

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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1. GENERAL

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"). The ultimate holding company of the 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 which is a company incorporated in the British Virgin Islands. The addresses 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.

The Company is an investment holding company. The principal activities of its subsidiaries 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"), the Republic of Indonesia ("Indonesia") and the Union of Myanmar ("Myanmar").

The oil operations in the PRC are conducted through production sharing arrangements with PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC with its shares listed on the Stock Exchange, whereby the Group is entitled to a fixed percentage of production in accordance with the respective oil production sharing contracts entered into with PetroChina.

The Group currently has two production sharing arrangements in the PRC. 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, Liaoning Province, the PRC. Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in notes 34 and 35.

The consolidated financial statements are presented in Hong Kong Dollars while the functional currency of the Company is United States Dollars ("US\$"). The reason for selecting Hong Kong Dollars as its presentation currency is because the Company is a public company in Hong Kong with the shares listed on the Stock Exchange, where most of its public investors are located in Hong Kong.

2. As disclosed in note 32, the Group acquired an additional 20% equity interest in CNPC International (Caspian) Limited ("Caspian") and Caspian became a 60% owned subsidiary on 14 October 2005. On the day of acquisition, the assets and liabilities of Caspian including the interest in its associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") were acquired at their fair values. However, in accounting for the acquisition as subsidiary, the Group only recorded its share of the fair value adjustments without adjusting the carrying amount of minority interest in Caspian to its proportionate share of fair value. Accordingly, the minority interest has been retrospectively adjusted by HK\$ 4,880,763,000 to reflect its proportionate share of fair value with a corresponding increase in carrying amount of interest in an associate.

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3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has also not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segment ²
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of embedded derivatives ⁵
HK(IFRIC)-Int 10	Interim financial reporting and impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2-Group and treasury share transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 January 2009.

³ Effective for annual periods beginning on or after 1 March 2006.

⁴ Effective for annual periods beginning on or after 1 May 2006.

⁵ Effective for annual periods beginning on or after 1 June 2006.

⁶ Effective for annual periods beginning on or after 1 November 2006.

⁷ Effective for annual periods beginning on or after 1 March 2007.

⁸ Effective for annual periods beginning on or after 1 January 2008.

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4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

Jointly controlled entities

A jointly controlled entity is a joint venture whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of the losses is recognised.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods provided in the normal course of business, net of sales related taxes.

Sales of crude oil and natural gas

Sales of crude oil and natural gas are recognised when goods are delivered and title has passed.

Rental income

Rental income is recognised on a straight-line accrual basis over the terms of the respective leases.

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income

Dividend income is recognised when the right to receive payment is established.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated at cost less accumulated depletion, depreciation and amortisation and accumulated impairment losses, if any. The successful efforts method of accounting is used for oil and gas properties. Under this method, all costs for development wells, support equipment and facilities, and acquired proven mineral interests in oil and gas properties are capitalised. Proven oil and gas reserves are the estimated quantities of crude oil, natural gas and condensate oil 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.

Depletion, depreciation and amortisation of capitalised costs of oil and gas properties is calculated on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for depletion, depreciation and amortisation of oil properties takes into account expenditure incurred to date, together with projected future development expenditure. Depreciation of other fixed assets (capitalised in oil and gas properties) is provided on a straight-line basis at annual rates of between 16.67% and 20%.

Construction in progress

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other fixed assets

Other fixed assets, comprising buildings, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment other than certain oil and gas properties and construction in progress over their estimated useful lives, after taking into account of residual values, using the straight line method, at the following rates per annum:

Buildings	4% or over the remaining period of respective leases where shorter
Furniture and fixtures	20% to 25%
Motor vehicles	25%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised pending a determination of whether sufficient quantities of potentially economic oil and gas reserves have been discovered. The related well costs are expensed if it is determined that such economic viability is not attained within one year of completion of drilling. Otherwise, the related well costs are reclassified to oil and gas properties and subject to depletion and impairment review. For wells found economically viable reserves in areas where a major capital expenditure would be required before production can begin, the related well costs remain capitalised only if additional drilling is under way or firmly planned. Otherwise the well costs are expensed. The Group has no costs of unproven properties capitalised in oil and gas properties.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expenses immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories consist of crude oil and marina club debentures and wet berths held for sales. Inventories are stated at the lower of cost and net realisable value. Cost of crude oil, calculated on a weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets included loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loans to/amounts due from jointly controlled entities, trade and other receivables, bank balance and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments are not reversed in subsequent periods.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Borrowings

Bank and other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Other financial liabilities

Other financial liabilities, including trade and other payables, amount due to ultimate holding company and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire or transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and any cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in income statement.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries, associate and jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit cost

Payments to the defined contribution schemes are charged as an expense as they fall due.

Share-based payment transactions

Share options granted to the employees

The Group has early adopted the HKFRS 2 prior to 1 January 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in employee share-based compensation reserve.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in employee share-based compensation reserve will be transferred to the share premium reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in employee share-based compensation reserve will continue to be held in reserve.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency (i.e. Hong Kong Dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, loans to/amounts due from jointly controlled entities, trade and other receivables, bank deposits and balances, trade and other payables, amount due to ultimate holding company and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors. These exposures to ensure appropriate measures are implemented on a timely and effective manner.

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

(i) Foreign exchange risk

The Group operates mainly in US\$ and Renminbi. Renminbi is not a freely convertible currency. Future exchange rates of Renminbi against other currencies could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC Government. The exchange rates of Renminbi are also affected by economic developments and political changes domestically and internationally, and supply and demand for Renminbi. The Group has not entered into any arrangement to hedge this risk but the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

(ii) Price risk

The Group is engaged in a wide range of petroleum related activities. The global oil and gas market is affected by international political, economic and military developments and global demand for and supply of oil and gas. A decrease in the world prices of crude oil and gas could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil and refined products. The management will consider hedging oil and gas exposure should the need arises.

Credit risk

The carrying amount of accounts receivables, loans to and amounts due from jointly controlled entities represent the Group's maximum exposure to credit risks in relation to its financial assets. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances. The management manages and monitors the exposure of loans to and amount due from jointly controlled entities by ensuring the advances will only be made available to those profitable projects.

The credit risk on liquid funds is limited because the counterparties are banks with high credit standing.

The credit risk on trade receivables is concentrated on a few customers. Trade receivables of the Group's five largest customer accounted for 100% of the Group's total trade receivables. The customers of the Group are mainly those international petroleum companies with sound financial background. Thus, the management considers that the risk is limited.

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk

The Group's exposure to cash flow interest rate risk is mainly attributable variable rate loan from short-term bank loans and variable rate loan from a fellow subsidiary. Details of which have been disclosed in notes 26 and 27. The Group has not used any interest rate swaps to hedge its exposure to interest rate risks. The management will consider implementing appropriate measures should the need arise.

Fair value interest rate risk

The Group's exposure to fair value interest rate risk is attributable from fixed rate loan from immediate holding company. The fair value of fixed rate loan from immediate holding company is likely to be different from their carrying amounts. The fair value of fixed rate loan from immediate holding company is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. Details of analysis of the fair value and carrying amounts of long-term loans are set out in notes 26 and 27. The Group has not used any financial instrument to hedge against the interest rate exposure. The management will consider hedging the interest rate risk should the need arises.

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices;
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The carrying amount of loans to jointly controlled entities, trade and other receivables, amounts due from jointly controlled entities, cash and bank balances, trade and other payables, amounts due to ultimate holding company and minority shareholders of subsidiaries and loans approximate their respective fair values. The fair value of other classes of financial assets and financial liabilities are disclosed in the respective notes to the consolidated financial statements.

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6. KEY ESTIMATION UNCERTAINTIES

Estimates and judgements are continually 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of oil and natural gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in depletion, amortisation and depreciation calculation and in testing for impairment. Changes in proven oil and natural gas reserves, particularly proven reserves, will affect unit-of-production depreciation charges to the income statement. Proven 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. In general, changes in the estimation of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes to the Group's estimates of proven reserves, may affect the amount of depletion, depreciation and amortisation recorded in the Group's financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proven reserves will increase depletion, depreciation and amortisation charges (assuming constant production) of oil and gas properties and reduce net income.

7. SEGMENT INFORMATION

Business segments

The Group's principal activities are the exploration and production of crude oil and natural gas. In the opinion of directors, these activities constitute one business segment since the products are related and are subject to common risks and returns.

Geographical segments

The Group operates within four geographical regions, namely the PRC, South America, Central and South East Asia and Middle East.

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7. SEGMENT INFORMATION (continued)

Segment information about these geographical regions by location of assets and customers is presented as follows:

For the year ended 31 December 2006

	PRC HK\$'000	South America HK\$'000	Central and South Asia HK\$'000	Middle East HK\$'000	Unallocated HK\$'000	Total HK\$'000
Turnover	<u>2,713,025</u>	<u>556,369</u>	<u>624,338</u>	<u>-</u>	<u>-</u>	<u>3,893,732</u>
Segment results	<u>1,471,579</u>	<u>264,959</u>	<u>202,097</u>	<u>(16)</u>	<u>-</u>	<u>1,938,619</u>
Unallocated income						187,143
Unallocated expenses						(121,288)
Finance costs						(101,204)
Share of results of						
An associate	-	-	788,983	-	-	788,983
Jointly controlled entities	22,256	-	(53,066)	115,649	-	84,839
Profit before taxation						2,777,092
Income tax expense						(722,076)
Profit for the year						<u>2,055,016</u>
The segment assets and liabilities at 31 December 2006 are as follows:						
Segment assets	3,275,117	437,067	1,273,187	-	1,238,965	6,224,336
Interest in an associate	-	-	13,959,954	-	-	13,959,954
Interests in jointly controlled entities	261,370	-	-	413,357	-	674,727
Loans to jointly controlled entities	45,246	-	81,481	-	-	126,727
Amounts due from jointly controlled entities	-	-	31,572	139	-	31,711
Total assets	<u>3,581,733</u>	<u>437,067</u>	<u>15,346,194</u>	<u>413,496</u>	<u>1,238,965</u>	<u>21,017,455</u>
Segment liabilities	188,807	105,461	186,057	10	3,620	483,955
Amounts due to ultimate holding company	1,229	-	-	-	-	1,229
Amount due to minority shareholder of subsidiaries	-	-	49,718	-	-	49,718
Other loans	-	-	828,132	-	-	828,132
Taxation payable	99,153	-	11,257	-	-	110,410
Deferred taxation liabilities	124,120	-	-	-	-	124,120
Total liabilities	<u>413,309</u>	<u>105,461</u>	<u>1,075,164</u>	<u>10</u>	<u>3,620</u>	<u>1,597,564</u>
Other segment information:						
Capital expenditure	452,671	58,138	165,359	-	58	676,226
Depletion, depreciation and amortisation	465,779	45,452	54,409	-	437	566,077
Impairment losses on loans to and amounts due from jointly controlled entities	-	-	99,160	-	-	99,160

Note: South America represented the operation in Peru, Central and South East Asia represented the operation in Azerbaijan, Indonesia, Kazakhstan, Myanmar and Thailand, Middle East represented the operation in Oman.

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7. SEGMENT INFORMATION (continued)

For the year ended 31 December 2005

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Unallocated HK\$'000	Total HK\$'000
Turnover	2,329,252	503,791	545,280	—	—	3,378,323
Segment results	1,310,520	221,618	125,921	(16)	—	1,658,043
Unallocated income						22,653
Unallocated expenses						(88,311)
Discount on acquisition of a subsidiary	—	—	1,705,847	—	—	1,705,847
Finance costs						(33,627)
Share of results of An associate	—	—	793,281	—	—	793,281
Jointly controlled entities	23,283	—	62,141	107,822	—	193,246
Profit before taxation						4,251,132
Income tax expense						(415,660)
Profit for the year						3,835,472

The segment assets and liabilities at 31 December 2005 are as follows (Restated):

Segment assets	3,034,848	433,348	1,400,316	—	634,444	5,502,956
Deferred taxation assets	—	13,530	—	—	—	13,530
Interests in an associate	—	—	14,611,072	—	—	14,611,072
Interests in jointly controlled entities	257,280	—	53,049	337,874	—	648,203
Loans to jointly controlled entities	47,315	—	123,617	—	—	170,932
Total assets	3,339,443	446,878	16,188,054	337,874	634,444	20,946,693
Segment liabilities	43,379	85,511	177,682	9	6,280	312,861
Amount due to ultimate holding company	1,185	—	—	—	—	1,185
Taxation payable	169,474	30,248	—	—	—	199,722
Bank loans	—	—	928,800	—	—	928,800
Other loans	—	21,672	827,511	—	—	849,183
Deferred taxation liabilities	197,631	—	—	—	—	197,631
Total liabilities	411,669	137,431	1,933,993	9	6,280	2,489,382
Other segment information:						
Capital expenditure	393,864	34,514	164,309	—	1,714	594,401
Depletion, depreciation and amortisation	393,648	42,259	48,871	—	548	485,326
Impairment losses on loans to and amounts due from jointly controlled entities	—	—	59,000	—	—	59,000

Note: South America represented the operation in Peru, Central and South East Asia represented the operation in Azerbaijan, Indonesia, Kazakhstan, Myanmar and Thailand, Middle East represented the operation in Oman.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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8. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income	75,743	22,347
Government grants related to reinvestment of profits generated from oil production sharing contracts (note)	97,261	64,886
Dividend income from listed equity securities	1,868	1,722
Rental income	78	78
Exchange gain	172,880	—
Others	686	634
	348,516	89,667

Note: The local 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 every year.

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on borrowing wholly repayable within five years:		
– loan from immediate holding company	74,978	14,567
– loan from a fellow subsidiary	1,861	4,859
– bank borrowings	24,365	14,201
	101,204	33,627

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10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2006 HK\$'000	2005 HK\$'000
Directors' emoluments (see below)	9,708	21,733
Other key management personnel	2,820	2,920
Total key management personnel	12,528	24,653
Other staff costs		
Staff's retirement benefits scheme contributions	6,256	8,704
Employee share option benefits expense	–	1,300
Other staff costs	99,958	55,010
	106,214	65,014
Total staff cost	118,742	89,667
Depletion, depreciation and amortisation of property, plant and equipment	565,936	485,186
Amortisation of prepaid lease payments	141	140
	566,077	485,326
Auditor's remuneration	4,224	3,303
Cost of inventories sold	2,100,661	1,780,745
Operating lease rental in respect of rented premises	2,771	2,483
Share of tax of		
– an associate (included in share of results of an associate)	1,049,593	153,806
– jointly controlled entities (included in share of results of jointly controlled entities)	1	–

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For the year ended 31 December 2006

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10. PROFIT BEFORE TAXATION (continued)

Directors' emoluments

The remunerations of each director for the year ended 31 December 2006 is set out below:

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Share option benefits expenses HK\$'000	Total HK\$'000
Mr Wang Mingcai	2,835	473	–	–	3,308
Mr Li Hualin	–	3,200	400	–	3,600
Mr Cheng Cheng	–	1,600	200	–	1,800
Mr Lin Jingao	–	–	–	–	–
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	3,835	5,273	600	–	9,708

The remuneration of each director for the year ended 31 December 2005 is set out below:

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000	Retirement benefits scheme contributions HK\$'000	Share option benefits expenses HK\$'000	Total HK\$'000
Mr Wang Mingcai	1,890	1,260	157	6,500	9,807
Mr Li Hualin	–	2,710	339	5,200	8,249
Mr Cheng Cheng	–	1,571	196	–	1,767
Mr Lin Jingao	–	–	–	–	–
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	910	1,160
	2,890	5,541	692	12,610	21,733

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10. PROFIT BEFORE TAXATION (continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining two (2005: one) highest paid individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other emoluments	2,507	1,440
Retirement benefits scheme contributions	313	180
Share option benefits expense	–	1,300
	<u>2,820</u>	<u>2,920</u>

The emolument was within the following bands:

	2006 Number of employee	2005 Number of employee
HK\$1,000,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$3,000,000	–	1

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

11. INCOME TAX EXPENSE

	2006 HK\$'000	2005 HK\$'000
Current tax:		
Other jurisdictions	556,211	423,181
Withholding tax in other jurisdictions	230,876	–
Under(over)provision in prior years	108	(637)
	<u>787,195</u>	<u>422,544</u>
Deferred taxation credit (note 28)	(65,119)	(6,884)
	<u>722,076</u>	<u>415,660</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subjected to the income tax rate of 33% (2005: 33%) for the year.

The withholding tax represented the 15% withholding tax paid in respect of the dividend receipt from an associate, Aktobe.

The Xinjiang Contract is operated by the Company's wholly owned subsidiary established outside the PRC. In accordance with an approval by the tax bureau of Karamay, the profit derived from the oil production under the Xinjiang Contract is entitled to preferential income tax rate of 15% to the foreign enterprise invested in the PRC for six years from 1 January 2003 to 31 December 2008. Such preferential rate was endorsed by the relevant tax bureau for the qualification of the Company's subsidiary.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	2,777,092	4,251,132
Tax of domestic income tax rate of 33% (2005: 33%)	916,440	1,402,874
Effect of different tax rates of subsidiaries operating in other jurisdictions	(108,827)	(74,972)
Tax effect of income not taxable for tax purpose	(72,583)	(583,421)
Tax effect of expenses not deductible for tax purpose	43,504	—
Tax effect of share of results of associates	(260,364)	(261,783)
Tax effect of share of results of jointly controlled entities	(27,997)	(44,302)
Utilisation of tax losses previously not recognised	—	(24,237)
Under(over)provision in prior years	108	(637)
Tax effect of tax losses not recognised	1,497	2,138
Withholding tax	230,876	—
Others	(578)	—
Income tax expense	722,076	415,660

The domestic tax rate which is the PRC tax rate in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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12. DIVIDENDS PAID

Dividend recognised as distribution during the year:

2005 final dividend-HK8 cents

(2004 final dividend: HK3.5 cents) per share

2006
HK\$'000

2005
HK\$'000

386,727

165,693

The final dividend of HK10 cents (2005: HK8 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting. Accordingly, this dividend has not been recognised in the financial statements.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the shareholders of the Company is based on the following data:

Earnings

Earnings attributable to shareholders of the Company

for the purposes of basic and diluted earnings per share

2006
HK\$'000

2005
HK\$'000

1,731,441

3,644,514

Number of shares
(in thousand)

Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share

Effect of dilutive potential ordinary shares in respect of share options

Weighted average number of ordinary shares for the purpose of diluted earnings per share

4,831,564

4,785,628

60,705

20,932

4,892,269

4,806,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

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14. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties HK\$'000	Buildings HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST						
At 1 January 2005	4,913,641	1,365	2,341	2,132	54,328	4,973,807
Currency realignment	19,542	—	—	5	558	20,105
Additions	554,558	—	181	1,533	38,129	594,401
Disposals	(57,431)	—	—	—	—	(57,431)
Reclassifications	54,649	—	—	—	(54,649)	—
At 31 December 2005	5,484,959	1,365	2,522	3,670	38,366	5,530,882
Currency realignment	183,726	—	—	23	1,127	184,876
Additions	305,002	—	57	810	370,357	676,226
Disposals	(29,308)	—	—	—	—	(29,308)
Reclassifications	400,460	—	—	—	(400,460)	—
At 31 December 2006	6,344,839	1,365	2,579	4,503	9,390	6,362,676
DEPLETION, DEPRECIATION AND AMORTISATION						
At 1 January 2005	2,258,979	36	1,938	1,754	—	2,262,707
Currency realignment	16,784	—	—	1	—	16,785
Provided for the year	484,672	41	169	304	—	485,186
Eliminated on disposal	(38,832)	—	—	—	—	(38,832)
At 31 December 2005	2,721,603	77	2,107	2,059	—	2,725,846
Currency realignment	101,006	—	—	8	—	101,014
Provided for the year	565,057	55	162	662	—	565,936
Eliminated on disposal	(46)	—	—	—	—	(46)
At 31 December 2006	3,387,620	132	2,269	2,729	—	3,392,750
NET BOOK VALUES						
At 31 December 2006	2,957,219	1,233	310	1,774	9,390	2,969,926
At 31 December 2005	2,763,356	1,288	415	1,611	38,366	2,805,036

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

The buildings are situated in the PRC under medium term lease and long term lease amounting to HK\$1,163,000 (2005: HK\$1,215,000) and HK\$70,000 (2005: HK\$73,000) respectively.

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.

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

Leasehold land outside Hong Kong:

Lease of over 50 years

Leases of between 10 to 50 years

2006
HK\$'000

2005
HK\$'000

153

155

3,548

3,687

3,701

3,842

16. INTERESTS IN/LOANS TO JOINTLY CONTROLLED ENTITIES

Unlisted shares, at cost

Share of post-acquisition profits and reserves

2006
HK\$'000

2005
HK\$'000

511,274

511,274

163,453

136,929

674,727

648,203

Loans to jointly controlled entities

126,727

170,932

Loans to jointly controlled entities are unsecured and not repayable within one year. The amounts of HK\$45,246,000 and HK\$81,000,000 (2005: HK\$47,315,000 and HK\$117,286,000) bear interest at 5% and London Inter Bank Offer Rate ("LIBOR") plus 3.5% (2005: 5% and LIBOR plus 3.5%) per annum and the remaining balances are non-interest bearing.

In 2006, the Group made an impairment loss of HK\$99,160,000 (2005: HK\$59,000,000) for loans to and amount due from jointly controlled entities. The provision is attributable to the unfavourable exploration results of the respective jointly controlled entities. The impairment loss is measured as the difference between the carrying amount of loans to and amount due from the relevant jointly controlled entities and the present value of the estimated future cash flows discounted at the original effective interest rate.

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16. INTERESTS IN/LOANS TO JOINTLY CONTROLLED ENTITIES (continued)

The financial positions and results of the Group's portion of investment in its jointly controlled entities are summarised as follows:

	2006 HK\$'000	2005 HK\$'000
Assets and liabilities		
Current assets	516,825	614,696
Non-current assets	858,962	681,484
Current liabilities	(417,541)	(485,267)
Non-current liabilities	(283,519)	(162,710)
Net assets	674,727	648,203
Results for the year		
Turnover	1,152,115	867,325
Group's share of profit of jointly controlled entities	84,839	193,246

Details of principal jointly controlled entities, which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2006, are set out in note 41.

17. INTERESTS IN AN ASSOCIATE

	2006 HK\$'000	2005 HK\$'000 (Restated)
Group's share of net assets of Aktobe	13,959,954	14,611,072
Market value of listed shares		
– Investment in Aktobe	25,261,293	8,986,397

Aktobe is a joint stock company listed on the Kazakhstan Stock Exchange, the principal activity of Aktobe is the exploration and production of petroleum in Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields located in the north-western region of Kazakhstan. The Group holds 25.12% of issued capital of Aktobe.

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17. INTERESTS IN AN ASSOCIATE (continued)

The financial positions and results (after fair value adjustment upon acquisition) of the Group's portion of investment in its associate, Aktobe, are summarised below:

	2006 HK\$'000	2005 HK\$'000
Assets and liabilities		
Total assets	63,807,582	65,469,217
Total liabilities	(8,234,517)	(7,304,121)
Net assets	55,573,065	58,165,096
The Group's share of net assets	13,959,954	14,611,072
Result for the year		
Turnover	16,810,377	14,411,920
Profit for the year	3,140,856	3,157,966
Group's share of profit of associate of the year (note)	788,983	793,281

Note: During the year ended 31 December 2006, the Group's share of profit of Aktobe included an amount of HK\$877,310,000 related to the amortisation of fair value adjustments in connection with the acquisition of interest in Aktobe.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK\$'000	2005 HK\$'000
Listed investments:		
– Equity securities listed in Hong Kong	12,980	7,920
– Equity securities listed in Australia	48,901	51,110
	61,881	59,030

At the balance sheet date, all the equity securities listed in Hong Kong and Australia are stated at fair values, which have been determined by reference to bid prices quoted in Hong Kong Stock Exchange and Australian Stock Exchange respectively.

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19. EXPLORATION AND EVALUATION ASSETS

Carrying value

At 1 January 2006

Arising on acquisition of subsidiary

At 31 December 2006

HK\$'000

—

—

48,506

48,506

The amount represents the oil exploration right in Indonesia acquired during the year through the acquisition of a subsidiary (note 32).

20. INVENTORIES

Crude oil in tanks

Marina club debentures and wet berths

2006

HK\$'000

18,327

13,602

31,929

2005

HK\$'000

15,744

13,602

29,346

21. TRADE AND OTHER RECEIVABLES

Trade receivables (note (a))

from third parties

from fellow subsidiaries

Prepayments and other receivables (note (b))

Amounts due from fellow subsidiaries

2006

HK\$'000

69,028

129,295

198,323

19,435

31,736

249,494

2005

HK\$'000

62,899

203,334

266,233

505,601

185

772,019

Notes:

- The Group grants a credit period of 30 to 60 days to its customers. At 31 December 2006 and 31 December 2005, all trade receivables were aged within three months.
- At 31 December 2005, the amount included a receivable of US\$64,376,000 (approximately HK\$498,267,000) from a stock broker, who received dividend paid out by Aktobe on behalf of the Group. The amount was fully settled during 2006.

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and repayable on demand.

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22. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

23. BANK DEPOSITS, BANK BALANCES AND CASH

	2006 HK\$'000	2005 HK\$'000
Bank deposits with original maturity more than three months	729,125	—
Cash at bank and in hand	666,426	1,119,376
Short-term bank deposits	1,461,186	712,145
	2,127,612	1,831,521

Bank deposits with original maturity more than three months carry interest at market rate at 2.25% per annum. The original maturity ranged from 6 months to 1 year.

The effective interest rate on short-term bank deposits was 4.9% (2005: 3.9%); these deposits have an average maturity of 35 days (2005: 38 days).

Included in bank deposits, bank balances and cash are the following amounts denominated in currencies other than the functional currency of the entity to which they relate.

	2006 HK\$'000	2005 HK\$'000
United States Dollars	1,367,432	603,049

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24. TRADE AND OTHER PAYABLES

	2006 HK\$'000	2005 HK\$'000
Trade payables		
to third parties	31,663	10,375
to fellow subsidiaries	59,831	35,063
	<hr/>	<hr/>
	91,494	45,438
Other payables and accrued expenses	204,381	137,908
Other payables to fellow subsidiaries	188,080	128,591
	<hr/>	<hr/>
	483,955	311,937
	<hr/>	<hr/>

The aged analysis of the trade payables (including amounts due to fellow subsidiaries of trading in nature) is as follows:

	2006 HK\$'000	2005 HK\$'000
Within three months	83,955	37,956
Between three months to six months	–	21
Over six months	7,539	7,461
	<hr/>	<hr/>
	91,494	45,438
	<hr/>	<hr/>

The amounts due to fellow subsidiaries are unsecured, non-interest bearing and repayable on demand.

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For the year ended 31 December 2006

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25. AMOUNTS DUE TO ULTIMATE HOLDING COMPANY AND MINORITY SHAREHOLDERS OF SUBSIDIARIES

The amounts due to ultimate holding company and minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

26. BANK LOANS

	2006 HK\$'000	2005 HK\$'000
Short-term bank loans repayable within 1 year	—	928,800

The effective interest rate of the US Dollars bank loans as at 31 December 2005 was 4.28% per annum.

During the year of 2006, the Group obtained new bank loans amounting to US\$80,000,000 (equivalent to HK\$619,000,000). The loans bear interest at LIBOR plus 0.3% and are repayable by instalments starting from 2008. All of the bank loans had been early settled in the year of 2006.

27. OTHER LOANS

	2006 HK\$'000	2005 HK\$'000
Loan from immediate holding company (note (a))	828,132	774,000
Loan from a fellow subsidiary (note (b))	—	75,183
	828,132	849,183
The other loans are repayable within a period of:		
Within 1 year	—	21,672
Between 1 and 2 years	—	154,800
Between 2 and 5 years	—	672,711
Over 5 years	828,132	—
	828,132	849,183
Less: Amount due within one year shown under current liabilities	—	(21,672)
Amount due over one year	828,132	827,511

Notes:

- (a) The loan is unsecured, carries interest at 8% per annum and repayable in full on 10 February 2016.
- (b) As at 31 December 2005, the loan of HK\$53,511,000 was unsecured, carries interest at 8% per annum and repayable in full on 2 June 2016. The loan of HK\$21,672,000 was unsecured, carried interest at LIBOR plus 6.5% per annum and was repayable before 31 December 2006. These amounts were fully settled during the year ended 31 December 2006.

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28. DEFERRED TAXATION

The followings are the major deferred tax liabilities and assets recognised by the Group:

	Accelerated tax depreciation	Others	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	(206,810)	17,425	(189,385)
Currency realignment	(1,481)	(119)	(1,600)
Credit (charge) to the consolidated income statement for the year (note 11)	10,660	(3,776)	6,884
At 31 December 2005	(197,631)	13,530	(184,101)
Currency realignment	(5,142)	4	(5,138)
Credit (charge) to consolidated income statement for the year (note 11)	78,653	(13,534)	65,119
At 31 December 2006	(124,120)	–	(124,120)

As at 31 December 2006, the Group had tax losses carried forward for Hong Kong Profits Tax purpose amounting to HK\$35,267,000 (2005: HK\$30,732,000) available for offset against future profits that may be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2006 HK\$'000	2005 HK\$'000
Deferred taxation assets	–	13,530
Deferred taxation liabilities	(124,120)	(197,631)
	(124,120)	(184,101)

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29. SHARE CAPITAL

	Number of ordinary shares	
	'000	HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
– at 1 January 2005, 31 December 2005 and 31 December 2006	8,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
– at 1 January 2005	4,734,094	47,341
– exercise of share options	90,000	900
– at 31 December 2005	4,824,094	48,241
– exercise of share options	16,000	160
– at 31 December 2006	4,840,094	48,401

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30. SHARE OPTION SCHEMES

Pursuant to resolution of the Company passed on 23 October 1991, the Company adopted an executive share option scheme (the "1991 Share Option Scheme") on that day. The 1991 Share Option Scheme was terminated on 28 May 2001 with the share options granted under such scheme still valid until their respective expiry days. On the same day, another share option scheme (the "2001 Share Option Scheme") was adopted. 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 numbers 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.

Options granted under the 1991 Share Option Scheme and 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 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 immediately when the options were granted.

The number of shares in respect of which options had been granted and outstanding at 31 December 2006 under the 1991 Share Option Scheme and the 2002 Share Option Scheme was nil (2005: 10,000,000) and 79,500,000 (2005: 85,500,000), representing nil (2005: 0.21%) and 1.64% (2005: 1.77%), respectively, of the issued share capital of the Company at 31 December 2006.

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30. SHARE OPTION SCHEMES (continued)

The following table discloses movements of the Company's share options held by the directors and certain employees during the year:

		Number of share options								
Name or category of participant	Option Type	Outstanding at 1 January 2005	Granted the year	Exercised during the year	Outstanding at 31 December 2005	Exercised during the year	Outstanding at 31 December 2006	Date of grant	Exercise price HK\$	Exercise period
Directors										
Mr Wang Mingcai	2001A	20,000,000	–	(20,000,000)	–	–	–	8 Mar 2001	0.41	8 Jun 2001 to 7 Jun 2006
	2001B	30,000,000	–	(30,000,000)	–	–	–	26 Apr 2001	0.61	16 Jul 2001 to 25 Apr 2006
	2005	–	25,000,000	–	25,000,000	–	25,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
Mr Li Hualin	2001A	20,000,000	–	(20,000,000)	–	–	–	8 Mar 2001	0.41	8 Jun 2001 to 7 Jun 2006
	2001B	20,000,000	–	(20,000,000)	–	–	–	26 Apr 2001	0.61	16 Jul 2001 to 25 Apr 2006
	2005	–	20,000,000	–	20,000,000	–	20,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
Mr Cheng Cheng	2004B	20,000,000	–	–	20,000,000	–	20,000,000	25 Jun 2004	0.94	25 Sep 2004 to 24 Jun 2009
Mr Lin Jingao	2001B	10,000,000	–	–	10,000,000	(10,000,000)	–	26 Apr 2001	0.61	16 Jul 2001 to 25 Apr 2006
Dr Lau Wah Sum	2004A	3,500,000	–	–	3,500,000	–	3,500,000	8 Jan 2004	1.362	8 Apr 2004 to 7 Jan 2009
Mr Li Kwok Sing Aubrey	2004A	3,500,000	–	–	3,500,000	–	3,500,000	8 Jan 2004	1.362	8 Apr 2004 to 7 Jan 2009
Dr Liu Xiao Feng	2005	–	3,500,000	–	3,500,000	(1,000,000)	2,500,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
		127,000,000	48,500,000	(90,000,000)	85,500,000	(11,000,000)	74,500,000			
Other employees	2004B	5,000,000	–	–	5,000,000	(5,000,000)	–	25 Jun 2004	0.94	25 Sep 2004 to 24 Jun 2009
	2005	–	5,000,000	–	5,000,000	–	5,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
		5,000,000	5,000,000	–	10,000,000	(5,000,000)	5,000,000			
Total		132,000,000	53,000,000	(90,000,000)	95,500,000	(16,000,000)	79,500,000			

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30. SHARE OPTION SCHEMES (continued)

The fair value of options granted under the Scheme was calculated using the Binomial model. The inputs into the model are as follows:

	2004A	2004B	2005
Weighted average share price	HK\$1.34	HK\$0.94	HK\$1.21
Exercise price	HK\$1.362	HK\$0.94	HK\$1.224
Expected volatility	32%	32%	32%
Expected life	5 years	5 years	5 years
Risk-free rate	2.98%	3.6%	3.24%
Expected dividend yield	4%	4%	4%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognised no expense for the year ended 31 December 2006 (2005: HK\$13,910,000) in relation to share options granted by the Company.

31. RESERVES

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.

The asset revaluation reserve represents the changes in fair value on assets arising from acquisition of a subsidiary in 2005.

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32. ACQUISITION OF A SUBSIDIARY

On 29 September 2006, the Group acquired 70% equity interest of Continental-GeoPetro (Bengara II) Ltd. ("CGB II") from Continental Energy Corporation and GeoPetro Resources Company at the aggregate consideration of US\$21,000 and US\$14,000, respectively. This acquisition has been accounted for using the purchase method.

Net assets acquired:

Bank balances and cash

Exploration and evaluation assets

Other receivables

Other payables

Amounts due to minority shareholder of subsidiaries

Net cash outflow arising on acquisition:

Cash consideration paid

Bank balances and cash acquired

2006
Acquiree's
carrying
value and fair
value
HK\$'000

69

48,506

586

(96)

(48,794)

271

(271)

69

(202)

The subsidiary acquired during the year ended 31 December 2006 did not contribute significantly to the Group's cash flow or operating results for the year.

On 14 October 2005, the Group acquired additional 20% equity interest in Caspian from an independent third party. Prior to this acquisition, the Group already owned 40% of the issued share capital of Caspian. As at 31 December 2005, Caspian is held as to 60% by the Group and hence accounted for as a subsidiary. Caspian is an investment holding of equity interest of 25.12% in Aktobe, the results of which are equity accounted for in Caspian for the year ended 31 December 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. ACQUISITION OF A SUBSIDIARY (continued)

The book value and fair value of net assets of subsidiaries acquired and the goodwill and discount on acquisition arising during the year are as follows:

	2005		
	Acquiree's carrying amount before combination HK\$'000	Fair value adjustment HK\$'000	Fair value HK\$'000
Net assets acquired:			
Bank balances and cash	77,305	—	77,305
Interests in an associate (Note (a))	8,057,768	6,782,827	14,840,595
Other payables	(118,945)	—	(118,945)
Other loans	(830,720)	—	(830,720)
	<u>7,185,408</u>	<u>6,782,827</u>	<u>13,968,235</u>
Minority interests			(5,587,294)
Asset revaluation reserve			(2,713,131)
Discount on acquisition (Note (b))			<u>(1,705,847)</u>
Total consideration			<u><u>3,961,963</u></u>
Discharged by:			
Cash paid to vendor			1,087,800
Interest in an associate			<u>2,874,163</u>
			<u><u>3,961,963</u></u>
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,087,800)
Bank balances and cash acquired			<u>77,305</u>
			<u><u>(1,010,495)</u></u>

The above presentation has been restated and details of which were disclosed in note 2.

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32. ACQUISITION OF A SUBSIDIARY (continued)

Notes:

- (a) The fair value adjustment was attributable to the underlying proven oil reserve of Aktobe measured at the future net revenue at a discount rate of 10 percentage by an independent valuer, Degolyer and Macnaughton.
- (b) Discount on acquisition represents excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost.

33. RETIREMENT BENEFITS SCHEMES

Defined contributed plans

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

The Group (including its subsidiaries and jointly controlled entities) also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

The total cost charged to income of HK\$6,856,000 (2005: HK\$9,396,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. OIL PRODUCTION SHARING CONTRACT – 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 shall bear 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.

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34. OIL PRODUCTION SHARING CONTRACT – 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:

	2006 HK\$'000	2005 HK\$'000
(a) Results for the year		
Turnover	1,005,310	787,235
Profit for the year	467,196	152,267
Profit for the year is arrived at after charging (crediting) the following:		
	2006 HK\$'000	2005 HK\$'000
Depletion, depreciation and amortisation of oil and gas properties	133,178	119,806
Deferred income	–	(24,958)
(b) Assets and liabilities		
Oil and gas properties	267,271	320,663
Current assets	306,819	334,928
Current liabilities (excluding amount due to immediate holding company)	(41,226)	(68,420)
Amount due to immediate holding company	(266,202)	(309,277)
Non-current liabilities	(1,938)	(15,854)
Net assets	264,724	262,040
(c) Capital commitments		
Contracted but not provided for	243,508	48,670

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35. OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT

Pursuant to the Leng Jiapu Contract, 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 "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 Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in 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 70% to the Group and 30% to PetroChina towards investment recovery and profit.

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:

(a) Results for the year

	2006 HK\$'000	2005 HK\$'000
Turnover	1,707,715	1,542,019
Profit for the year	541,158	237,250

Profit for the year is arrived at after charging the following:

	2006 HK\$'000	2005 HK\$'000
Depletion, depreciation and amortisation of oil and gas properties	332,323	273,735

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35. OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT (continued)

(b) Assets and liabilities

	2006 HK\$'000	2005 HK\$'000
Oil and gas properties	1,602,752	1,496,890
Current assets	1,097,336	882,009
Current liabilities (excluding amount due to immediate company)	(236,907)	(188,080)
Amount due to immediate holding company	(717,215)	(702,153)
Non-current liabilities	(123,721)	(128,181)
Net assets	1,622,245	1,360,485

(c) Capital commitments

Contracted but not provided for	514,266	469,823
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36. CAPITAL COMMITMENTS

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for		
Development cost under the Xinjiang Contract	243,508	48,670
Development cost under the Leng Jiapu Contract	514,266	469,823
Development cost for Onshore Exploration Block No. L21/43 in Thailand (Note)	106,107	60,500
	863,881	578,993
Authorised but not contracted for		
Development cost for Azerbaijan Kursangi and Kurabagli oil field	74,294	99,730
Development cost for Peru Talara oil field	82,252	16,486
Development cost for Thailand Sukhothai oil field	15,490	83,592
Development cost for Indonesia Bengara-II Block	144,831	—
	316,867	199,808

Note: The amount represents the remaining minimum work obligations, as required to be incurred before the end of the petroleum exploration period granted by the respective government authority, 17 July 2009, in the Petroleum Concession awarded by The Minister of Energy of Thailand.

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37. OPERATING LEASE COMMITMENTS

At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	2,636	1,995
In the second to fifth years inclusive	3,330	4,391
Later than five years	1,167	1,363
	7,133	7,749

Operating lease payments represent rental payable by the Group for the rented premises. Leases are negotiated for term from 1 to 14 years.

38. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material related party transactions:

Nature of transaction	2006 HK\$'000	2005 HK\$'000
Sales of crude oil to fellow subsidiaries	2,834,927	2,329,253
Expenses paid to fellow subsidiaries	846,974	748,671
Technical service fee paid to a fellow subsidiary	–	4,004
Engineering, production and logistics support service expenses paid to fellow subsidiaries	27,957	748,115
Purchase of equipment, material, supplies and other products from fellow subsidiaries	74,947	36,411
Assistance fee paid to a fellow subsidiary – Beckbury International Limited	279	266
Assistance fee paid to a fellow subsidiary – Hafnium Limited	408	210
Training fee paid to a fellow subsidiary – Beckbury International Limited	458	533
Training fee paid to a fellow subsidiary – Hafnium Limited	401	210
Rental expenses paid to a fellow subsidiary	373	373
Interest expenses paid to a fellow subsidiary	1,861	4,859
Interest expenses paid to immediate holding company	74,978	14,567

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38. RELATED PARTY TRANSACTIONS (continued)

Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC Government ("State-controlled entities"). In addition, the Group itself is part of a larger group of companies under CNPC which is controlled by the PRC Government. Apart from the transactions with immediate holding company and fellow subsidiaries disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

Other than those disclosed above and notes elsewhere in the consolidated financial statements, the balances and significant related party transactions were carried out in the normal course of the Company's business as follows:

(1) Transactions with other state-owned enterprises

	2006 HK\$'000	2005 HK\$'000
Interest income from bank deposits	13,348	15,950

(2) Balances with related parties

	2006 HK\$'000	2005 HK\$'000
Deposits with state-owned banks and other state-owned non-bank financial institutions	1,349,238	1,102,004

In addition, the Group has entered into various transactions, including deposits placements with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and emolument	7,780	6,981
Directors' fee	3,835	2,890
Retirement benefit cost	913	872
Share options	—	13,910
	12,528	24,653

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39. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2006, are as follows:

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Investment holding:			
Operated in Hong Kong			
FSC (B.V.I.) Limited	British Virgin Islands	US\$50,000	100%
FSC Investment Holdings Limited	Hong Kong	HK\$222,396,617	100%
Operated in Peru			
Goldstein International Limited	British Virgin Islands	US\$1	100%
Operated in Oman			
Bestcode Company Limited	British Virgin Islands	US\$1	100%
Operated in Thailand			
Thai Offshore Petroleum Limited	Thailand	Baht175,000,000 (fully paid) Baht125,000,000 (25% paid up)	74%
Modern Ahead Developments Limited	Thailand	US\$1	100%
Operated in Kazakhstan			
Bestory Company Inc.	British Virgin Islands	US\$1	100%
CNPC International (Caspian) Limited	British Virgin Islands	US\$100	60%

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39. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Operated in Azerbaijan			
Smart Achieve Developments Limited	British Virgin Islands	US\$1	100%
Operated in Indonesia			
CNPCHK (Indonesia) Limited	British Virgin Islands	US\$1	100%
Oil and gas exploration and production:			
Operated in the PRC			
Hafnium Limited	British Virgin Islands	US\$1	100%
Beckbury International Limited	British Virgin Islands	US\$1	100%
Operated in Peru			
SAPET Development Corporation	United States of America	100 ordinary shares no par value	50%
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	50%
Operated 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%

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39. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation	Nominal value of issued and fully paid ordinary shares	Attributable proportion of nominal value of issued share capital held by the Company
Operated in Azerbaijan			
Fortunemate Assets Limited	British Virgin Islands	US\$1	100%
Operated in Indonesia			
Continental GeoPetro (Bengara-II) Limited	British Virgin Islands	US\$50,000	100%
Marina club debentures and wet berths holding:			
Operated in Hong Kong			
Marina Ventures Hong Kong Limited	Hong Kong	HK\$1,000	65%

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 subsisting at 31 December 2006 or at any time during the year.

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40. ASSOCIATE

At 31 December 2006, the Group had interest in the following associate:

Name of associate	Place of incorporation and type of legal entity	Nominal value of issued and fully paid ordinary share	Percentage of interest held by the Group	Principal activity
CNPC – Aktobemunaigas Joint Stock Company	Kazakhstan, Joint-stock company	8,946,470 common shares of 1,500 tenge each	25.12 (Note)	Exploration and production of petroleum

Note: The Group, through 60% owned subsidiary, holds a 25.12% interest in Aktobe (The Group effectively holds 15.072% interest in Aktobe).

41. JOINTLY CONTROLLED ENTITIES

As at 31 December 2006, the Group had interest in the following 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 ventures	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 ventures	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 ventures	RMB124,157,250	25	Production of petro-chemical products in the PRC
青島凱姆拓塑膠工業有限公司	PRC, equity joint ventures	RMB99,318,000	25	Production of petro-chemical products in the PRC
Chinnery Assets Limited	British Virgin Islands, limited liability company	200 ordinary shares of US\$1 each	50	Crude oil exploration and production in Myanmar
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

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42. BALANCE SHEET INFORMATION OF THE COMPANY

	2006 HK\$'000	2005 HK\$'000
Non-current assets		
Property, plant and equipment	1,056	1,436
Investments in subsidiaries	156,035	156,035
Investments in jointly controlled entities	236,169	236,365
Loans to jointly controlled entities	45,246	112,646
	438,506	506,482
Current assets		
Other receivables	520	566
Amounts due from subsidiaries	3,817,846	3,540,472
Amount due from an jointly controlled entity	26,870	–
Bank balances and cash	1,236,270	550,596
	5,081,506	4,091,634
Current liabilities		
Trade and other payables	487,620	6,272
Amounts due to subsidiaries	89,632	–
	577,252	6,272
Net current assets	4,504,254	4,085,362
	4,942,760	4,591,844
Capital and reserves		
Share capital	48,401	48,241
Reserves	4,894,359	4,543,603
	4,942,760	4,591,844