from Western China to the eastern part and earned high reputation for its pipes which were widely used in other pipe projects. North China has set up a branch factory in the Yangzhou Han Jiang Industrial Park, the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. The branch factory, mainly engaged in the production of steel pipes with medium to small size bore, has formally commenced operation in early 2006.

In 2005, North China had a total output of 69,000 tonnes (2004: 115,000 tonnes) steel pipe and 175,000 tonnes (2004: 125,000 tonnes) of steel pipes were processed, generating a profit of HK\$25,764,000 (2004: HK\$26,324,000) for the Group which represented a decrease of 2.13% as compared with last year.

Film factory

Biaxially Oriented Polypropylene ("BOPP") Project

The BOPP film factory jointly established by the Group with Daqing Petroleum Administrative Bureau ("Daqing Bureau") began commercial production in 2004 and the results were satisfactory as anticipated. Profit after tax attributable to the Group for the year was HK\$234,000 (2004: HK\$1,905,000). With the PRC's accession to the World Trade Organisation, demand for packaging materials will gradually increase. In this connection, the Group once again worked with Daqing Bureau to invest in the construction of a CPP film production line which was expected to commence production this year. This operation is temporarily affected by high cost, high supply and low demand in the short run, and is suffering a hard time with low profits. Competition within the industry was extremely intense and only the strong ones might survive. The management of the film factory is now actively improving quality, controlling cost and perfecting products. Its products have gained high recognitions in the market and are at the higher end of the market, laying foundation for further development in the future. The Group is confident that when various factors are stabilised, this project will provide the Group with a steady income.

BUSINESS PROSPECTS

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

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

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FINAL DIVIDEND

With satisfactory results for the year, the Board of Directors has recommended the payment of a final dividend of HK\$0.08 (2004: HK\$0.035) per share. The proposed dividend will be paid on or about 15th June 2006 to the shareholders whose names appear on the Register on 19th May 2006, following approval at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16th May 2006 to 19th May 2006 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, Secretaries Ltd. at the Level 26, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 15th May 2006 in order to qualify for the proposed final dividend.

By Order of the Board

Wang Mingcai

Chairman

Hong Kong, 11th April 2006