I am pleased to announce to the shareholders on behalf of the Board for the year ended 31 December 2006, the Group recorded an operating profit after tax and minority interests of HK$2,257,827,000 (not yet deducted amortization of asset revaluation appreciation of HK$526,386,000), representing an increase of 16.5% compared with HK$1,938,667,000 in the previous year (before including non-recurrent gains (discount on acquisition of a subsidiary-negative goodwill) of HK$1,705,847,000 in the previous year).

When the Group increased its investment of 20% equity interests in Caspian in 2005, an assessment was made in the fair value of its investment in Aktobe, which resulted an increase in the value of oil and gas assets by HK$7,402,155,000. Pursuant to accounting standards, HK$1,705,847,000 was accounted as non-recurrent gains in 2005, with the remaining included in the prior year retained earnings and assets revaluation reserve, and this amount was required to be amortised each year by unit-of-production method from 2006 onwards. HK$526,386,000 was amortised for the year (2005: HK$nil).

If the exceptional items arising from the increase in acquisition of interests in Aktobe as set out above was taken into account for the calculation of profit for the year, the Group recorded an operating profit after tax and minority interests of HK$1,731,441,000 for the year ended 31 December 2006, representing a decrease of 52.49% compared with HK$3,644,514,000 in the previous year.

The sales volume of crude oil was 17,765,000 barrels, representing an increase of 1,313,000 barrels or 7.98%. Turnover increased by 15.26%. The weighted average price of crude oil per barrel was approximately US$51.26, representing an increase of approximately 19.56% compared with US$42.88 (adjusted) in the previous year.

## BUSINESS REVIEW

In 2006, the Group acquired 70% interest in Continental-GeoPetro (Bengara-II) Limited ("CGB II") from an independent third party. CGB II has interests in the oil and gas properties of Bengara II Production Contract Area in East Kalimantan, the Republic of Indonesia ("Indonesia"). The Group has twelve petroleum exploration and production projects located in eight countries. Each oil field is undergoing comprehensive exploration and development, seeking to increase production volume in light of high oil price, so as to generate considerable returns for shareholders.

## PETROLEUM BUSINESSES

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

*Liaohe Leng Jiapu Oil Field*

As the oil fields development was faced with various difficulties, the production volume was decreased. However, with the effective implementation of various measures by our staff to stabilise production, a total of 1,061,000 tonnes (2005: 1,174,000 tonnes) of crude oil were sold from the Liaohe Leng Jiapu Contract Area, representing a decrease of 9.63% compared with the previous year. On a 70% share basis, profit after tax attributable to the Group was HK$639,675,000 (2005: HK$606,131,000), or an increase of 5.53% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs. During the year, RMB552,577,000 (approximately HK$541,742,000) (2005: RMB361,109,000 (approximately HK$342,543,000)) was contributed as part of the fund required for ongoing exploration, drilling and construction of ground production facilities. In 2006, the Group paid a total of HK$33,267,000 (2005: nil) as special levy for petroleum.

*Xinjiang Karamay Oil Field*

The Xinjiang Karamay Contract Area sold a total of 695,000 tonnes (2005: 691,000 tonnes) of crude oil in 2006, roughly the same as the previous year. On a 54% share basis, profit after tax attributable to the Group was HK$482,569,000 (2005: HK$370,898,000) or an increase of approximately 30.11% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs. During the year, RMB81,697,000 (approximately HK$80,095,000) (2005: RMB68,748,000 (approximately HK$65,213,000)) was contributed as part of the fund required for stabilising production. In 2006, the Group paid a total of HK$33,678,000 (2005: nil) as special levy for petroleum.

According to the Xinjiang Contract, the production sharing contract is twelve consecutive years up to 31 August 2008. However, the term of contract may be extended up to 25 years (up to 2021). The Group is applying for an extension of contract period and expansion of development contract area.

***The Republic of Kazakhstan ("Kazakhstan")***

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

The Group indirectly owns 15.07% equity interest in Aktobe through holding 60% equity interest in Caspian. Aktobe, whose shares are listed on the Kazakhstan Stock Exchange, owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan.

In 2006, total production of crude oil and natural gas in Aktobe amounted to 43,664,000 barrels (2005: 39,265,000 barrels) and 30,626,000,000 cu.ft (2005: 48,096,000,000 cu.ft.) respectively. Production of crude oil increased by 4,399,000 barrels or 11.20%, while production of natural gas reduced by 17,470,000,000 cu.ft. or 36.32%. The Group's share of oil amounted to 6,581,000 barrels (2005: 5,918,000 barrels) of crude oil, and 4,616,000,000 cu.ft. (2005: 7,249,000,000 cu.ft) of natural gas. As at 31 December 2006, the Group's share of reserve was 82,761,000 barrels of crude oil and 84,455,000,000 cu.ft. of natural gas. In 2006, the average selling price of crude oil US$51.14 per barrel (2005: US$46.75).

In 2006, this project contributed a profit of HK$828,724,000 (profit before amortisation of revaluation surplus of HK$526,386,000) (2005: HK$670,104,000) to the Group, an increase of 178,620,000 or 26.66%.

***The Kingdom of Thailand ("Thailand")***

*Sukhothai Concession*

During the year, the Sukhothai Concession in Thailand recorded sales volume of 383,000 barrels (2005: 378,000 barrels), an increase of 1.35% over last year. Profit before tax for the year was HK$98,002,000 (2005: HK$73,454,000), an increase of 33.42% compared with last year. Beginning from 2006, earnings were taxed on 50% of profit. Tax paid in 2006 was HK$43,135,000 (2005: Nil). The Group will continue to exploit the potential of the oil field and input more resources to increase production.

*L21/43 Concession*

In July 2003, the Group was granted the right to carry out oil exploration in the L21/43 concession located next to Sukhothai Concession by the Thailand Government. The exploration was divided into two phases of total six years. The overall exploration, including seismic analysis and other exploration works, had commenced. The first phase of exploration was basically completed. As of to-date, three exploration wells were drilled with satisfactory initial findings. Further analysis and investigation will be pursued to confirm the commercial flow. Application to convert 28.8 square kilometers as development area has already made to and approved by the Thailand Government. Exploration cost of HK$1,098,000 (2005: HK$3,155,000) for the year was accounted for exploration cost in profit and loss statement.

### *Peru*

*Talara Oil Field*

The Group holds 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, 1,114,000 barrels (2005: 1,215,000 barrels) of crude oil and 969,010,000 cu.ft. (2005: 1,176,596,000 cu.ft.) of natural gas were sold. The Group shared HK$82,312,000 (2005: HK$67,750,000) in profit after tax and minority interests, representing an increase of HK$14,562,000, or 21.49%, over that of last year.

*Blocks 111/113*

In December 2005, the Group entered into an agreement with Perupetro, a company wholly-owned by the Peruvian Government, in relation to conducting exploration in Zones 111 and 113 of Madre de Dios, being new blocks for exploration located in Southeast Peru. Exploration had commenced in 2006, with an aim to discover reserves as soon as possible, and get the return to the Group.

### *The Sultanate of Oman ("Oman")*

*Block 5*

The Group holds 25% interest in the Block 5 oil field in Oman. The Group shared 1,336,000 barrels (2005: 1,418,000 barrels) of oil production during the year, decreased by 5.8% compared with last year. Profit after tax attributable to the Group amounted to HK$115,633,000 (2005: HK$107,806,000).

### *Indonesia*

*Bengara II*

The Group acquired 70% interests in CGB II from an independent third party. CGB II had interests in the oil and gas properties of Bengara II Production Contract Area in East Kalimantan, Indonesia.

According to farmout agreement, the Group injected US$18,700,000 (approximately HK$144,832,000 into CGB II as shareholder loans for the exploration expenses required for sales and purchases project. The Group planned to complete the drilling work of four exploration wells during the exploration period (the exploration period will be ended on 4 December 2007) so as to confirm the oil reserve. The first rig had been delivered to the site, and drilling work of the first exploration well has commenced. To accelerate the pace of exploration, tender procedures of the second rig is being arranged, so as to complete the works before the deadline and application for development phase.

### *The Union of Myanmar*

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

The Group holds 50% interest in the exploration rights of the oil fields in Myanmar. The exploration, including seismic analysis and other exploration works, had commenced. Initial findings of the exploration revealed that there would not be much commercial reserve. The Group had considered to abandon this block, and focused on other potential projects. The Group's share of exploration cost of HK$16,259,000 (2005: HK$14,342,000) was included as expenses of the year.

### *The Azerbaijan Republic ("Azerbaijan")*

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

The Group owns 25% interest in K&K in Azerbaijan. During the year, the Group shared 1,082,000 barrels (2005: 1,159,000 barrels) of oil. Profit after tax attributable to the Group amounted to HK$89,215,000 (2005: HK$59,970,000), representing an increase of HK$29,245,000 or 48.77% as compared with the previous year.

*Gobustan Oil Field*

The Group holds 31.41% equity interest in Commonwealth Gobustan Limited ("CGL"). CGL owns 80% of participating interest in an oil field in the Southwest of Gobustan, Azerbaijan. A loss of HK$123,358,000 (2005: loss of HK$7,356,000, after deducting a gain of HK$37,740,000 related to accounting adjustment of loan restructuring) was contributed to the Group for the year. Only a small amount of crude and natural gas was sold in 2006. Further plans of development will depend on the results of more in-depth exploration data.

**PRC manufacturing business**

***Steel pipes factory***

華油鋼管有限公司("Steel Pipes Factory"), which was set up by the Group with North China Petroleum Administration Bureau (華北石油管理局), is well known for the production of high quality steel pipes. The Steel Pipes Factory provides high quality steel pipes to satisfy the demand for transportation of natural gas from Western China to the eastern part, which had received good recognition and enjoyed high reputation, were widely used in other pipe projects. The Steel Pipes Factory had 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, which was mainly engaged in the production of steel pipes with medium to small size diameter, officially commenced operation in 2006.

According to the data available, the construction works of large-scale pipeline projects, such as the second pipeline for transmission of natural gas from Western China to the eastern part, Sino-Russian project, Sino-Kazakhstan project, will be announced shortly. Hence, the Steel Pipes Factory will capitalize on this opportunity to fully utilize its effectiveness, and prepare for the objective becoming the "Best Pipeline Manufacturer in Mainland PRC".

In 2006, a total of 229,000 tonnes (2005: 240,708 tonnes) of steel pipes were sold by the Steel Pipes Factory. 127,000 tonnes (2005: 66,000 tonnes) were processed from material purchased on its own and 102,000 tonnes (2005: 175,000 tonnes) were processed with materials provided. A profit of HK$21,285,000 (2005: HK$25,764,000) were generated for the Group, representing a decrease of 17.38%. Such decrease was mainly attributable to the commencement of operation at Yangzhou branch just recently in 2006, with relatively higher depreciation costs. The Group shared its loss of HK$9,534,000.

***Film factory***

*Biaxially Oriented Polypropylene ("BOPP") Project*

The BOPP film factory, which was jointly established by the Group with Daqing Petroleum Administrative Bureau ("Daqing Bureau"), developed according to the expected targets. Profit after tax attributable to the Group for the year was HK$2,166,000 (2005: HK$234,000).

With the PRC's accession to the World Trade Organisation, the living standard of people in the PRC was improved, demand for packaging materials will gradually increase. In this connection, the Group again cooperated with Daqing Bureau to invest in the construction of a CPP film production line, which commenced production in 2007. This business was still subject to high cost, high supply and low demand for the time being, and resulted with low profit margin. Competition was extremely keen, which tended to outcompete weaker ones from the industry. The management of the film factory is now actively seeking to improve quality, cost control and perfect products. Its products have gained high recognitions in the market and are positioned at the higher end of the market, which lays a foundation for further development in the future. In 2007, the Company expects the BOPP market will be in the position of demand slightly greater than supply, which will be favourable to the Company. The Group is confident that when various factors are stabilised, this project will provide steady income to the Group.

## BUSINESS PROSPECTS

The positioning of the Group's future development remains unchanged, which will still focus on the investment 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 to expand into an international oil corporation. The crude oil price in future is expected to maintain at a relatively high level. The Group will accelerate on the exploration and development of existing oil projects, increase production volume, strengthen the management, costs control, increase efficiency and stabilise income. New acquisitions will be made with an aim to increase crude oil reserves and production, so as to enhance revenue and increase return to shareholders.

## FINAL DIVIDEND

As the results for the year was satisfactory, the Board of Directors recommended the payment of a final dividend of HK10 cents (2005: HK8 cents) per share. The proposed dividend will be paid on or about 25 June 2007 to the shareholders whose names appear on the Register on 8 June 2007, 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 5 June 2007 to 8 June 2007 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 4 June 2007 in order to qualify for the proposed final dividend.

By Order of the Board

**Li Hualin**
*Chairman*

Hong Kong, 11 April 2007