CNPC (HONG KONG) LIMITED
(incorporated in Bermuda with limited liability)
中國(香港)石油有限公司*
(Stock Code: 0135)

ANNOUNCEMENT OF RESULTS

HIGHLIGHTS OF THE FINANCIAL RESULTS OF THE GROUP

	Year ended 31 December		
	2008	2007	**Change**
	HK$'000	*HK$'000*	*%*
		(Restated)	
Revenue	**5,208,347**	3,842,723	35.54
Profit attributable to the equity holders of the Company	**3,319,132**	1,963,440	69.05
	HK cent	*HK cent*	
Earnings per share (Basic)	**69.70**	40.54	71.93
Earnings per share (Diluted)	**68.99**	40.04	72.30
Dividend per share – Final	**15.00**	12.00	25.00

The directors of CNPC (Hong Kong) Limited (the "Company") announce that the audited consolidated results of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Note	**2008** **HK$'000**	2007 HK$'000 (Restated) *(Note 3)*
Revenue	*5*	**5,208,347**	3,842,723
Other gains, net		**188,810**	213,670
Interest income		**113,039**	111,525
Purchases, services and others		**(1,240,246)**	(939,504)
Employee compensation costs		**(221,917)**	(253,304)
Exploration expenses, including exploratory dry holes		**(43,705)**	(490,508)
Depreciation, depletion and amortisation		**(631,595)**	(653,116)
Selling, general and administrative expenses		**(615,810)**	(535,772)
Taxes other than income taxes		**(405,967)**	(82,413)
Other expenses		**(112,886)**	(32,642)
Interest expenses		**(77,191)**	(76,983)
Share of profits less losses of:			
– An associate		**3,231,962**	2,021,239
– Jointly controlled entities		**161,518**	185,817
Profit before taxation		**5,554,359**	3,310,732
Taxation	*6*	**(1,034,733)**	(630,546)
Profit for the year		**4,519,626**	2,680,186
Attributable to:			
– Equity holders of the Company		**3,319,132**	1,963,440
– Minority interests		**1,200,494**	716,746
		4,519,626	2,680,186
Earnings per share for profit attributable to equity holders of the Company	*7*		
– Basic (HK cents)		**69.70**	40.54
– Diluted (HK cents)		**68.99**	40.04
Dividends attributable to equity holders of the Company	*8*	**581,399**	484,409

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2008 HK$'000	2007 HK$'000 (Restated) (Note 3)
Assets			
Non-current assets			
Property, plant and equipment		**3,483,641**	3,060,295
Advanced operating lease payments		**3,418**	3,560
Interests in jointly controlled entities		**934,530**	929,101
Interest in an associate		**5,081,744**	3,396,526
Available-for-sale financial assets		**38,985**	126,467
Other non-current assets		**48,312**	2,162
Deferred tax assets		**88,174**	71,587
		9,678,804	7,589,698
Current assets			
Inventories		**35,822**	30,491
Accounts receivable	9	**90,088**	318,779
Prepaid expenses and other current assets		**17,283**	66,192
Bank deposits with maturities over three months		**476,677**	901,089
Cash and cash equivalents		**4,517,012**	3,343,291
		5,136,882	4,659,842
Total assets		**14,815,686**	12,249,540
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital		**44,408**	48,450
Reserves		**10,613,515**	8,966,022
		10,657,923	9,014,472
Minority interests		**1,619,895**	987,569
		12,277,818	10,002,041

	Note	2008 HK$'000	2007 HK$'000 (Restated) (Note 3)
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**669,124**	740,498
Income tax payable		**29,210**	93,278
Other tax payable		**24,259**	36,544
		722,593	870,320
Non-current liabilities			
Other loans, wholly repayable over five years		**993,874**	832,623
Deferred tax liabilities		**821,401**	544,556
		1,815,275	1,377,179
Total liabilities		**2,537,868**	2,247,499
Total equity and liabilities		**14,815,686**	12,249,540
Net current assets		**4,414,289**	3,789,522
Total assets less current liabilities		**14,093,093**	11,379,220

Notes:

1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except for available-for-sale financial assets, which are stated at fair values.

2 NEW ACCOUNTING DEVELOPMENTS

The Group has adopted all of the following new and revised HKFRSs and Interpretations that are effective for annual periods beginning on or after 1 January 2008.

HKAS 39 and HKFRS 7 (amendment)	Financial instruments: recognition and measurement
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the above new and revised HKFRSs and Interpretations do not have significant changes to the accounting policies applied in the financial statements for the year ended 31 December 2008.

As the date of authorisation of these financial statements, the following new and revised HKFRSs and Interpretations were in issue but not yet effective and have not been early adopted by the Group.

HKFRSs (amendments)	Improvements to HKFRSs
HKAS 1 (revised)	Presentation of financial statements
HKAS 23 (revised)	Borrowing costs
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 32 and HKAS 1 (amendments)	Puttable financial instruments and obligations arising on liquidation
HKAS 39 (amendment)	Eligible hedged items
HKAS 1 and HKAS 27 (amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (amendment)	Vesting conditions and cancellations
HKFRS 3 (revised)	Business combinations
HKFRS 8	Operating segments
HK(IFRIC)-Int 13	Customer loyalty programmes
HK(IFRIC)-Int 15	Agreements for the construction of real estate
HK(IFRIC)-Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC)-Int 17	Distributions of non-cash assets to owners
HK(IFRIC)-Int 18	Transfers of assets from customers

The Group has already commenced an assessment of the impact of these new HKFRS but is not yet in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

3 COMPARATIVES

(a) Changes in presentation of the consolidated income statement

In previous years, the Group presented an analysis of expenses on the face of its consolidated income statement using a classification based on their function within the Group.

Following the acquisition by PetroChina Company Limited ("PetroChina") on 18 December 2008, the Directors reviewed the presentation of the Group's consolidated income statement and, taking into account of the presentation adopted by PetroChina and certain companies within the same industry, concluded that to present an analysis of expenses using a classification based on their nature would be more appropriate to the Group's circumstances and more relevant to users of the Group's financial statements. Consequently, the presentation of the consolidated income statement for the year ended 31 December 2008 has been revised and the comparative figures have been reclassified in order to conform to the current year's presentation. The changes in presentation of the consolidated income statement did not have any impact on the Group's profit for the year or the calculation of the Group's earnings per share.

(b) Change in accounting policy

In previous accounting years, the Group adopted the purchase method of accounting, to account for acquisition of subsidiaries, including the business combinations under common control. Following the acquisition by PetroChina on 18 December 2008, the Directors of the Company are of the view that, taking into account of the policy adopted by certain companies within the industry, the predecessor of value method of accounting would provide more appropriate and relevant information of the Group's business combinations under common control in the Group's consolidated financial statements. Therefore, with effect from 1 January 2008, the Group changed to adopt predecessor value method of accounting to account for its business combinations under common control.

The change in accounting policy has been applied retrospectively. The effect of the change in accounting policy is as follows:

	2008	2007
	HK$'000	*HK$'000*
Decrease in oil and gas properties	**(61,782)**	(71,835)
Decrease in interest in an associate	**(9,204,413)**	(10,406,048)
Decrease in opening retained earnings	**(2,600,390)**	(3,196,528)
Decrease in opening minority interests	**(4,198,026)**	(4,597,177)
Decrease in asset revaluation reserve	**(2,713,131)**	(2,713,131)
Decrease in merger reserve	**(960,519)**	(960,519)
Decrease in translation reserve	**(1,153)**	(5,817)
Decrease in depreciation, depletion and amortisation	**10,061**	10,352
Increase in share of profits less losses of an associate	**1,196,963**	984,937
Increase in basic earnings per share (HK cents)	**15.19**	12.31
Increase in diluted earnings per share (HK cents)	**15.03**	12.16

4 SEGMENT INFORMATION

Business segments

The Group's principal activities are the exploration and production of crude oil and natural gas. No information for business segment is presented because the sales of natural gas is minimal comparing with the total revenue of the Group.

Geographical segments

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

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

	PRC	South America	Central Asia	South East Asia	Middle East	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2008						
Segment revenue	**3,384,058**	**763,025**	**651,993**	**409,271**	**–**	**5,208,347**
Segment results	**1,367,589**	**402,642**	**(162,497)**	**255,874**	**(58)**	**1,863,550**
Unallocated income, net						**374,520**
Interest expenses						**(77,191)**
Share of profits less losses of:						
– An associate	–	–	**3,231,962**	–	–	**3,231,962**
– Jointly controlled entities	**38,847**	–	–	–	**122,671**	**161,518**
Profit before taxation						**5,554,359**
Taxation						**(1,034,733)**
Profit for the year						**4,519,626**

4 SEGMENT INFORMATION (continued)

	PRC	South America	Central Asia	South East Asia	Middle East	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
The segment assets and liabilities at 31 December 2008 are as follows:						
Segment assets	**2,300,961**	**204,370**	**590,497**	**517,452**	**–**	**3,613,280**
Interest in an associate	**–**	**–**	**5,081,744**	**–**	**–**	**5,081,744**
Interests in jointly controlled entities	**381,582**	**–**	**–**	**–**	**552,948**	**934,530**
Deferred tax assets	**6,788**	**81,386**	**–**	**–**	**–**	**88,174**
Bank deposits with original maturity more than three months	**476,677**	**–**	**–**	**–**	**–**	**476,677**
Bank balances and cash	**1,240,868**	**184,945**	**54,570**	**163,373**	**–**	**1,643,756**
Other unallocated corporate assets						**2,977,525**
Total assets						**14,815,686**
Segment liabilities	**461,624**	**61,925**	**6,886**	**91,635**	**12**	**622,082**
Amount due to ultimate holding company	**1,409**	**–**	**–**	**–**	**–**	**1,409**
Amounts due to minority shareholders of subsidiaries	**–**	**–**	**–**	**49,058**	**–**	**49,058**
Other loans	**–**	**–**	**993,874**	**–**	**–**	**993,874**
Income tax payable	**6,286**	**2,266**	**–**	**20,658**	**–**	**29,210**
Deferred tax liabilities	**96,780**	**–**	**705,432**	**19,189**	**–**	**821,401**
Other unallocated corporate liabilities						**20,834**
Total liabilities						**2,537,868**
Other segment information:						
Capital expenditure	**630,220**	**57,588**	**57,739**	**203,917**	**–**	**949,464**
Depletion, depreciation and amortisation	**503,075**	**39,352**	**17,556**	**71,612**	**–**	**631,595**

4 SEGMENT INFORMATION (continued)

	PRC *HK$'000*	South America *HK$'000*	Central Asia *HK$'000*	South East Asia *HK$'000*	Middle East *HK$'000*	Total *HK$'000*
For the year ended 31 December 2007						
Segment revenue	2,506,092	577,300	514,746	244,585	–	3,842,723
Segment results	1,072,782	86,382	93,523	(120,876)	(307)	1,131,504
Unallocated income, net						49,155
Interest expenses						(76,983)
Share of profits less losses of:						
– An associate	–	–	2,021,239	–	–	2,021,239
– Jointly controlled entities	25,789	–	–	–	160,028	185,817
Profit before taxation						3,310,732
Taxation						(630,546)
Profit for the year						2,680,186
The segment assets and liabilities at 31 December 2007 are as follows:						
Segment assets	1,912,381	211,415	524,784	518,348	–	3,166,928
Interest in an associate	–	–	3,396,526	–	–	3,396,526
Interests in jointly controlled entities	333,183	–	97,922	–	497,996	929,101
Deferred taxation assets	–	71,587	–	–	–	71,587
Amounts due from jointly controlled entities	2,205	–	6,550	–	60	8,815
Bank deposits with original maturity more than three months	901,089	–	–	–		901,089
Bank balances and cash	287,389	44,264	185,870	111,169	–	628,692
Other unallocated corporate assets						3,146,802
Total assets						12,249,540

4 SEGMENT INFORMATION (continued)

	PRC *HK$'000*	South America *HK$'000*	Central Asia *HK$'000*	South East Asia *HK$'000*	Middle East *HK$'000*	Total *HK$'000*
Segment liabilities	250,277	64,353	167,717	126,388	109,758	718,493
Amount due to ultimate holding company	1,322	–	–	–	–	1,322
Amounts due to minority shareholders of subsidiaries	–	–	–	49,058	–	49,058
Other loans	–	–	832,623	–	–	832,623
Income tax payable	31,932	33,545	–	27,801	–	93,278
Deferred tax liabilities	87,981	–	450,336	6,239	–	544,556
Other unallocated corporate liabilities						8,169
Total liabilities						2,247,499
Other segment information:						
Capital expenditure	488,966	22,723	50,146	211,962	–	773,797
Depletion, depreciation and amortisation	551,918	32,401	20,711	48,086	–	653,116
Impairment loss on property, plant and Equipment	–	–	–	314	–	314
Impairment loss and write-off of exploration and evaluation assets	–	–	–	174,372	–	174,372

5 REVENUE AND TURNOVER

Turnover represents revenue from the sale of crude oil and natural gas.

6 TAXATION

	2008	2007
	HK$'000	*HK$'000*
Current tax		
– PRC	**277,549**	275,988
– Overseas	**492,065**	383,485
	769,614	659,473
Deferred tax	**265,119**	(28,927)
	1,034,733	630,546

Hong Kong profits tax has not been provided for as the Group has no estimated assessable profit for the year (2007: Nil).

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 25% (2007: 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2011.

Taxation on overseas (other than Hong Kong and Mainland China) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

Included in overseas taxation is an amount of withholding tax of HK$240,906,000 (2007: HK$233,249,000) in respect of dividend receipt from an associate, CNPC-Aktobemuaigas Joint Stock Company ("Aktobe") which is charged at 15% (2007: 15%).

7 BASIC AND DILUTED EARNINGS PER SHARE

(a) The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$3,319,132,000 (2007: HK$1,963,440,000) and weighted average number of ordinary shares in issue during the year of approximately 4,761,936,000 shares (2007: 4,843,557,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company of approximately HK$3,319,132,000 (2007: HK$1,963,440,000), and the weighted average number of ordinary shares of approximately 4,810,754,000 shares (2007: 4,903,294,000 shares) which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of dilutive potential ordinary shares in respect of share options of approximately 48,818,000 shares (2007: 59,737,000 shares) deemed to be issued at no consideration if all outstanding share option granted had been exercised.

8 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2008	2007
	HK$'000	*HK$'000*
Final dividends attributable to equity holders of the Company for 2006 (Note (a))	–	484,409
Final dividends attributable to equity holders of the Company for 2007 (Note (b))	**581,399**	–
	581,399	484,409

Notes:

(a) Final dividends attributable to equity holders of the Company in respect of 2006 of HK10 cents per share amounting to a total of HK$484,409,000 were approved by the shareholders in the Annual General Meeting on 13 June 2007 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2007, and were paid on 20 June 2007.

(b) Final dividends attributable to equity holders of the Company in respect of 2007 of HK12 cents per share amounting to a total of HK$581,399,000 were approved by the shareholders in the Annual General Meeting on 26 May 2008 and accounted for in equity as an appropriation of retained earnings in the year ended 31 December 2008, and were paid on 10 June 2008.

(c) At the meeting on 25 March 2009, the Board of Directors proposed final dividends attributable to equity holders of the Company in respect of 2008 of HK15 cents per share amounting to a total of HK$666,118,000. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the balance sheet date and will be accounted for in equity as an appropriation of retained earnings in the year ending 31 December 2009 when approved at the forthcoming Annual General Meeting.

9 ACCOUNTS RECEIVABLE

	Group	
	2008	2007
	HK$'000	*HK$'000*
Accounts receivable due from		
– Third parties	**73,332**	218,595
– Related parties	**16,756**	100,184
	90,088	318,779

Amounts due from related parties are interest free and unsecured.

The Group grants a credit period of 30 to 90 days to its customers. At 31 December 2008 and 31 December 2007, all accounts receivable are aged within three months and are not past due and no allowance for doubtful debts for both years.

9 ACCOUNTS RECEIVABLE (continued)

The management closely monitors the credit quality of accounts receivable and the credit ratings of the customers. The customers of the Group are mainly those international petroleum companies with sound financial background.

10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Trade payables		
– Third parties	**153,506**	162,439
– Related parties	**259,630**	43,313
	413,136	205,752
Salaries and welfare payable	**60,718**	43,583
Amounts due to related parties	**111,192**	417,524
Accrued expenses and other payables	**84,078**	73,639
	669,124	740,498

Amounts due to related parties are interest free, unsecured and with no fixed terms of repayments.

The aging analysis of trade payables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 3 months	**402,866**	196,407
Between 3 to 6 months	**–**	2,377
Over 6 months	**10,270**	6,968
	413,136	205,752

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables fall within the credit time frame.

MANAGEMENT DISCUSSION AND ANALYSIS

I am pleased to announce to the shareholders on behalf of the Board that, for the year ended 31 December 2008 (the "Year"), the Group recorded profit attributable to equity holders of the Company of HK$3,319,132,000, representing an increase of HK$1,355,692,000 or 69.05% compared with HK$1,963,440,000 (restated) in the previous year.

The sales volume of crude oil for the Year was 16,494,000 barrels (2007: 16,488,000 barrels), representing an increase of 6,000 barrels or 0.04% compared with the previous year. In addition, with the rise in international crude oil price, profit before taxation of the Group increased by HK$2,243,627,000. As compared with the previous year, the weighted average realised crude oil price per barrel of the Group was approximately US$78.26, representing an increase of US$19.20 or 32.52% as compared with US$59.06 in the previous year.

On 27 August 2008, the Company was informed by PetroChina Company Limited ("PetroChina") that PetroChina would become the controlling shareholder of the Group. Upon completion of the shareholding restructure, the Group will continue to engage in its current oil and gas exploration and development business, and will exploit new business growth opportunities in city gas, vehicle fuel gas and related businesses with the support of PetroChina. After receiving the information, the Group promptly accelerated the search for relevant natural gas projects to be injected into the Group.

In previous accounting years, the Group adopted the purchase method of accounting, to account for acquisition of subsidiaries, including the business combinations under common control. Following the acquisition by PetroChina on 18 December 2008, the Directors of the Company are of the view that, taking into account of the policy adopted by certain companies within the industry, the predecessor of value method of accounting would provide more appropriate and relevant information of the Group's business combinations under common control in the Group's consolidated financial statements. Therefore, with effect from 1 January 2008, the Group changed to adopt predecessor value method of accounting to account for its business combinations under common control.

BUSINESS REVIEW

The Group has eleven oilfields located in seven different countries, four of them are exploration project. In 2008, each oil field underwent comprehensive exploration and development, seeking to increase reserves and production volume in light of high oil price, so as to generate considerable returns for shareholders.

PETROLEUM BUSINESSES

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

Liaohe Leng Jiapu Oil Field

As the development of Leng Jiapu Oil Field has entered the middle stage of the contract, the oil field development faced various difficulties and production volume decreased. The natural decline rate was approximately 42%. However, with the effective implementation of various measures by our staff to stabilize production, the ultimate composite decline rate was approximately 11%.

A total of 902,000 tonnes (2007: 980,000 tonnes) of crude oil were sold from the Liaohe Leng Jiapu Contract Area, representing a decrease of 8.00% compared with the previous year. On a 70% share basis, the Group shared 686,000 tonnes and profit after tax attributable to the Group was HK$430,920,000 (2007: HK$494,867,000), representing a decrease of HK$63,947,000, or 12.92% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs. During the Year, RMB393,750,000 (approximately HK$446,885,000) (2007: RMB472,024,000 (approximately HK$502,474,000)) was contributed as part of the fund required for ongoing exploration, drilling and construction of ground production facilities. In 2008, the Group paid a total of HK$160,008,000 (2007: HK$30,545,000) as special levy for petroleum.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area sold a total of 771,000 tonnes (2007: 665,000 tonnes) of crude oil in 2008, representing an increase of 15.95% compared with the previous year. On a 54% share basis, the Group shared 359,000 tonnes and profit after tax attributable to the Group was HK$700,121,000 (2007: HK$381,677,000), representing an increase of HK$318,444,000, or approximately 83.43% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs. During the Year, RMB106,491,000 (approximately HK$120,861,000) (2007: RMB123,069,000 (approximately HK$131,008,000)) was contributed as part of the fund required for stabilizing production. In 2008, the Group paid a total of HK$245,959,000 (2007: HK$51,868,000) as special levy for petroleum.

According to the Xinjiang Contract, the term of the production sharing period lasts for twelve consecutive years up to 31 August 2008. Application for extension is needed upon expiry, whereas the maximum term of the sharing contract shall not exceed 25 years (up to 2021). The Group applied for extension in 2008 and was granted an extended sharing period of 8 years. Under the leadership of the Joint Management Committee, management was strengthened, steam injection was optimised while production technique improved in order to secure a stable but rising production volume. Under the high oil price environment, production volume was increased and the performance of the management team was recognised. Facing volatile oil price, future production volume will be adjusted appropriately for achieving the best result.

The Republic of Kazakhstan ("Kazakhstan")

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

The Group indirectly owns 15.07% equity interest in Aktobe through holding 60% equity interest in CNPC International (Caspian) Limited. Aktobe owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan.

In 2008, total production of crude oil and natural gas in Aktobe amounted to 41,742,000 barrels (2007: 44,758,000 barrels) and 118,276,000,000 cu. ft. (2007: 32,895,000,000 cu. ft.) respectively. Production of crude oil decreased by 3,016,000 barrels or 6.74%, while production of natural gas increased by 85,381,000,000 cu. ft. or 259.56%. The Group shared 6,291,000 barrels (2007: 6,746,000 barrels) of crude oil, and 17,827,000,000 cu. ft. (2007: 4,956,000,000 cu. ft) of natural gas.

As of 31 December 2008, the Group's share of crude oil reserves was 62,939,000 barrels and share of natural gas was 56,522,000,000 cu. ft. (2007: 69,230,000 barrels of crude oil; 72,970,000,000 cu. ft. of natural gas). During the Year, average selling price of crude oil was USD86.28 per barrel (2007: crude oil USD64.24 per barrel).

Due to the change in financial reporting standards, the Group is not required to amortise the revaluation surplus value of oil and gas properties annually by unit-of-production method with effect from the year 2008 (2007: HK$590,962,000).

In 2008, after deduction of tax and minority interest, the project contributed a profit of HK$1,595,687,000 (2007: HK$1,018,726,000) to the Group, representing an increase of HK$576,961,000 or 56.64%.

The Kingdom of Thailand ("Thailand")

Sukhothai Concession

During the Year, the Sukhothai Concession in Thailand recorded sales volume of 347,000 barrels (2007: 393,000 barrels), representing a decrease of 46,000 barrels or 11.56% over last year. Profit after tax and minority interest for the Year was HK$62,106,000 (2007: HK$60,611,000), representing an increase of HK$1,495,000 or 2.47% compared with last year. The Group will continue to exploit the potential of the oil field and input more resources to increase production.

L21/43 Concession

In July 2003, the Group was granted the right to carry out oil exploration in the L21/43 concession located next to Sukhothai Concession by the Thailand Government. The exploration was divided into two phases for a total of six years. The overall exploration, including seismic analysis and other exploration works, has commenced. The first phase of exploration was basically completed. Upon further analysis and investigation, commercial flow was confirmed, and environmental assessment by the Thailand government was also passed. 28.7 square kilometres has been officially assigned as production area. As the previous two phases of exploration were basically completed, the Company has filed application for Phase 3 (lasting for 3 years) exploration project to the Thailand government. Assessment and approval of which are under process. Exploration cost of HK8,785,000 (2007: HK$38,820,000) for the Year was accounted for as exploration expenses in the consolidated income statement. In the Year, the project sold 258,000 barrels of crude oil (2007: 124,000 barrels) and contributed a profit after tax of HK$77,809,000 (2007: HK$5,111,000) to the Group.

Peru

Talara Oil Field

The Group holds 50% interest in the right to explore and produce oil and natural gas in Blocks VI and VII of the Talara Oil Field in Peru. During the Year, 1,014,000 barrels (2007: 1,045,000 barrels) of crude oil and 720,000,000 cu. ft. (2007: 751,000,000 cu. ft.) of natural gas were sold. The Group shared HK$133,192,000 (2007: HK$34,927,000 (restated)) profit after tax and minority interests, representing an increase of HK$98,265,000, or 281.34%, over that of last year.

Blocks 111/113

In December 2005, the Group entered into an agreement with Perupetro, a company wholly owned by the Peruvian Government, in relation to conducting exploration in Zones 111 and 113 of Madre de Dios, located in Southeast Peru. Exploration work has commenced and incurred exploration cost of HK$26,007,000 (2007: HK$216,659,000), with an aim to discover reserves as soon as possible, and generate good return to the Group.

The Sultanate of Oman ("Oman")

Block 5

The Group holds 25% interest in the Block 5 oil field in Oman. The Group shared 1,574,000 barrels (2007: 1,313,000 barrels) of oil production during the Year, increasing by 261,000 barrels or 19.88% compared with last year. Profit after tax attributable to the Group amounted to HK$122,613,000 (2007: HK$163,579,000), representing a decrease of HK$40,966,000, or 25.04% compared with last year.

Indonesia

Bengara II

The Group acquired 70% interests in Continental-GeoPetro (Bengara-II) Limited ("CGB II") from an independent third party in 2006. CGB II has interests in the oil and gas properties of Bengara II Production Contract Area in East Kalimantan, Indonesia.

According to the transfer agreement, the Group injected US$18,700,000 (approximately HK$144,832,000) into CGB II as shareholder's loans for the exploration expenses required. The Group planned to complete the drilling work of four exploration wells during the exploration period (which was ended on 4 December 2007) so as to confirm the oil reserves and apply for development.

After the official take-over in October 2006, the Group immediately arranged the drilling and exploration works. In 2007, four exploration wells were drilled, although there was indication of different level of oil trail, the data was not sufficient to apply for entering the development phase. The petroleum contract has a term of thirty years, but the exploration phase has a term of only ten years which ended on 4 December 2007. After the drilling of the four exploration wells, the exploration phase expired before the comprehensive exploration works commenced, and all activities were subsequently suspended. The Group has applied in writing to the Petroleum Department of Indonesia (BP Migas) to extend the term for exploration. After relentless explanations and persuasion made to the Petroleum Department of Indonesia by the management of CGB II, eventually in February 2009, the Petroleum Department agreed to extend the exploration phase to December 2011. Therefore, 2009 will be a crucial year to CGB II. The Company will organise the collection of 2D and 3D seismic data as soon as possible and plan to carry out drilling of exploration wells in 2010 so as to confirm the reserve volume and submit application for entering the development phase.

Despite the current depressed crude oil price, increasing crude oil reserves is the strategy and long-term objective of the Company, when crude oil price rebounds, the best returns will be brought to the shareholders.

The Azerbaijan Republic ("Azerbaijan")

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

The Group owns 25% interest in K&K in Azerbaijan. During the Year, the Group shared 909,000 barrels (2007: 1,061,000 barrels) of crude oil. Profit after tax attributable to the Group amounted to HK$106,029,000 (2007: HK$95,597,000), representing an increase of HK$10,432,000 or 10.91% as compared with the previous year.

Gobustan Oil Field

The Group holds 31.41% equity interest in Commonwealth Gobustan Limited ("CGL"). CGL owns 80% of participating interest in an oil field in the Southwest of Gobustan, Azerbaijan. A loss of HK$107,934,000 (2007: loss of HK$22,060,000) was recorded by the Group for the Year, which was the one-time write-off of exploration expenses incurred in the previous years. Only a small amount of crude oil and natural gas was sold in 2008. Further plans of development will depend on the results of more in-depth research and exploration data.

PRC manufacturing business

Steel pipes factory

華油鋼管有限公司 ("Steel Pipes Factory") was set up by the Group with North China Petroleum Administration Bureau (華北石油管理局) ("Administration Bureau"). With the experience of the Administration Bureau in the manufacturing and distribution of high quality oil and gas pipes, the Steel Pipes Factory produces high quality steel pipes to meet market demand. The Steel Pipes Factory has set up a branch factory in Yangzhou Hanjiang Industrial Park, the PRC to enhance its competitiveness and capture a larger market share in the eastern part of the PRC.

In 2008, a total of 499,000 tonnes (2007: 169,000 tonnes) of steel pipes were sold by the Steel Pipes Factory. 488,000 tonnes (2007: 123,000 tonnes) were processed from material purchased on its own and 11,000 tonnes (2007: 46,000 tonnes) were processed with materials provided. It generated a profit of HK$33,513,000 (2007: HK$18,037,000) for the Group, representing an increase of HK$15,476,000, or 85.80% over last year.

As the construction works of large-scale pipeline projects, such as the second pipeline for transmission of natural gas from Western China to the eastern part, Sino-Russian project, Sino-Kazakhstan project, commenced successively, future demands for steel pipes will continue to increase which will bring opportunities and hopes to the Steel Pipes Factory in this economically depressed environment. The Steel Pipes Factory will seize this opportunity to leverage its potential and enhance efficiency.

Film factory

Biaxially Oriented Polypropylene ("BOPP") Project and CPP Project

The BOPP film factory, which was jointly established by the Group with Daqing Petroleum Administrative Bureau achieved satisfactory results as expected after commencement of production. Facing high raw materials price and fierce competition, only strong ones will survive. The management of the film factory has actively seeking to improve quality, cost control and optimize products. Its products have gained high recognition in the market and have been positioned at the higher end of the market.

The BOPP film factory developed according to the expected targets. Profit after tax attributable to the Group for the Year was HK$2,980,000 (2007: HK$6,562,000), representing a decrease of HK$3,582,000, or 54.59% over last year.

The CPP film factory developed according to the expected targets. Loss after tax attributable to the Group for the Year was HK$1,052,000 (Loss for 2007: HK$622,000).

With continued economic growth in China, demand for packaging materials will gradually increase. The Group is confident that the project will provide steady income to the Group in the future.

BUSINESS PROSPECTS

On 27 August 2008, the Company was informed by PetroChina Company Limited ("PetroChina") that PetroChina would become the controlling shareholder of the Group. Upon completion of the shareholding restructure, the Group will continue to engage in its current oil and gas exploration and development business, and will exploit new business growth opportunities in city gas, vehicle fuel gas and related businesses with the support of PetroChina. Natural gas as a clean and efficient source of energy has drawn increasing attention and interest from the PRC Government and enterprises and has become one of the most rapidly growing sectors in the PRC energy industry. PetroChina, as the PRC's largest enterprise in the production, transportation and sales of natural gas, has long been committed to nurturing and developing the natural gas market in the PRC. Following the completion of the construction of the Second West-East Gas Pipeline and other long distance gas pipelines, a series of diverse major gas resources of PetroChina located in northern China and western China, including Sulige, Tarim, Sichuan, Central Asia and other overseas areas will further integrate with the important consumer markets in central China, eastern China, southern China and other areas, and will catalyse the rapid growth in natural gas downstream end-user markets.

We believe that by leveraging on PetroChina's advantage in the resources and supply in the PRC natural gas market, the cooperation between PetroChina and the Group in city gas, vehicle fuel gas and other related businesses will further promote the development of PetroChina's upstream and midstream natural gas businesses and create an attractive new business growth area for the Group in natural gas downstream end-user markets.

As at the date of this announcement, the Group has made three investments, namely the capital injection in CNPC Shennan Oil Technology Development Co., Ltd. ("Shennan Oil"), acquisition of Xinjiang Xinjie Co., Ltd. ("Xinjiang Xinjie") and capital injection in China Natural Gas Co., Ltd. ("Huayou").

(i) Shennan Oil Capital Injection. On 19 December 2008, the Group entered into an agreement with Shennan Oil and the existing shareholders of Shennan Oil, pursuant to which the Company conditionally agreed to subscribe for capital in Shennan Oil of RMB52,000,000, representing 50.98% equity interest in Shennan Oil. The relevant capital injection procedures have been completed.

(ii) Xinjiang Xinjie Acquisitions. On 9 January 2009, the Group entered into agreements with PetroChina, Lead Source Limited, Xinjiang Tongyu Co., Ltd and Xinjiang Tongyuan Co., Ltd. (collectively "Existing Shareholders of Xinjiang Xinjie") respectively, pursuant to which the Company conditionally agreed to acquire the respective equity interest of the Existing Shareholders of Xinjiang Xinjie in Xinjiang Xinjie. Upon completion of the Xinjiang Xinjie Acquisitions, the Company will own 97.26% equity interest in Xinjiang Xinjie. At the Special General Meeting held on 12 February 2009, the proposal for acquiring Xinjiang Xinjie was approved and the respective acquisition procedures are under process.

(iii) On 16 February 2009, the Group entered into the Huayou Capital Injection Agreement with the existing shareholders of Huayou, pursuant to which the Company conditionally agreed to subscribe for 177,000,000 shares of Huayou at a consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000). Upon completion of the Huayou Capital Injection, Huayou will be owned as to 51.01% by the Company and will become its non-wholly owned subsidiary. At the Special General Meeting held on 24 March 2009, the proposal for injecting capital into Huayou was approved and the respective capital injection procedures are under process.

Through the above capital injections and acquisitions, the Group has formally engaged in natural gas business and will actively develop this new business area so as to secure a leading position in this business in the PRC in the short run.

With a strong financial position and prudent approach, the Group aims to expand into an international petroleum corporation mainly engaging in the natural gas end users sale and comprehensive utilization businesses. The crude oil price is expected to remain fluctuated in the future. The Group will accelerate on the exploration of existing oil projects, increase reserves, adjust production volume as appropriate, strengthen the management, costs control, increase efficiency and stabilize income. In the meantime, the Group will develop new business position on the natural gas end users sale and comprehensive utilization business and under the firm support of China National Petroleum Corporation and PetroChina Company Limited, the Group will accelerate the acquisition of the natural gas downstream business, develop actively the comprehensive utilization projects for natural gas, realize rapidly the business transition, so as to develop quickly a strong and top position of the Group's businesses, and generate a considerable return to our shareholders.

Liquidity and capital resources

As at 31 December 2008, the aggregate assets value of the Group was HK$14,814,934,000, representing an increase of HK$2,565,395,000 or 20.94% as compared with last year.

Major changes in assets are as follows:

	Increase/(decrease)
	HK$'000
Property, plant and equipment	424,184
Interests in an associate	1,685,218
Bank balances and cash and deposits	749,309
Total increase in assets	2,858,711

The gearing ratio of the Group was 9.32% as at 31 December 2008 compared with 9.25% (restated) last year. It is computed by dividing the total borrowings of HK$995,283,000 (2007: HK$833,945,000) by the shareholders' funds of HK$10,679,775,000 (2007: HK$9,014,472,000 (restated)).

During the Year, RMB393,750,000 (approximately HK$446,885,000) (2007: RMB472,024,000 (approximately HK$502,474,000)) was injected out of profits into Leng Jiapu oil field as development costs.

Pursuant to the Karamay Contract, RMB106,491,000 (approximately HK$120,861,000) (2007: RMB123,069,000 (approximately HK$131,008,000)) was paid out of profit and re-invested as development costs of the Karamay oil field during the Year.

Dividend of US$206,247,000 (approximately HK$1,606,045,000) (2007: US$199,340,000 (approximately HK$1,548,074,000)) for the year 2007 was received from Aktobe during the Year and the withholding tax of US$30,937,000 (approximately HK$240,906,000) (2007: US$29,901,000 (approximately HK$232,211,000)) was paid thereon.

The Group paid interest of US$5,782,000 (approximately HK$45,024,000) (2007: US$9,913,000 (approximately HK$76,983,000)) in 2008 to Sun World Limited ("Sun World"), for its long-term borrowing. In August the same year, this loan was assigned to China Petroleum Hong Kong (Holding) Limited ("China Petroleum") from Sun World. Interest of US$4,130,000 (approximately HK$32,163,000) has been paid to China Petroleum for this loan.

Dividend of US$8,697,000 (approximately HK$67,723,000) (2007: US$10,522,000 (approximately HK$81,713,000)) was received from Oman oilfield.

Dividend of RMB10,279,000 (approximately HK$11,666,000) (2007: RMB44,935,000 (approximately HK$46,163,000)) was received from North China Steel Pipe Factory Limited during the Year.

USE OF PROCEEDS

During the Year, few senior executives of the Company exercised their share options. As a result, the Company issued 11,360,000 new shares (2007: 4,900,000 shares) and received subscription amount of HK$13,632,000 (2007: HK$5,998,000).

The Company repurchased a total of 415,570,000 shares of the Company (2007: nil) with HK$1,125,285,000 (2007: nil) during the Year.

2007 final dividend of HK12 cents per share amounting to HK$581,399,000 (2006: HK10 cents per share amounting to HK$484,409,000) was distributed to the shareholders of the Group during the Year.

Taking into account the cashflow from the operating activities, the Group as at 31 December 2008 had bank balance and cash and bank deposits of HK$4,993,689,000 (2007: HK$4,244,380,000).

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

NEW INVESTMENT

On 19 December 2008, the Group entered into an agreement with CNPC Shennan Oil Technology Development Co., Ltd., ("Shennan Oil"), CNPC Shenzhen Petroleum Industrial Co., Ltd. and Hainan Fushan Oilfield Exploration and Development Limited Liability Company to inject RMB95,091,000 (approximately HK$107,653,000) of capital into Shennan Oil for subscribing share capital in Shennan Oil of RMB52,000,000 (approximately HK$58,869,000). Payment has been made by the Group at the beginning of 2009.

FINAL DIVIDEND

As the results for the Year was satisfactory, the Board of Directors recommended the payment of a final dividend of HK15 cents (2007: HK12 cents) per share. The proposed dividend will be paid on or about 1 June 2009 to the shareholders whose names appear on the Register on 8 May 2009, subject to the approval at the Annual General Meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 May 2009 to 8 May 2009 both days inclusive, during which period no transfers of shares will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Tricor Secretaries Ltd. at Level 26, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 30 April 2009 in order to qualify for the proposed final dividend.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, 415,570,000 shares of HK$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited and cancelled, details of which are as follows:

Month	Number of shares Repurchased	Highest price	Lowest price	Aggregate amount paid
		HK$	*HK$*	*HK$'000*
September 2008	136,200,000	3.46	2.95	430,925
October 2008	143,470,000	3.37	1.85	358,208
November 2008	125,410,000	2.68	2.20	305,761
December 2008	10,490,000	2.58	2.42	26,360
	415,570,000			1,121,254

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Year.

CORPORATE GOVERNANCE

Save for the matters noted below, none of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange ("Listing Rules") at any time during the twelve months ended 31 December 2008.

The Board has received from each Independent Non-Executive Director a written annual confirmation of their independence and satisfied their independence up to the approval date of the Company's 2008 Annual Report in accordance with the Listing Rules.

The Board of Directors has adopted the corporate governance principles which aimed at maintaining the Board's independence and all Directors are fully informed on key strategic issues relating to the Group before making decision. The Board comprises seven members, three are Independent Non-executive Directors and one of them holds accounting and financial management qualification.

The Remuneration Committee, composed of the three Independent Non-executive Directors, is responsible for reviewing and approving the remunerations of Directors and senior management.

The Company has an Audit Committee in place since 1998. The Committee, reporting directly to the Chairman, plays a major role in monitoring the internal governance of the Group. It also conducts special audits on areas of concern as identified by the Management or the Audit Committee. The Audit Committee can directly contact the external auditors freely without notifying the Chairman or Management.

The Audit Committee has reviewed with the Management the accounting policies and standards adopted by the Group and discussed the internal control and financial reporting matters related to the preparation of the audited financial statements for the year ended 31 December 2008. It has also reviewed the said financial statements in conjunction with the Company's external auditors.

The Company has complied with all the provisions under the Code on Corporate Governance Practices in effect during the year ended 31 December 2008 except for the deviation as mentioned below.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer of the Company during the Year were held by Mr Li Hualin and Mr Zhang Bowen respectively.

There are no written terms on the general division of responsibilities between the Chairman and the Chief Executive Officer. The Board considers that the responsibilities of the Chairman and the Chief Executive Officer are clear and distinctive and hence written terms thereof are not necessary.

MODEL, CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transaction.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2008.

EMPLOYEE

On 31 December 2008, the Group had approximately 404 staff (excluding the staff under entrustment contracts) (2007: 402 staff) globally. Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising three independent Non-Executive Directors was established in December 1998.

Four meetings were held during the current financial year.

With reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of the directors of the Company on the same date. The principal activities of the audit committee include the review and supervision of the Group's financial reporting process and internal controls.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2008 have been agreed by the Company's auditor, PricewaterhouseCoopers Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the Year.

RELEASE OF DETAILED RESULTS ON THE STOCK EXCHANGE WEBSITE

The Company's annual report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Company's and the Stock Exchange's website in due course.

BOARD OF DIRECTORS

The board of Directors as at the date of this announcement comprises of Mr Li Hualin as the Chairman and Mr Zhang Bowen as Chief Executive Officer, Mr Cheng Cheng as Executive Director; Dr Lau Wah Sum, Mr Li Kwok Sing Aubrey and Dr Liu Xiao Feng are the Independent Non-Executive Directors.

By Order of the Board
CNPC (HONG KONG) LIMITED
Li Hualin
Chairman

Hong Kong, 25 March 2009

* *For Identification only*