

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has recorded a turnover of HK\$3,893,732,000 for the year ended 31 December 2006 (the "year"), representing an increase of 15.26% as compared with HK\$3,378,323,000 last 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2006, the aggregate assets value of the Group was HK\$21,017,455,000, representing an increase of HK\$70,762,000 or 0.34% as compared with 31 December 2005.

The major changes of the assets are as follows:

	Increase/(decrease) <i>HK\$'000</i>
Property, plant and equipment	164,889
Interest in an associate	(651,118)#
Exploration and evaluation assets	48,506 *
Trade and other receivable	(522,525)+
Bank balances and cash	1,025,216
Total increase in assets	<u>64,968</u>

The net assets of Aktobe was reduced due to dividend distribution of HK\$1,479,662,000 and the amortisation charges on the revaluation surplus of HK\$877,310,000.

* The exploration and evaluation assets represented acquisition of 70% Continental-GeoPetro (Bengara-II) Ltd ("CGB II").

+ During the year, US\$64,376,000 (approximately HK\$498,267,000) was received from a custodian keeping the dividend paid out from Aktobe in 2005.

The gearing ratio of the Group maintained at 5.91% as at 31 December 2006 (31 December 2005: 14.10%). It is computed by dividing the total borrowings of HK\$828,132,000 (31 December 2005: HK\$1,777,983,000) by the shareholders' funds of HK\$14,019,033,000 (31 December 2005: HK\$12,607,073,000).

On 14 August 2006 and 16 October 2006, the Group repaid the syndication loan of total US\$80,000,000 (approximately HK\$619,600,000).

During the Year, RMB552,577,000 (approximately HK\$541,742,000) (2005: RMB361,109,000 (approximately HK\$344,668,000)) was injected out of profits into Leng Jiapu oil field as development costs.

In accordance with the Karamay Contract RMB81,697,000 (approximately HK\$80,095,000) (2005: RMB68,748,000 (approximately HK\$65,618,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the Year.

Dividend of US\$198,797,000 (approximately HK\$1,539,182,000) for the year 2005 was received from Aktobe during the Year.

Dividend of US\$5,219,000 (approximately HK\$40,408,000) was received from Oman oilfield.

In 2006, the Group acquired 70% of an exploratory oil field in the Republic of Indonesia ("Indonesia") and had injected US\$18,700,000 (approximately HK\$144,832,000) as shareholder loan on 4 October 2006 pursuant to Sale and Purchase Agreement.

USE OF PROCEEDS

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

HK\$12,024,000 was received from a director and a senior executive exercising their share options in 2006.

2005 final dividend of HK8 cents per share amounting HK\$386,727,000 (2004: HK3.5 cents per share amounting HK\$165,693,000) was distributed to the shareholders of the Group during the Year.

The Group as at 31 December 2006 has a bank balance and cash of HK\$2,856,737,000.

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

NEW INVESTMENT

On 29 September 2006, the Group completed the transaction with Continental Energy Corporation (OTCBB: CPPXF) and GeoPetro Resources Company (TSX: GEP.S) to purchase 70% issued share capital of CGB II. CGB II owns the oil and gas assets in Bengara-II Block production sharing contract area in Indonesia.

EMPLOYEE

On 31 December 2006, the Group had approximately 362 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.

By Order of the Board

Zhang Bowen

Chief Executive Officer

Hong Kong, 11 April 2007