

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group has recorded a turnover of HK\$3,378,323,000 for the year ended 31st December 2005, representing an increase of 33.36% as compared with HK\$2,533,312,000 last year. The increase of turnover was mainly due to the increase of weighted average crude oil selling price from US\$28.88 per barrel last year to US\$41.57 per barrel this year.

The profit attributable to equity holders of the Company for the year was HK\$3,644,514,000, representing an increase of HK\$2,876,480,000 or 374.53%, as compared to HK\$768,034,000 last year.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 2005, the aggregate assets value of the Group was HK\$16,065,930,000, representing an increase of HK\$10,816,669,000 or 206.06% as compared with 31st December 2004.

The major changes of the assets are as follows:

	Increase <i>HK\$'000</i>
Investments in associates	9,580,059 #
Investments in jointly controlled entities	117,492 *
Other assets	841,358 +
Cash and cash equivalents	277,760
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Total increase in assets	<u>10,816,669</u>

* Included share of profits of HK\$107,806,000 from a jointly controlled entity in the Sultanate of Oman ("Oman").

Included investment in CNPC-Aktobemunaigas Open Joint Stock Company ("Aktobe") of US\$1,257,146,000 (approximately HK\$9,730,309,000).

+ Included a receivable of US\$64,376,000 (approximately HK\$498,267,000) due from a stock broker who has received dividend paid out from Aktobe on behalf of the Group.

The gearing ratio of the Group maintained at 14.10% as at 31st December 2005 compared with 8.73% as at 31st December 2004. It is computed by dividing the total borrowings of HK\$1,777,983,000 (2004: HK\$354,120,000) by the shareholders' funds of HK\$12,607,072,000 (2004: HK\$4,057,996,000).

On 18th July 2005, the Group repaid the syndication loan of US\$40,000,000 (approximately HK\$310,800,000).

As at 31st December 2005, a bank borrowing denominated in United States Dollars amounted to US\$120,000,000 (approximately HK\$928,800,000) was fully repaid on 13th February 2006 and replaced with a new term loan of US\$80,000,000 (approximately HK\$619,200,000).

During the year, RMB361,109,000 (approximately HK\$342,543,000) (2004: RMB336,000,000 (approximately HK\$316,802,000)) was injected out of profits into Leng Jiapu oil field as development costs.

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In accordance with the Karamay Contract RMB68,748,000 (approximately HK\$65,213,000) (2004: RMB55,887,000 (approximately HK\$52,694,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the year.

Dividend of RMB27,921,000 (approximately HK\$26,485,000) for the year 2004 was received from 華油鋼管有限公司 during the year.

Dividend of US\$7,630,000 (approximately HK\$59,285,000) was received from Oman oilfield during the year.

USE OF PROCEEDS

During the Year, the Company did not issue any new share to the public.

In June 2005, HK\$46,900,000 was received from two directors for exercising their share options.

2004 final dividend of HK\$0.035 per share amounting HK\$165,693,000 (2004: HK\$0.02 per share amounting HK\$95,130,000) was distributed to the shareholders of the Company during the year.

Taking into account the cashflow from operating activities, the Group as at 31st December 2005 had a bank balance and cash of HK\$1,831,521,000 (2004: HK\$1,553,761,000).

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

NEW INVESTMENT

Bestory Company Incorporated ("Bestory"), a subsidiary of the Group, entered into a share purchase agreement with Darley Investment Services Incorporated ("DIS") on 10th October 2005 in relation to the acquisition of 20% of the issued share capital of Caspian ("Acquisition") for a cash consideration of US\$140,000,000 (approximately HK\$1,087,800,000). The consideration was paid with US\$20,000,000 (approximately HK\$155,400,000) from the Group and the bank loan of US\$120,000,000 (approximately HK\$932,400,000) and the Acquisition was completed on 14th October 2005. Upon the completion of the Acquisition, Bestory holds 60% of Caspian and indirectly holds 15.072% equity interest in Aktobe.

On 7th December 2005, SAPET Development Peru Inc. ("SAPET Peru"), a subsidiary of the Group, entered into the Concession Agreement ("Agreement") with Perupetro S.A. (a company wholly-owned by the Peruvian Government) whereby SAPET Peru was granted the right to explore, develop and produce crude oil and natural gas in the two new Concession Zones known as Zone 111 and Zone 113 in Peru. These zones are located in Madre de Dios, the southeast of Peru and occupy an area of approximately 15,200 km² and 12,300 km² respectively. The Agreement is for an initial term of seven years. During the years, SAPET Peru will carrying out a series of work amounting US\$31,600,000 (approximately HK\$244,584,000).

EMPLOYEE

On 31st December 2005, the Group had approximately 337 staff (excluding the staff under entrustment contracts) 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.