THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CNPC (Hong Kong) Limited (the "Company"), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

CNPC (HONG KONG) LIMITED

(incorporated in Bermuda with limited liability)

中國(香港)石油有限公司*

(Stock Code: 0135)

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO HUAYOU CAPITAL INJECTION
(2) CONTINUING CONNECTED TRANSACTIONS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

粵海證券有限公司

GUANGDONG SECURITIES LIMITED

This circular gives you further information of Huayou Capital Injection, the Continuing Connected Transactions and the Caps. A letter from the Board is set out on pages 7 to 37 of this circular and a letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders of the Company, is set out on page 38 of this circular. A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 64 of this circular.

A notice of the SGM to be held at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88, Queensway, Hong Kong on 24 March 2009 at 11:00 a.m. is set out on pages 265 and 266 of this circular. A proxy form for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the principal office of the Company at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the SGM or adjourned meeting (as the case may be), completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

* *For identification purpose only*

9 March 2009

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In this circular, unless the context otherwise requires, the following terms shall have the meanings set out below:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beckbury"	means Beckbury International Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Board"	means the board of directors of the Company
"Caps"	means the proposed maximum aggregate annual values of the Continuing Connected Transactions for each of the three years ending 31 December 2011
"China Huayou Group"	means 中國華油集團公司 (China Huayou Group Company*), a company established under the PRC laws, one of the Existing Shareholders of Huayou and a wholly-owned subsidiary of CNPC
"CNPC"	means 中國石油天然氣集團公司 (China National Petroleum Corporation*), a State-owned enterprise established under the PRC laws
"CNPC Group"	means CNPC and its subsidiaries, but excluding members of the Group
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	means CNPC (Hong Kong) Limited, a company incorporated with limited liability in Bermuda and the shares of which are listed on the Stock Exchange
"connected persons"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	means the transactions between the Group and the CNPC Group under the PSAs and the Master Agreement as set out in the paragraph headed "Continuing Connected Tranasactions" of this circular
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Directors"	means directors of the Company
"Enlarged Group"	means the Group immediately after completion of the Huayou Capital Injection

"Existing Shareholders of Huayou"	means Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf collectively
"Existing Shareholders of Xinjiang Xinjie"	means PetroChina, Lead Source Limited (勵源有限公司), 新疆通宇實業有限公司 (Xinjiang Tongyu Co., Ltd.*) and 新疆通遠實業有限公司 (Xinjiang Tongyuan Co., Ltd.*) collectively
"First Supplemental Agreement"	means the agreement dated 14 November 2006 entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement
"Group"	means the Company and its subsidiaries from time to time
"Hafnium"	means Hafnium Limited, a company incorporated with limited liability in the British Virgin Islands and a wholly-owned subsidiary of the Company
"Hengchanglong"	means 江陰市恆昌隆房地產有限公司 (Jiangyin City Hengchanglong Real Estates Co., Ltd.*), a company established under the PRC laws and one of the Existing Shareholders of Huayou
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Huayou"	means China Natural Gas Co., Ltd. (華油天然氣股份有限公司), a company established under the PRC laws and a non wholly-owned subsidiary of CNPC
"Huayou Capital Injection"	means the capital injection of Huayou by the Company
"Huayou Capital Injection Agreement"	means the agreement entered into among the Company, Huayou, Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf dated 16 February 2009 in respect of Huayou Capital Injection
"Huayou Group"	means Huayou and its subsidiaries
"Independent Board Committee"	means the independent committee of the Board, comprising Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng, the independent non-executive Directors of the Company, established for the purpose of making recommendation to the Independent Shareholders in respect of Huayou Capital Injection, the Continuing Connected Transactions and the Caps

"Independent Financial Adviser" or "Guangdong Securities"	means Guangdong Securities Limited, a licensed corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of Huayou Capital Injection, the Continuing Connected Transactions and the Caps
"Independent Shareholders"	means the Shareholders other than CNPC and its associates
"Karamay Oilfield"	means an oilfield in Junggar basin in Xinjiang, the PRC, part of which is being developed by the Group pursuant to the Xinjiang Contract
"Latest Practicable Date"	6 March 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Leng Jiapu Entrustment Contract"	means the entrustment contract dated 21 March 1998 entered into between Beckbury and the CNPC Group concerning the operation of the Liaohe Contract, as amended or supplemented from time to time
"Leng Jiapu Oilfield"	means the Leng Jiapu Oilfield in Liaohe, Liaoning Province, the PRC, part of which is being developed by the Group pursuant to the Liaohe Contract
"Liaohe Contract"	means the Leng Jiapu Area Petroleum Contract dated 31 December 1997 entered into between CNPC and Beckbury, and where the context requires, includes the Leng Jiapu Entrustment Contract. All the rights and obligations (other than the supervisory functions related to CNPC's role as representative of the PRC Government) of CNPC under the Liaohe Contract were novated to PetroChina on 8 October 2001
"Listing Rules"	means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

"Master Agreement"	means the master agreement dated 19 November 2003 entered into between CNPC and the Company regarding provision by the CNPC Group to the Group, of a range of products and services from time to time, as amended by the First Supplemental Agreement dated 14 November 2006, where the context requires, as to be further amended by the Second Supplemental Agreement
"Oil and Gas Products"	means such crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products to be provided by the CNPC Group to the Group from time to time under the new category of additional products and services set out in the Second Supplemental Agreement
"PetroChina"	PetroChina Company Limited, a joint stock limited company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange and the Stock Exchange with American Depositary Shares listed on the New York Stock Exchange, one of the Existing Shareholders of Xinjiang Xinjie, a non wholly-owned subsidiary of CNPC and the controlling shareholder of the Company holding approximately 56.61% of its total issued share capital
"PRC"	means the People's Republic of China
"PRC GAAP"	means the generally accepted accounting principles in the PRC
"PRC Oilfields"	means the Karamay Oilfield and the Leng Jiapu Oilfield
"PSAs"	means the Xinjiang Contract and the Liaohe Contract
"RMB"	means Renminbi, the lawful currency of the PRC
"Second Supplemental Agreement"	means the agreement to be entered into between the Company and CNPC amending certain terms of, and renewing, the Master Agreement
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	means a special general meeting of the Company to be held on 24 March 2009, including any adjournment thereof, notice of which is set out on pages 265 and 266 of this circular to approve the Huayou Capital Injection Agreement, the Continuing Connected Transactions and the Caps

"Shareholders"	means holders of Shares of the Company
"Shares"	means ordinary shares of HK$0.01 each in the share capital of the Company
"Shennan Oil"	means CNPC Shennan Oil Technology Development Co., Ltd. (海南中油深南石油技術開發有限公司), a limited liability company established under the PRC laws and a non wholly-owned subsidiary of the Company
"Shennan Oil Capital Injection"	means the subscription by the Company of RMB52 million, representing 50.98% of the enlarged capital of Shennan Oil upon completion, pursuant to an agreement dated 19 December 2008 entered into between the Company, Shennan Oil and its equity holders. Details of the Shennan Oil Capital Injection are set out in the announcement of the Company dated 19 December 2008
"Shenzhen Petroleum"	means CNPC Shenzhen Petroleum Industrial Co., Ltd. (深圳石油實業有限公司), a company established under the PRC laws, one of the Existing Shareholders of Huayou and a wholly-owned subsidiary of CNPC
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"Valuation Date"	means 31 August 2008
"Xihu Golf"	means 杭州西湖國際高爾夫鄉村俱樂部有限公司 (Hangzhou Xihu International Golf Club Co., Ltd.*), a company established under the PRC laws and one of the Existing Shareholders of Huayou
"Xinjiang Contract"	means the Xinjiang Oil Field Production Sharing Contract dated 1 July 1996 entered into between CNPC and Hafnium, as amended from time to time. All the rights and obligations (other than the supervisory functions related to CNPC's role as representative of the PRC Government) of CNPC under this contract were novated to PetroChina on 8 October 2001
"Xinjiang Xinjie"	means 新疆新捷股份有限公司 (Xinjiang Xinjie Co., Ltd.*), a company established under the PRC laws

"Xinjiang Xinjie Acquisitions"	means the conditional acquisitions of an aggregate of 97.26% equity interest in Xinjiang Xinjie pursuant to agreements with certain equity holders of Xinjiang Xinjie each dated 9 January 2009
"Zhejiang Jindi"	means 浙江金帝集團公司 (Zhejiang Jindi Group Company*), a company established under the PRC laws and one of the Existing Shareholders of Huayou

Notes:

(1) For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB1.00 = HK$ 1.1343 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount have been, could have been or may be exchanged.

(2) If there is any discrepancy or inconsistency between the Chinese names of the PRC entities and their English translations in this circular, the Chinese version shall prevail.

* *For identification purpose only*

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

Directors:
Mr. Li Hualin *(Chairman)*
Mr. Zhang Bowen *(Chief Executive Officer)*
Mr. Cheng Cheng
Dr. Lau Wah Sum, GBS, LLD, DBA, JP#
Mr. Li Kwok Sing Aubrey#
Dr. Liu Xiao Feng#

Independent Non-executive Directors

Registered office:
Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal office in Hong Kong:
Rooms 3907-3910
39th Floor
118 Connaught Road West
Hong Kong

9 March 2009

To the Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO HUAYOU CAPITAL INJECTION
(2) CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

1.1 Huayou Capital Injection

Reference is made to the announcement of the Company dated 16 February 2009 in which the Company announced that it has entered into the Huayou Capital Injection Agreement with Huayou and the Existing Shareholders of Huayou, namely Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf dated 16 February 2009, pursuant to which the Company has conditionally agreed to subscribe for 177,000,000 shares of Huayou in consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000).

Upon completion of Huayou Capital Injection, Huayou will be owned as to 51.01% by, and will become a non wholly-owned subsidiary of, the Company.

As at the Latest Practicable Date, CNPC, the ultimate shareholder of the Company, was deemed to be interested in 2,522,417,342 Shares, representing approximately 56.80% of the issued share capital of the Company. To the best of the

* *For identification purpose only*

Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date. Huayou is a non wholly-owned subsidiary of CNPC whereas Shenzhen Petroleum and China Huayou Group are wholly-owned subsidiaries of CNPC. Pursuant to the Listing Rules, each of CNPC, Huayou, Shenzhen Petroleum and China Huayou Group is a connected person of the Company and accordingly, Huayou Capital Injection constitutes a connected transaction of the Company. To the best of the Directors' knowledge, each of Zhejiang Jindi, Hengchanglong and Xihu Golf and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

Pursuant to Rules 14.22 and 14A.25 of the Listing Rules, the Stock Exchange has requested that Huayou Capital Injection, Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions be aggregated for the purposes of Chapters 14 and 14A of the Listing Rules.

Both the Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions were connected transactions of the Company. Each of the applicable ratios for Shennan Oil Capital Injection was more than 0.1% but less than 2.5%; and the applicable percentage ratios for Xinjiang Xinjie Acquisitions were more than 2.5% but less than 25%.

Each of the applicable percentage ratios referred to in Chapters 14 and 14A of the Listing Rules for Huayou Capital Injection by itself is more than 5% but less than 25%, and when aggregated with Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions, the applicable percentage ratios referred to in Chapters 14 and 14A of the Listing Rules are more than 25% but less than 100% and thus constitutes a major transaction and a connected transaction of the Company and is subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll.

1.2 Continuing Connected Transactions

Reference is made to the announcement of the Company dated 6 March 2009 in relation to the Continuing Connected Transactions.

The Group entered into (i) the Xinjiang Contract and the Liaohe Contract (together the PSAs) with CNPC in 1996 and 1997 respectively and (ii) the Master Agreement in 2003, which was subsequently amended in 2006 pursuant to the First Supplemental Agreement. Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance. Whereas, the Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects.

In anticipation of the potential continuing connected transactions following completion of the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, it is proposed that the Company and CNPC will enter into the Second Supplemental Agreement expanding the scope of products and services to be provided by the CNPC Group under the Master Agreement to cover such potential continuing connected transactions, and also extending the term of the Master Agreement to expire on 31 December 2011.

As explained above, CNPC is a connected person of the Company and accordingly the transactions under the PSAs and the Master Agreement constitute continuing connected transactions of the Company.

The Continuing Connected Transactions and the Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rules 14A.45 to 14A.48 of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Huayou Capital Injection, the Continuing Connected Transactions and the Caps. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purposes of this circular are:

(i) to provide you with further details of Huayou Capital Injection, the Continuing Connected Transactions and the Caps;

(ii) to set out the recommendation of the Independent Board Committee regarding Huayou Capital Injection, the Continuing Connected Transactions and the Caps to the Independent Shareholders;

(iii) to set out the letter of advice from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders on Huayou Capital Injection, the Continuing Connected Transactions and the Caps;

(iv) to set out financial information on Huayou Group;

(v) to set out the valuation report on the properties of Huayou Group;

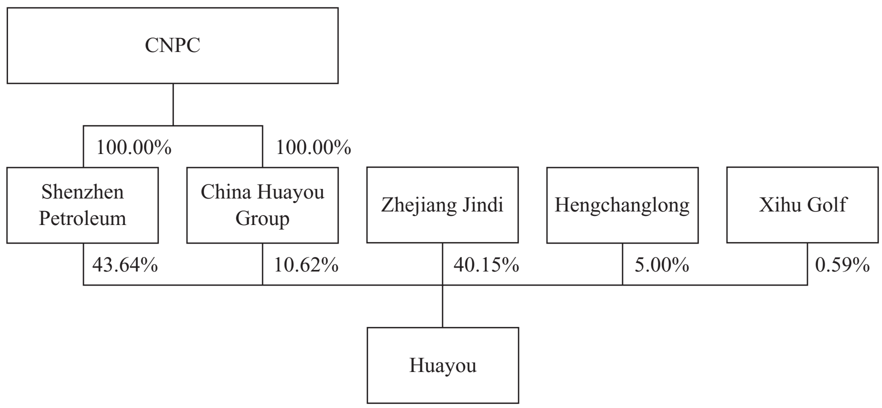
(vi) to set out the assets valuation report of Huayou; and

(vii) to set out the notice of the SGM.

2. HUAYOU CAPITAL INJECTION

2.1 Introduction

As at the Latest Practicable Date, the registered capital of Huayou was RMB170,000,000 and the following diagram illustrates a simplified structure of Huayou as at the Latest Practicable Date:



2.2 Huayou Capital Injection Agreement

On 16 February 2009, the Board announced that the Company has entered into the Huayou Capital Injection Agreement, the details of which are set out below.

(a) Date: 16 February 2009

(b) Parties: The Company, Huayou, Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf

(c) Capital Injection

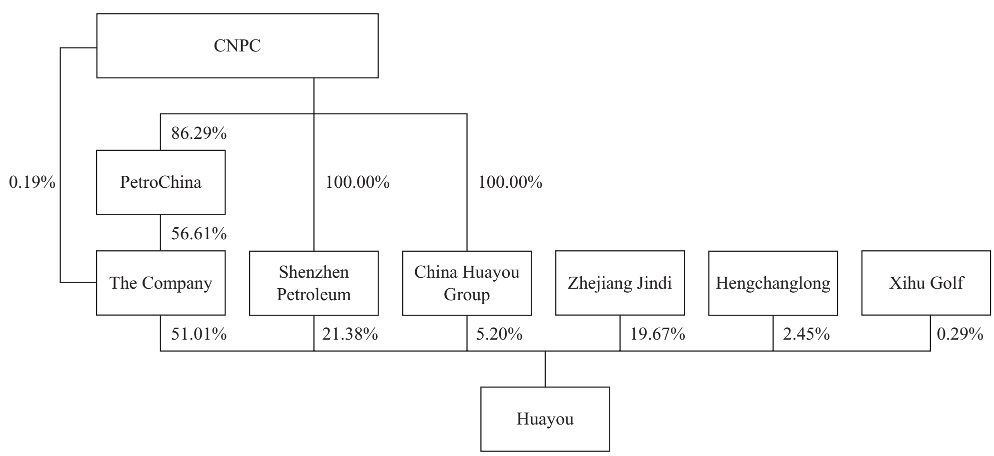
Subject to satisfaction or waiver of the conditions precedent under the Huayou Capital Injection Agreement, the Company has agreed to subscribe for 177,000,000 shares of Huayou in consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000). The contribution is to be made in cash at two stages, no less than 30% of the total consideration shall be paid within 10 working days from the date on which the Certificate of Approval for the Establishment of Foreign-funded Enterprises in respect of Huayou is issued by the relevant PRC authorities and a foreign exchange capital account of Huayou is set up and the balance shall be paid within six months from the date on which the new Business Licence in respect of Huayou is issued by the relevant PRC authorities. The PRC legal counsel to the Company, Kaiwen Law Firm, advised that according to the PRC laws and regulations and the requirements of the relevant PRC authorities, among other things, the Company's internal approval (including the Independent Shareholders' approval) is required prior to the issue of the Certificate of Approval for the Establishment of Foreign-funded Enterprises and the foreign exchange capital account of Huayou can only be set up after the issue of the Certificate of Approval for the Establishment of Foreign-funded Enterprises. The Company intends to make payment of its capital injection out of its internal resources.

Upon completion of Huayou Capital Injection, the registered capital of Huayou will become RMB347,000,000 (equivalent to approximately HK$ 393,602,000) and the equity holding of Huayou will be as follows:

The Company	51.01%
Shenzhen Petroleum	21.38%
China Huayou Group	5.20%
Zhejiang Jindi	19.67%
Hengchanglong	2.45%
Xihu Golf	0.29%

Huayou will become a non wholly-owned subsidiary of the Company and its results will be consolidated into the financial statements of the Company.

Below illustrates a simplified structure of Huayou upon completion of the Huayou Capital Injection:



(d) Consideration

The consideration payable in respect of Huayou Capital Injection was determined after arm's length negotiation among the Company, Huayou and the Existing Shareholders of Huayou and was based on the appraised net asset value of Huayou as at the Valuation Date, being 31 August 2008, of RMB379,952,800 (equivalent to approximately HK$430,980,000) as per a valuation report of Huayou prepared by China United Assets Appraisal Co., Ltd., an independent qualified PRC valuer, which is set out in Appendix II to this circular. The valuation was prepared by reference to the audited consolidated net asset value of Huayou Group (based on PRC GAAP) as at 31 August 2008, amounted to approximately RMB419,940,000 (equivalent to approximately HK$476,338,000). The appraised net asset value of Huayou was computed based on the asset-based approach. Other than the net asset value of Huayou as at the Valuation Date, the

Company has also considered a number of other factors including Huayou Group's compressed natural gas station network and the growth potential of Huayou Group, in agreeing to the consideration of Huayou Capital Injection.

The audited consolidated net asset value of Huayou Group (based on the Hong Kong Financial Reporting Standards) as at 31 December 2008 was approximately RMB482,683,995 (equivalent to approximately HK$ 547,508,000).

The audited net profit before and after tax of Huayou Group for the two years ended 31 December 2008 were as follows:

	Year ended 31 December	
	2008	**2007**
	(RMB)	*(RMB)*
Net profit before tax	104,379,689 or approximately HK$ 118,398,000	60,540,472 or approximately HK$ 68,671,000
Net profit after tax	89,137,843 or approximately HK$ 101,109,000	49,842,057 or approximately HK$ 56,536,000

(e) Conditions Precedent

Completion of Huayou Capital Injection is subject to the satisfaction or waiver by the Company of certain conditions precedent, including:

(i) the Company, Huayou and the Existing Shareholders of Huayou having obtained all necessary governmental and internal authorisations, consents and approvals and having completed all registrations and/or filings required by laws in relation to the Huayou Capital Injection;

(ii) none of the governmental authorities in the PRC has taken any pending actions or steps or will take any possible actions or steps which might restrict or prohibit the completion of any transactions contemplated under the Huayou Capital Injection Agreement or any transactions ancillary to the aforesaid transactions, or might obstruct or restrict the operation of Huayou Capital Injection;

(iii) none of the governmental authorities in the PRC has enacted any laws, rules or regulations which might render the completion of Huayou Capital Injection unlawful;

(iv) the Company being satisfied with the results of the due diligence carried out in respect of Huayou (including but not limited to legal, financial or taxation aspects);

(v) the Company having obtained the approval at the general meeting of the Shareholders pursuant to the Listing Rules (if required); and

(vi) the representations, warranties and undertakings given by Huayou and the Existing Shareholders of Huayou in the Huayou Capital Injection Agreement remaining true and accurate from the date of the Huayou Capital Injection Agreement to the date on which the consideration is fully settled by the Company.

As at the Latest Practicable Date, to the best of the Directors' knowledge, save for the Independent Shareholders' approval of Huayou Capital Injection at the SGM, the Company, Huayou and the Existing Shareholders of Huayou have obtained all necessary internal approvals. The registrations and/ or filings required by laws in relation to Huayou Capital Injection in the PRC can only be completed upon the Company having obtained the Independent Shareholders' approval. Moreover, the due diligence on Huayou was still ongoing as at the Latest Practicable Date.

3. INFORMATION ON HUAYOU GROUP

Huayou, its subsidiaries and associates are principally engaged in the city gas related businesses, comprising production, sales and distribution of natural gas and the operation of compressed natural gas stations in the PRC. It is a non wholly-owned subsidiary of CNPC. Huayou, its subsidiaries and associates mainly provide natural gas for vehicular uses. They operate around 60 compressed natural gas stations in the Sichuan, Shandong, Hainan, Jiangsu, Shaanxi, Inner Mongolia and Hebei regions of the PRC. It is expected that Huayou Group will continue to expand its natural gas station network by constructing and/or acquiring natural gas stations in the PRC.

4. COMPLETION

Completion of Huayou Capital Injection shall take place on the date on which all the conditions precedent of the Huayou Capital Injection Agreement are satisfied, or waived by the Company (as the case may be).

5. REASONS FOR, AND BENEFITS OF, HUAYOU CAPITAL INJECTION

The Board considers that Huayou Capital Injection is in line with the development strategies of the Group as a whole. The Company will explore new business growth opportunities in city gas, vehicle fuel gas and related businesses following the restructuring pursuant to which PetroChina has become the controlling shareholder of the Company since 18 December 2008. Further details of the restructuring of the Company are set out in the joint announcements of the Company and PetroChina dated 27 August 2008 and 18 December 2008.

The Board believes that Huayou Capital Injection would enable the Company to further leverage on its economy of scale, improve its efficient allocation of resources, enhance its competitiveness, bring new development opportunities and strengthen the ability to generate yield to Shareholders.

6. FINANCIAL EFFECT OF HUAYOU CAPITAL INJECTION

Upon completion of Huayou Capital Injection, Huayou will become a non wholly-owned subsidiary of the Company and the results, identifiable assets, liabilities and contingent liabilities of Huayou will be consolidated into the financial statements of the Group with the minority interests in the net assets of Huayou being presented separately from the Group's equity therein. The consideration represents a discount of approximately 7.06% compared to 51.01% of the net asset value of Huayou as at 31 December 2008 assuming the Huayou Capital Injection had taken place on 30 June 2008. In case goodwill arises as a result of the cost of Huayou Capital Injection exceeding the fair value of identifiable net assets of Huayou, it will be recognised as an asset. If, after reassessment, the Group's interest in the net fair value of Huayou's identifiable assets, liabilities and contingent liabilities exceeds the cost of Huayou Capital Injection, the excess will be recognised immediately in the income statement.

However, Shareholders should note that the amount of the excess of approximately HK$37,472,000 as shown in note 2 to the Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group as at 30 June 2008 set out in Appendix V to this circular is hypothetically calculated based on the cost of Huayou Capital Injection and the net fair value of the identifiable assets, liabilities and contingent liabilities of Huayou Group as at 31 December 2008. The final amount of excess arising as a result of Huayou Capital Injection to be recognised upon completion of Huayou Capital Injection may be different.

As noted from the Unaudited Pro Forma Financial Information on the Enlarged Group set out in Appendix V to this circular, assuming Huayou Capital Injection had taken place on 30 June 2008, the Huayou Capital Injection would lead to an increase in approximately HK$547,509,000 of the net asset value of the Enlarged Group as at 30 June 2008.

As set out in the audited consolidated financial statements of the Group in Appendix III to this circular, the audited profit before and after taxation of the Group amounted to approximately HK$2,315,443,000 and HK$1,684,897,000 respectively for the financial year ended 31 December 2007.

As set out in the Accountants' Report of Huayou in Appendix IV to this circular, the audited net profit before and after tax of Huayou Group amounted to approximately RMB104,379,689 (equivalent to approximately HK$118,398,000) and RMB89,137,843 (equivalent to approximately or HK$101,109,000) respectively for the financial year ended 31 December 2008.

The impact of Huayou Capital Injection on the earnings of the Group is dependent on, among other things, the performance of Huayou after the Huayou Capital Injection.

7. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF HUAYOU GROUP

Set out in Appendix IV to this circular is the Accountants' Report of Huayou for the three financial years ended 31 December 2008. Below is the management discussion and analysis of the performance of Huayou Group for each of the aforesaid years and on some general financial information on Huayou Group:

(a) For the financial year ended 31 December 2006

Results and dividends

Huayou Group recorded a turnover of RMB230,858,899 with a gross profit of RMB62,297,839. Profit attributable to the equity holders of Huayou amounted to RMB23,556,494. Dividends of RMB6,000,000 were declared and paid for the year.

Cashflow

There was a total net cash outflow of RMB8,377,397 which was mainly due to: (a) net cash generated from operating activities of RMB91,203,908; (b) net cash used in investing activities of RMB162,309,516; and (c) net cash generated from financial activities of RMB62,728,211.

Borrowing and banking facilities

As at 31 December 2006, Huayou Group had bank loans of RMB64,000,000, other borrowings of RMB1,000,000 and a loan from immediate holding company of RMB40,383,374. The loan from immediate holding company was subject to fixed interest rate at 8% per annum as at 31 December 2006. All the borrowings and loans were denominated in RMB.

Net current liabilities

As at 31 December 2006, Huayou Group had net current liabilities of RMB62,848,092. The current assets of RMB92,176,400 mainly comprised bank and cash balances of RMB46,836,585, prepayments, deposits and other receivables of RMB31,090,646 and trade receivables of RMB12,080,086. Current liabilities of RMB155,024,492 mainly comprised borrowings of RMB65,000,000 and a loan from immediate holding company of RMB40,383,374.

Capital structure

As at 31 December 2006, the registered and fully paid up capital of Huayou amounted to RMB170,000,000. During the year, there was no change in the registered capital.

Charges on Huayou Group's assets

During the year, the carrying amount of property, plant and equipment of RMB3,888,731 was charged to secure a bank loan of RMB64,000,000.

Capital commitment

As at 31 December 2006, Huayou Group had no material capital commitment.

Number and remuneration of employees

As at 31 December 2006, Huayou Group had 481 full time employees. Total staff costs (including directors' emoluments) amounted to approximately RMB6,192,000 for the year.

Significant investments, material acquisitions and disposals

During the year ended 31 December 2006, Huayou Group did not have any significant investments, material acquisitions or disposals of subsidiaries or associated companies.

Gearing ratio

As at 31 December 2006, Huayou Group's gearing ratio, determined by dividing Huayou Group's borrowings and loan from immediate holding company by equity attributable to equity holders of Huayou, was approximately 40.00%.

Contingent liabilities

As at 31 December 2006, Huayou Group had no material contingent liabilities.

(b) For the financial year ended 31 December 2007

Results and dividends

Huayou Group recorded a turnover of RMB353,531,348 with a gross profit of RMB102,574,365. Profit attributable to the equity holders of Huayou amounted to RMB40,495,717. Dividends of RMB8,500,000 was declared and paid for the year.

Cashflow

There was a total net cash inflow of RMB21,263,594 which was mainly due to: (a) net cash generated from operating activities of RMB98,873,784; (b) net cash used in investing activities of RMB146,649,106; and (c) net cash generated from financial activities of RMB69,038,916.

Borrowing and banking facilities

As at 31 December 2007, Huayou Group had bank loans of RMB144,000,000 and a loan from immediate holding company of RMB40,000,000. The loan from immediate holding company was subject to fixed interest rate at 8% per annum as at 31 December 2007. All the loans were denominated in RMB.

Net current liabilities

As at 31 December 2007, Huayou Group had net current liabilities of RMB123,471,020. The current assets of RMB122,952,070 mainly comprised bank and cash balances of RMB68,100,179, prepayments, deposits and other receivables of RMB37,667,868 and trade receivables of RMB15,154,894. The current liabilities of RMB246,423,090 mainly comprised loan from immediate holding company of RMB40,000,000, borrowings of RMB144,000,000 trade payables of RMB31,767,320 and accruals and other payables of RMB27,577,436.

Capital structure

As at 31 December 2007, the registered and fully paid up capital of Huayou amounted to RMB170,000,000. During the year, there was no change in the registered capital.

Charges on Huayou Group's assets

During the year, the carrying amount of property, plant and equipment of RMB3,121,427 was charged to secure a bank loan of RMB144,000,000.

Capital commitment

As at 31 December 2007, Huayou Group had no material capital commitment.

Number and remuneration of employees

As at 31 December 2007, Huayou Group had 643 full time employees. Total staff costs (including directors' emoluments) amounted to approximately RMB17,199,863 for the year.

Significant investments, material acquisitions and disposals

During the year ended 31 December 2007, Huayou Group did not have any significant investments, material acquisitions or disposals of subsidiaries or associated companies.

Gearing ratio

As at 31 December 2007, Huayou Group's gearing ratio, determined by dividing Huayou Group's borrowings and loan from immediate holding company by equity attributable to equity holders of Huayou, was approximately 62.28%.

Contingent liabilities

As at 31 December 2007, Huayou Group had no material contingent liabilities.

(c) For the financial year ended 31 December 2008

Results and dividends

Huayou Group recorded a turnover of RMB512,132,628 with a gross profit of approximately RMB151,940,850. Profit attributable to the equity holders of Huayou amounted to RMB71,968,603. No dividend has been declared for the year.

Cashflow

There was a total net cash inflow of RMB50,999,006 which was mainly due to: (a) net cash generated from operating activities of RMB155,359,415; (b) net cash used in investing activities of RMB116,603,299; and (c) net cash generated from financial activities of RMB12,242,890.

Borrowing and banking facilities

As at 31 December 2008, Huayou Group had bank loans of RMB53,500,000 and a loan from immediate holding company of RMB146,240,000. The loan from immediate holding company was subject to fixed interest rate at 8% per annum as at 31 December 2008. All the loans were denominated in RMB.

Net current liabilities

As at 31 December 2008, Huayou Group had net current liabilities of RMB94,724,427. The current assets of RMB176,852,738 mainly comprised bank and cash balances of RMB119,099,185, prepayments, deposits and other receivables of RMB41,326,955 and trade receivables of RMB13,508,815. The current liabilities of RMB271,577,165 mainly comprised loan from immediate holding company of RMB146,240,000, borrowings of RMB53,500,000, trade payables of RMB35,790,548 and accruals and other payables of RMB34,457,061.

Capital structure

As at 31 December 2008, the registered and fully paid up capital of Huayou amounted to RMB170,000,000. During the year, there was no change in the registered capital.

Charges on Huayou Group's assets

During the year, the carrying amount of property, plant and equipment of RMB3,164,865 and the carrying amount of prepaid lease payment of RMB4,172,371 were charged to secure a bank loan of RMB53,500,000.

Capital commitment

As at 31 December 2008, Huayou Group had no material capital commitment.

Number and remuneration of employees

As at 31 December 2008, Huayou Group had 710 full time employees. Total staff costs (including directors' emoluments) amounted to approximately RMB24,758,056 for the year.

Significant investments, material acquisitions and disposals

During the year ended 31 December 2008, Huayou Group did not have any significant investments, material acquisitions or disposals of subsidiaries or associated companies.

Gearing ratio

As at 31 December 2008, Huayou Group's gearing ratio, determined by dividing Huayou Group's borrowings and loan from immediate holding company by equity attributable to equity holders of Huayou, was approximately 54.36%.

Contingent liabilities

As at 31 December 2008, Huayou Group had no material contingent liabilities.

(d) General financial information

Segment information

Huayou Group is engaged in city gas related business comprising production, sales and distribution of natural gas and the operation of compressed natural gas stations in the PRC. In addition, all of the Huayou Group's revenue and assets are derived from customers and operations based in the PRC and accordingly, no further analysis of Huayou Group's geographical segments is disclosed in the Accountants' Report of Huayou.

Foreign exchange exposure

Huayou Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. Huayou Group does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. Huayou Group will monitor its foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Remuneration policy

The employees of Huayou Group are remunerated according to the nature of the job and market trend, as well as the individual's qualification and performance. On the job training is provided to staff from time to time. Huayou Group does not have any share option scheme for employees.

Future plans for material investments or capital assets

It is expected that Huayou Group will continue to expand its natural gas station network by constructing and/or acquiring natural gas stations in the PRC. Save for the above, Huayou Group has no plan for any material investments or capital assets in the foreseeable future.

8. RELATIONSHIP AMONG THE PARTIES TO THE HUAYOU CAPITAL INJECTION AGREEMENT AND CONNECTED TRANSACTION

As at the Latest Practicable Date, CNPC, the ultimate shareholder of the Company, is deemed to be interested in 2,522,417,342 Shares, representing approximately 56.80% of the issued share capital of the Company. To the best of the Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date. Huayou is a non wholly-owned subsidiary of CNPC whereas Shenzhen Petroleum and China Huayou Group are wholly-owned subsidiaries of CNPC. Pursuant to the Listing Rules, each of CNPC, Huayou, Shenzhen Petroleum and China Huayou Group is a connected person of the Company and accordingly, Huayou Capital Injection constitutes a connected transaction of the Company. To the best of the Directors' knowledge, each of Zhejiang Jindi, Hengchanglong and Xihu Golf are third parties independent of the Company and its connected persons.

During the 12-month period prior to the signing of the Huayou Capital Injection Agreement, the Company had entered into the following transactions:

(i) Shennan Oil Capital Injection – the Company entered into an agreement dated 19 December 2008 with Shennan Oil, Shenzhen Petroleum and 海南福山油田勘探開發有限責任公司 (Hainan Fushan Oilfield Exploration and

Development Limited Liability Company*) (all being wholly-owned subsidiaries of CNPC as at the date of the agreement), pursuant to which the Company conditionally agreed to subscribe for capital in Shennan Oil of RMB52,000,000, representing 50.98% of the shareholding interests of Shennan Oil upon completion; and

(ii) Xinjiang Xinjie Acquisitions – the Company entered into an agreement with each of PetroChina, Lead Source Limited, Xinjiang Tongyu Co., Ltd. and Xinjiang Tongyuan Co., Ltd. (collectively, the "Existing Shareholders of Xinjiang Xinjie"), each dated 9 January 2009, pursuant to which the Company conditionally agreed to purchase and the Existing Shareholders of Xinjiang Xinjie conditionally agreed to sell to the Company their respective shareholding interests in Xinjiang Xinjie. Upon completion of the Xinjiang Xinjie Acquisitions, Xinjiang Xinjie will be owned as to 97.26% by the Company.

Shennan Oil Capital Injection was completed and Shennan Oil was indirectly wholly-owned by CNPC prior to that whereas Xinjiang Xinjie is indirectly owned by CNPC as to 44.76% until the completion of Xinjiang Xinjie Acquisitions. Further details of Shennan Oil Capital Injection are set out in the announcement of the Company dated 19 December 2008 and further details of Xinjiang Xinjie Acquisitions are set out in the announcement and the circular of the Company dated 9 and 22 January 2009 respectively.

As (1) each of Shennan Oil, Xinjiang Xinjie and Huayou was and/or is wholly or majority owned by CNPC; and (2) Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection were entered into within a short period of time, pursuant to Rules 14.22 and 14A.25 of the Listing Rules, the Stock Exchange has requested that Huayou Capital Injection, Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions be aggregated for the purposes of Chapters 14 and 14A of the Listing Rules.

Both the Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions were connected transactions of the Company. Each of the applicable percentage ratios for Shennan Oil Capital Injection was more than 0.1% but less than 2.5%; and the applicable percentage ratios for Xinjiang Xinjie Acquisitions were more than 2.5% but less than 25%.

Each of the applicable percentage ratios referred to in Chapters 14 and 14A of the Listing Rules for Huayou Capital Injection by itself is more than 5% but less than 25%, and when aggregated with the Shennan Oil Capital Injection and Xinjiang Xinjie Acquisitions, the applicable percentage ratios referred to in Chapters 14 and 14A of the Listing Rules are more than 25% but less than 100% and thus constitutes a major transaction and a connected transaction of the Company and is subject to, among other things, the approval by the Independent Shareholders at the SGM by way of poll.

As CNPC has a material interest in Huayou Capital Injection, CNPC and its associates are required to abstain from voting on the resolution approving Huayou Capital Injection. As far as the Company is aware of, none of Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf has any shareholding in the Company. An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, in relation to Huayou Capital Injection. Guangdong Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

9. CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 6 March 2009 in relation to the Continuing Connected Transactions.

The Group entered into (i) the Xinjiang Contract and the Liaohe Contract (together the PSAs) with CNPC in 1996 and 1997 respectively and (ii) the Master Agreement in 2003, which was subsequently amended in 2006 pursuant to the First Supplemental Agreement.

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016.

Whereas, the Master Agreement provides a framework for the Group to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects.

Since 18 December 2008, PetroChina has become the controlling shareholder of the Company. As disclosed in the joint announcements of the Company and PetroChina dated 27 August and 18 December 2008 respectively, it is the Company's intention to explore potential business opportunities in city gas, vehicle fuel gas and related businesses. In this connection, the Group has in the past several months, announced the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection. Currently, CNPC Group supplies natural gas and/or provides natural gas-related services to each of Shennan Oil, Xinjiang Xinjie and Huayou. Following completion of Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, the transactions between each of Shennan Oil, Xinjiang Xinjie and Huayou on one hand and the CNPC Group on the other will constitute continuing connected transactions of the Company. For further details of Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, please refer to the announcements of the Company dated 19 December 2008, 9 January 2009 and 16 February 2009 respectively and the circular of the Company dated 22 January 2009.

In anticipation of the potential continuing connected transactions following completion of the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, it is proposed that the Company and CNPC will enter into the Second Supplemental Agreement expanding the scope of products and services to be provided by the CNPC Group under the Master Agreement to cover such potential continuing connected transactions, and also extending the term of the Master Agreement to expire on 31 December 2011.

In the announcement of the Company dated 13 November 2006, the Company set out annual caps for each relevant category of the Continuing Connected Transactions for each of the three years ending 31 December 2009, and where required, such relevant annual caps were approved by the Independent Shareholders at a special general meeting of the Company held on 15 December 2006. Owing to the expansion of the Group's business since 2006, the Board expects that such annual caps as previously announced or where applicable approved by the Independent Shareholders in respect of the Continuing Connected Transactions for the year ending 31 December 2009 are likely to be exceeded. Accordingly, the Board has re-considered and proposes revised annual caps for the Continuing Connected Transactions for the three years ending 31 December 2011.

In view of the above, the Company proposes to seek the approval of the Independent Shareholders at the SGM by way of poll for each category of the Continuing Connected Transactions and their respective annual caps for each of the three years ending 31 December 2011.

10. CATEGORIES OF CONTINUING CONNECTED TRANSACTIONS

10.1 General products and services provided by the CNPC Group to the Group

The Group procures certain products and services from the CNPC Group under the PSAs and the Master Agreement.

(a) PSAs

Under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities.

The Xinjiang Contract and the Liaohe Contract were approved by the Independent Shareholders at the special general meetings of the Company held on 28 August 1996 and 23 February 1998 respectively and details of these contracts were set out in the circulars to Shareholders dated 5 August 1996 and 6 February 1998 respectively. Their salient details are set out below.

(i) The Xinjiang Contract

Date: 1 July 1996, as amended and modified from time to time

Parties: (1) Hafnium, a wholly-owned subsidiary of the Company

(2) PetroChina, a non wholly-owned subsidiary of CNPC; and

CNPC only in respect of the supervisory functions as representative of the PRC Government

Duration: 25 years from 1 September 1996 to 31 August 2021

Synopsis:

The Xinjiang Contract is an oil production sharing agreement in relation to the development and production of crude oil in the Karamay Oilfield, Xinjiang, the PRC. Pursuant to the Xinjiang Contract, the Group and the CNPC Group hold 54% and 46% participating interests respectively. The Group is entitled to 54% of the oil production from the contracted area in Karamay Oilfield.

The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016. As the Xinjiang Contract has a term of 25 years ending 31 August 2021, the production period thereunder may further be extended to 31 August 2021 subject to the parties' mutual agreement and the approval of the State Council of the PRC.

(ii) The Liaohe Contract

Date: 31 December 1997, as amended and modified from time to time

Parties: (1) Beckbury, a wholly-owned subsidiary of the Company

(2) PetroChina, a non wholly-owned subsidiary of CNPC; and

CNPC only in respect of the supervisory functions as representative of the PRC Government

Duration: 20 years from 1 March 1998 to 28 February 2018

Synopsis:

The Liaohe Contract is an oil production sharing agreement in relation to the development and production of crude oil in the Leng Jiapu Oilfield, Liaoning, the PRC. Pursuant to the Liaohe Contract, the Group and the CNPC Group hold 70% and 30% participating interests respectively. The Group is responsible for 70% of the operation cost incurred in connection with oil production in certain areas within the Leng Jiapu Oilfield as specified in the Liaohe Contract (the "**Liaohe Contract Area**"). The Group is entitled to 70% of the oil production generated from the Liaohe Contract Area.

In connection with the Liaohe Contract, the Group has also entered into the Leng Jiapu Entrustment Contract with the CNPC Group, whereby the CNPC Group was entrusted to be the operator under the Liaohe Contract. Pursuant to the Leng Jiapu Entrustment Contract, the Group pays the CNPC Group a support fee representing 30% of the aggregate salary and welfare expenses paid to the personnel of the joint development department. The joint development department was established pursuant to the Leng Jiapu Entrustment Contract and is responsible for carrying out the contractual responsibilities of the CNPC Group under the Leng Jiapu Entrustment Contract.

The Liaohe Contract has a term of more than three years and will expire on 28 February 2018.

(b) Master Agreement

The Master Agreement provides a framework for the Group, among others, to procure a range of products and services from the CNPC Group in relation to its oil exploration and production projects. The Master Agreement was amended by the First Supplemental Agreement in 2006. It is proposed that the Company will enter into the Second Supplemental Agreement with CNPC, among others, extending the term of the Master Agreement to expire on 31 December 2011. The salient details of the Master Agreement are set out below.

Date: 19 November 2003, as amended and modified from time to time

Parties: (1) The Company

(2) CNPC

Synopsis:

Provision of general products and services by the CNPC Group to the Group

Under the Master Agreement, the CNPC Group agrees, among others to provide the following products and services to the Group:

(i) equipment required for petroleum exploration and production;

(ii) materials, supplies and other products required for petroleum exploration and production;

(iii) engineering services including geological surveying, drilling, well cementing, logging, mud logging, well testing, work-over, oilfield construction (and installation), engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;

(iv) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services; and

(v) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services.

General principles, price and terms

The transactions under the Master Agreement are subject to the following general principles:

(i) the products and services shall be of good quality and the price of the products and services shall be fair and reasonable. The terms and conditions on which such products and services to be provided to the Group shall be no less favourable than those (i) offered by the CNPC Group to independent third parties; and (ii) offered by independent third parties to the Group, for similar products and services;

(ii) the CNPC Group and the Group shall enter into individual implementation agreements in relation to each type of products and services setting out detailed terms and conditions for providing such products and services; and

(iii) the quality, price and other terms and conditions for the provision of the products and services by the CNPC Group to the Group shall be no less favourable than those offered by independent third parties to the Group.

Price determination

The pricing for such general products and services to be provided under the Master Agreement shall be based on the following general principles:

(i) the price (the "**Relevant Market Price**") should not exceed the best price among all the prices offered by all the independent third parties in the relevant market in the ordinary course of business (the "**Best Local Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best Local Price to independent third parties in the relevant market, such lower price shall be the Relevant Market Price; and

(ii) in the absence of the Relevant Market Price, the price should not exceed the best price among all the prices as offered by all the independent third parties in the nearby market in the ordinary course of business (the "**Best International Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best International Price to independent third parties in the nearby market, such lower price shall be used.

Other rights and obligations

The Group retains the right to purchase such products or services from independent third parties where the products or services offered by such independent third parties are considered by the Group to be superior to those offered by the CNPC Group. So long as the CNPC Group is able to supply the products and services required by the Group in accordance with the Master Agreement, the CNPC Group may supply such products and services to other third parties.

Both parties shall procure that their respective subsidiaries shall enter into implementation agreements in accordance with the terms and conditions of the Master Agreement. As the implementation agreements executed pursuant to the Master Agreement are simply further elaborations on the provision of products and services under the Master Agreement, they do not constitute new categories of continuing connected transactions.

The CNPC Group has agreed to compensate the Company for any loss arising from any breach by the CNPC Group of the Master Agreement or of any implementation agreement.

Terms and termination

Pursuant to the Second Supplemental Agreement, the term of the Master Agreement will be extended to expire on 31 December 2011. Each implementation agreement may be terminated by any party from time to time by giving at least six months' prior written notice to the other party. Termination of an implementation agreement will not affect the rights and obligations of the CNPC Group and the Group under the Master Agreement or other implementation agreements executed pursuant to the Master Agreement. In the event that the CNPC Group proposes to terminate the provision of any products or services, and the Company is unable to find alternative suppliers, the CNPC Group is obliged to continue providing such products and services in accordance with terms of the Master Agreement.

(c) Independent Shareholders' approval

The Company will seek the Independent Shareholders' approval at the SGM in respect of, among other things, the continuing connected transactions in respect of the provision of general services and products by the CNPC Group to the Group under the PSAs and the Master Agreement described above for the three years ending 31 December 2011.

10.2 Purchase of the Group's share of crude oil by the CNPC Group

Pursuant to the PSAs, the Group has the right to sell and deliver its share of oil production from each of the PRC Oilfields to a destination of its choice, except for destinations which infringe the political interests of the PRC. However, given the transportation costs and prevailing oil prices, the likely purchaser of the entire oil production share attributable to the Group from each of the PRC Oilfields is likely to be the CNPC Group.

Since entering into the PSAs, the Company has sold all its share of the oil from the PRC Oilfields to the CNPC Group and the Board intends to continue this arrangement. There is no contractual obligation upon the CNPC Group to purchase the Group's share of the oil production from the PRC Oilfields although, from a commercial perspective, the Board expects that the CNPC Group will continue to accept all deliveries. The price of crude oil paid by the CNPC Group for the Group's share of the oil production from the PRC Oilfields is determined by reference to the prevailing market price of similar grade crude oil in an arm's length transaction with reference to the trend of the international oil prices.

10.3 Additional products and services including the Oil and Gas Products, amenities services, social and ancillary services and financial services

Since 18 December 2008, PetroChina has become the controlling shareholder of the Company. As disclosed in the joint announcements of the Company and PetroChina dated 27 August and 18 December 2008 respectively, it is the Company's intention to explore potential business opportunities in city gas, vehicle fuel gas and related businesses. In this connection, the Group has in the past several months, announced the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection. Currently, CNPC Group supplies natural gas and/or provides natural gas-related services to each of Shennan Oil, Xinjiang Xinjie and Huayou. Following completion of Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, the transactions between each of Shennan Oil, Xinjiang Xinjie and Huayou on one hand and the CNPC Group on the other will constitute continuing connected transactions of the Company. For further details of Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, please refer to the announcements of the Company dated 19 December 2008, 9 January 2009 and 16 February 2009 respectively and the circular of the Company dated 22 January 2009.

In anticipation of the potential continuing connected transactions following completion of the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection, it is proposed that the Company will enter into the Second Supplemental Agreement with CNPC expanding the scope of products and services to be provided by the CNPC Group under the Master Agreement to cover such potential continuing connected transactions. The Second Supplemental Agreement, when entered into, will constitute an amendment to and will become part of the Master Agreement. Unless otherwise amended or substituted by the provisions in the Second Supplemental Agreement, the remaining provisions of the Master Agreement and other related agreements executed pursuant to the Master Agreement (including the implementation agreements) shall remain in full force and effect. The terms of the Second Supplemental Agreement are negotiated on an arm's length basis between the Group and the CNPC Group.

The salient terms of the Second Supplemental Agreement in relation to the new category of products and services to be procured from the CNPC Group are set out as follows:

(i) the CNPC Group will supply crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products (the "**Oil and Gas Products**") to the Group;

(ii) the CNPC Group will provide amenities services, including but not limited to property management, staff canteen, training centres and guesthouses;

(iii) the CNPC Group will provide social and ancillary services, including but not limited to security services, education, hospitals, public transport; and

(iv) the CNPC Group will provide financial services, including but not limited to loans and deposit services and the associated interest incomes and expenses, guarantees and entrustment services.

Purchase of Oil and Gas Products and other services by the Group

The price for the products and services to be provided to the Group under the Second Supplemental Agreement shall be fair and reasonable. The terms and conditions on which such products and services are to be provided to the Group shall be no less favourable than those (i) offered by the CNPC Group to independent third parties and (ii) offered by independent third parties to the Group, for similar products and services.

The CNPC Group and the Group shall enter into individual agreements in respect of each purchase of such products and services, which shall be negotiated on an arm's length basis and on normal commercial terms. Each agreement shall set out the major terms and conditions for the provision of products and services.

Pricing determination

The pricing for the products and services to be provided pursuant to the Second Supplemental Agreement will be based on the following general principles:

(i) the price (the "**New Relevant Market Price**") should not exceed the best price among all the prices as offered by all the independent third parties in the relevant market or nearby market in the ordinary course of business ("**Best Market Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best Market Price to independent third parties in such markets, such lower price shall be the New Relevant Market Price; and

(ii) in the absence of the New Relevant Market Price, the price shall be set at the agreed contractual price, being the aggregate value of the actual costs of all products and services to be provided under the Master Agreement which are required to be priced at agreed contractual prices during the relevant year plus an additional margin of not more than 3%. The Directors consider that such margin is reasonable to cover any administrative costs and handling charges incurred by the CNPC Group in providing such products and services and are in line with market practice.

As the agreements to be executed pursuant to the Second Supplemental Agreement, are simply further elaborations on the provision of products and services contemplated by the Second Supplemental Agreement, they do not constitute new categories of continuing connected transactions.

11. REASONS FOR, AND BENEFITS OF, THE CONTINUING CONNECTED TRANSACTIONS

The Company is an enterprise whose business operations primarily focus on investing in petroleum up-stream business as well as other petroleum-related businesses that generate stable income. CNPC, on the other hand, is an enterprise whose business operations cover a broad spectrum of upstream and downstream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. CNPC is a major producer and supplier of petrochemical products. CNPC is also involved in the provision of operational services and technical support in such areas as geophysical prospecting, well drilling, logging, well testing, downhole operations, oilfield surface facilities construction, pipeline construction, refining and petrochemical projects, and manufacturing and supply of petroleum equipment.

In view of the strengths and scope of CNPC's business activities and the strong favourable support that such Continuing Connected Transactions would bring to the Company's business activities, the Board considers it to be beneficial to the Company to carry out the Continuing Connected Transactions with the CNPC Group as these transactions have facilitated and will continue to facilitate the Group's business operations. The Board also notes the long and smooth cooperation history between the Company and CNPC in relation to such transactions.

The Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Group. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company.

12. CAPS

12.1 Annual caps

The announcement of the Company dated 13 November 2006 sets out annual caps for each category of the Continuing Connected Transactions (other than for the Oil and Gas Products as such category did not exist at the relevant time) for each of the three years ending 31 December 2009, and the relevant annual caps were approved by the Independent Shareholders at a special general meeting of the Company held on 15 December 2006. Owing to the expansion of the Group's business since 2006, the Board expects that such annual caps as approved by the Independent Shareholders in respect of the Continuing Connected Transactions for the year ending 31 December 2009 are likely to be exceeded. Further, under the Second Supplemental Agreement, a new category of Continuing Connected Transactions, namely provision of Oil and Gas Products, has been included. Accordingly, the Board has re-considered and proposed the following caps in respect of the Continuing Connected Transactions which will serve as the maximum annual value of the Continuing Connected Transactions for the three years ending 31 December 2011:

Category of Continuing Connected Transactions		Historical amount	Existing/proposed caps for 2009	2010	2011
(a)	Provision of products and services by the CNPC Group to the Group under the PSAs, the Master Agreement and for the avoidance of doubt including those under the Second Supplemental Agreement but excluding the Oil and Gas Products	For each of the two years ended 31 December 2007 and the six months ended 30 June 2008, approximately HK$952,669,000, HK$940,150,000 and HK$419,708,000 respectively.	HK$1,100,000,000 (proposed to be revised to HK$1,293,000,000)	HK$1,498,000,000	HK$1,669,000,000
(b)	Purchase of the Group's share of crude oil by the CNPC Group under the PSAs	For each of the two years ended 31 December 2007 and the six months ended 30 June 2008, approximately HK$2,713,026,000, HK$2,506,093,000 and HK$1,842,184,000 respectively.	HK$3,019,000,000 (proposed to be revised to HK$3,511,000,000)	HK$4,372,000,000	HK$4,840,000,000
(c)	Purchase of Oil and Gas Products by the Group under the Second Supplemental Agreement	For each of the two years ended 31 December 2007 and the eight months ended 31 August 2008, approximately HK$168,561,000, HK$$292,666,000 and HK$495,483,000 respectively. *(Note)*	HK$990,000,000	HK$1,485,000,000	HK$1,931,000,000

Note: These amounts are for references only and do not represent amounts paid by the Group for such products. These amounts comprise entirely purchases by Shennan Oil, Xinjiang Xinjie and Huayou from the CNPC Group. None of Shennan Oil, Xinjiang Xinjie and Huayou were a member of Group during the periods indicated.

12.2 Basis of determination of the Caps

(a) Provision of general products and services by the CNPC Group to the Group (other than Oil and Gas Products)

The Caps of the provision of general products and services by the CNPC Group to the Group under the PSAs, the Master Agreement and for the avoidance of doubt the Second Supplemental Agreement but excluding the Oil and Gas Products have been determined with reference to the historical level of products and services charges paid by the Group to the CNPC Group under the PSAs and the Master Agreement, the historical level of products and services charges paid by Shennan Oil, Xinjiang Xinjie and Huayou to the CNPC Group, the relevant pricing principles, the inflation rate, the development and production progress of the PRC Oilfields, the number of oil exploration and production projects that the Group will be involved in the three years ending 31 December 2011 and the expected growth of the Group in light of the recent acquisitions of Shennan Oil, Xinjiang Xinjie and Huayou and other future potential acquisitions to be carried out pursuant to the restructuring of the Company.

(b) Purchase of the Group's share of crude oil by the CNPC Group

The Caps of the purchase of the Group's share of crude oil by the CNPC Group under the PSAs have been determined with reference to the historical level of purchase price of the Group's share of crude oil paid by the CNPC Group to the Group, the prevailing market price of similar grade crude oil with reference to the trend of the international oil prices and the production progress of the PRC Oilfields in the three years ending 31 December 2011.

(c) Provision of Oil and Gas Products by the CNPC Group to the Group

The Caps of the provision of Oil and Gas Products by the CNPC Group to the Group have been determined with reference to the historical amount of Oil and Gas Products purchased by Shennan Oil, Xinjiang Xinjie and Huayou from the CNPC Group during the period between 2006 and 2008 and the relevant pricing principles set out in the Master Agreement. Further, it is the Group's plan to further venture into and expand its business in the city gas, vehicle fuel gas and related businesses through organic growth of Shennan Oil, Xinjiang Xinjie and Huayou following completion of their acquisitions, and through possible acquisitions of potential suitable target companies. Accordingly, based on such expansion plan, the Company projects that its demand for Oil and Gas Products would increase considerably in the following years. The Company also noted the substantial fluctuation in the prices of oil and gas in the last 12 months from the peak of US$146 per barrel in July 2008 to US$44 per barrel in February 2009. In arriving at the Caps, the Company has assumed that the oil price will continue to be subject to considerable fluctuation and will gradually increase as the time spans out. The Caps were arrived at by multiplying the projected volume growth and the Group's estimate of the future oil price.

The Board is of the view that the proposed annual caps for each of the above categories of Continuing Connected Transactions are in line with the estimated development of the business of the Group, and are determined based on the principles of fairness and reasonableness.

12.3 Requirements of the Listing Rules

As one or more of the relevant percentage ratios (other than profit ratio) of the proposed Continuing Connected Transactions and the annual caps (as revised) for such transactions in respect of each of the three years ending 31 December 2011 exceeds 2.5% on an annual basis, the Continuing Connected Transactions and the Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules.

Details of the Continuing Connected Transactions will be included in the annual report and accounts of the Company in accordance with Rules 14A.45 and 14A.46 of the Listing Rules. In the event that the PSAs or the Master Agreement are renewed or the terms thereof are materially varied, the Company will re-comply with the reporting, announcement and Independent Shareholders' approval pursuant to Rules 14A.45 to 14A.48 of the Listing Rules.

The Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Company. The Continuing Connected Transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company.

The Directors (excluding the independent non-executive Directors whose views are set out in the Letter from the Independent Board Committee) are of the view that due to the long-term relationship between the Company and CNPC (i) it is beneficial to the Company to continue these transactions as they have facilitated and are expected to continue to facilitate the operation and growth of the Group's business; and (ii) these transactions have been and will be conducted on normal commercial terms or on terms no less favourable than those available to the Group from independent third parties, under prevailing market conditions, and were and will be entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the Caps are fair and reasonable.

As at the Latest Practicable Date, CNPC, the ultimate shareholder of the Company, was deemed to be interested in 2,522,417,342 Shares, representing approximately 56.80% of the issued share capital of the Company. To the best of the Directors' knowledge, CNPC is entitled to control all voting rights in respect of its Shares as at the Latest Practicable Date. Accordingly, CNPC is a connected person of the Company and the transactions under the PSAs and the Master Agreement constitute continuing connected transactions of the Company.

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders, among other things, in relation to the Continuing Connected Transactions and the Caps. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CNPC and its associates (including PetroChina) are required to abstain from voting on the resolutions in connection with the Continuing Connected Transactions.

13. INFORMATION ON THE COMPANY, CNPC, PETROCHINA AND THE EXISTING SHAREHOLDERS OF HUAYOU

(a) Information on the Company

The Company acts as an investment holding company. The principal activities of the Group are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia.

(b) Information on CNPC

CNPC is the controlling shareholder of the Company and PetroChina. CNPC is a petroleum and petrochemical conglomerate that was formed in the wake of the restructuring launched by the State Council to restructure the predecessor of CNPC, China National Petroleum Company (中國石油天然氣總公司). CNPC is also a state-authorised investment corporation and state-owned enterprise. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing.

(c) Information on PetroChina

PetroChina and its subsidiaries are mainly engaged in petroleum and natural gas-related activities, including:

(i) the exploration, development, production and sale of crude oil and natural gas;

(ii) the refining, transportation, storage and marketing of crude oil and petroleum products;

(iii) the production and sale of basic petrochemical products, derivative chemical products and other petrochemical products; and

(iv) the transmission of natural gas, crude oil and refined products, and the sale of natural gas.

(d) Information on Shenzhen Petroleum

Shenzhen Petroleum is principally engaged in the exploration and development of natural gas, the development of city gas and compressed natural gas vehicle projects in the PRC. Shenzhen Petroleum is a wholly-owned subsidiary of CNPC.

(e) Information on China Huayou Group

China Huayou Group is principally engaged in the sales and production of oil and gas related products, development, exploration and utilisation of natural gas, development of oilfield and petrochemical in the PRC. It is also engaged in the production of construction materials, property development and operation of hotels in the PRC. China Huayou Group is a wholly-owned subsidiary of CNPC.

(f) Information on Zhejiang Jindi

Zhejiang Jindi is principally engaged in property development in the PRC. It is also engaged in property management and retailing businesses in the PRC.

(g) Information on Hengchanglong

Hengchanglong is principally engaged in property development in the PRC.

(h) Information on Xihu Golf

Xihu Golf is principally engaged in the operation of a golf club in the PRC.

14. SGM

The notice convening the SGM to be held at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88, Queensway, Hong Kong on 24 March 2009 at 11:00 a.m., at which ordinary resolutions will be proposed to approve the Huayou Capital Injection, the Continuing Connected Transactions and the Caps, is set out on pages 265 and 266 of this circular.

A proxy form for use at the SGM is enclosed. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete the form of proxy enclosed in accordance with the instructions printed thereon and return it to the principal office of the Company at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the SGM or adjourned meeting (as the case may be), completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM should you so wish.

15. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 38 of this circular which contains its recommendation to the Independent Shareholders in relation to Huayou Capital Injection, the Continuing Connected Transactions and the Caps. Your attention is also drawn to the letter of advice from Guangdong Securities set out on pages 39 to 64 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to Huayou Capital Injection, the Continuing Connected Transactions and the Caps and the principal factors and reasons taken into account in arriving at its recommendation.

The Independent Board Committee, having taken into account the advice of Guangdong Securities, is of the opinion that the terms of the Huayou Capital Injection Agreement and the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Caps are fair and reasonable, and recommends the Independent Shareholders to vote in favour of the ordinary resolutions in respect of Huayou Capital Injection, the Continuing Connected Transactions and the Caps to be proposed at the SGM.

The Board considers that the terms of the Huayou Capital Injection and the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Caps are fair and reasonable and recommends the Independent Shareholders to vote in favour of the resolutions in respect of Huayou Capital Injection, the Continuing Connected Transactions and the Caps to be proposed at the SGM.

16. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Li Hualin
Chairman

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

9 March 2009

To the Independent Shareholders

Dear Sir or Madam,

(1) MAJOR AND CONNECTED TRANSACTION IN RELATION TO HUAYOU CAPITAL INJECTION (2) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 9 March 2009 of the Company (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Huayou Capital Injection, the Continuing Connected Transactions and the Caps, details of which are set out in the "Letter from the Board" in the Circular to the Shareholders.

Having taken into account the advice of the Independent Financial Adviser, we consider that the terms of Huayou Capital Injection and the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the Caps are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Huayou Capital Injection, the Continuing Connected Transactions and the Caps as set out in the notice of the SGM to be held on 24 March 2009.

Yours faithfully,
Independent Board Committee
Lau Wah Sum
Li Kwok Sing Aubrey
Liu Xiao Feng

* *For identification purpose only*

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Huayou Capital Injection Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Caps for the purpose of inclusion in this circular.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

9 March 2009

To: The independent board committee and the independent shareholders of CNPC (Hong Kong) Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO HUAYOU CAPITAL INJECTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Huayou Capital Injection Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Caps, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 9 March 2009 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

(A) HUAYOU CAPITAL INJECTION

On 16 February 2009, the Company entered into the Huayou Capital Injection Agreement with Huayou and the Existing Shareholders of Huayou, namely Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf, pursuant to which the Company has conditionally agreed to subscribe for 177,000,000 new shares of Huayou at a cash consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000) (the "**Consideration**").

As at the Latest Practicable Date, the registered capital of Huayou was RMB170,000,000 and Huayou was owned as to approximately 43.64%, 10.62%, 40.15%, 5.00% and 0.59% by Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf respectively. Upon completion of the Huayou Capital Injection, the registered capital of Huayou will be increased to RMB347,000,000 and Huayou will become a 51.01% owned subsidiary of Company.

Given that (i) CNPC is the ultimate controlling shareholder of the Company through the holding of the Shares by PetroChina (details being contained in the latter section of this letter) and CNPC Finance (HK) Ltd.; and (ii) Huayou is a non wholly-owned subsidiary of CNPC while Shenzhen Petroleum and China Huayou Group are wholly-owned subsidiaries of CNPC, pursuant to the Listing Rules, each of CNPC, PetroChina, Huayou, Shenzhen Petroleum and China Huayou Group is a connected person of the Company. As such, the Huayou Capital Injection constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

In addition, since the applicable percentage ratio(s) as referred to in Chapters 14 and 14A of the Listing Rules for the Huayou Capital Injection (when aggregated with the Shennan Oil Capital Injection and the Xinjiang Xinjie Acquisitions) are more than 25% but less than 100%, Huayou Capital Injection constitutes a major and connected transaction for the Company which is conditional upon, among other things, the approval of the Independent Shareholders at the SGM by way of poll. As CNPC is considered to have material interest in Huayou Capital Injection, CNPC and its associates (including PetroChina) shall be required to abstain from voting on the relevant resolution approving Huayou Capital Injection.

(B) CONTINUING CONNECTED TRANSACTIONS

The Group entered into (i) the PSAs (comprising the Xinjiang Contract and the Liaohe Contract) with CNPC in 1996 and 1997 respectively; (ii) the Master Agreement with CNPC in 2003; and (iii) the First Supplemental Agreement (amending certain terms of and renewing the Master Agreement) with CNPC in 2006. Under the Master Agreement and the PSAs, the CNPC Group has provided, and will continue to provide, certain products and services to the Group; while the Group has the rights to sell its share of the oil production from the PRC Oilfields to the CNPC Group.

The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016. Besides that, it is also proposed that the Company will enter into the Second Supplemental Agreement with CNPC expanding the scope of products and services under the Master Agreement and renewing the term of the Master Agreement to expire on 31 December 2011.

The Company considers that the existing Products and Services Cap and Oil Cap (as defined in the latter section of this letter) in respect of 2009 may not be able to satisfy the Group's requirements for the whole year of 2009. The Board therefore proposes that the same be revised in order to cater for the Group's demand for the year ending 31 December

2009. Furthermore, the Board also proposes to set the Products and Services Caps and the Oil Caps for the two years ending 31 December 2011 and the Oil and Gas Products Caps (as defined in the latter section of this letter) for the three years ending 31 December 2011.

As aforementioned, CNPC is the ultimate controlling shareholder of the Company. Accordingly, CNPC is a connected person of the Company and the transactions under the Continuing Connected Transactions constitute continuing connecting transactions for the Company under Chapter 14A of the Listing Rules. Given also that one or more of the applicable percentage ratios exceed 2.5% on an annual basis, the Continuing Connected Transactions are subject to the reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules. CNPC and its associates (including PetroChina) shall be required to abstain from voting on the relevant resolution approving the Continuing Connected Transactions and the Caps.

An Independent Board Committee comprising Dr. Lau Wah Sum, Mr. Li Kwok Sing Aubrey and Dr. Liu Xiao Feng (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the Huayou Capital Injection Agreement, the PSAs, the Master Agreement and the Second Supplemental Agreement (together with the Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Huayou Capital Injection and the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Huayou Capital Injection Agreement and the transactions contemplated thereunder, the Continuing Connected Transactions and the Caps at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in all these respects.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, CNPC, PetroChina, Huayou, Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Huayou Capital Injection and the Continuing Connected Transactions. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Huayou Capital Injection and the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

(A) THE HUAYOU CAPITAL INJECTION

(1) Background of Huayou Capital Injection

The Huayou Capital Injection Agreement

On 16 February 2009, the Company entered into the Huayou Capital Injection Agreement with Huayou and the Existing Shareholders of Huayou, pursuant to which the Company has conditionally agreed to subscribe for 177,000,000 new shares of Huayou at the Consideration of RMB435,154,500 (equivalent to approximately HK$493,596,000) in cash. As confirmed by the Directors, the Company intends to finance the Consideration through the Group's internal resources.

As extracted from the Board Letter, the Consideration shall be paid by the Company in two stages:

(i) no less than 30% of the Consideration shall be paid within 10 working days from the date on which the Certificate of Approval for the Establishment of Foreign-funded Enterprises (the "**Certificate**") in respect of Huayou is issued by the relevant PRC authorities and a foreign exchange capital account of Huayou is set up; and

(ii) the balance of the Consideration shall be paid within six months from the date on which the new business license in respect of Huayou is issued by the relevant PRC authorities.

The PRC legal counsel to the Company, Kaiwen Law Firm, advised that according to the PRC laws and regulations and the requirements of the relevant PRC authorities, among other things, the Company's internal approval (including the Independent Shareholders' approval) is required prior to the issue of the Certificate and the foreign exchange capital account of Huayou can only be set up after the issue of the Certificate.

Completion of the Huayou Capital Injection Agreement is conditional upon certain conditions precedent, being satisfied or waived by the Company (as the case may be), which are detailed in the Board Letter.

As confirmed by the Directors, the terms of the Huayou Capital Injection Agreement were negotiated and entered into on arm's length basis among the parties thereto and the Directors (excluding the independent non-executive Directors) are of the view that the terms and conditions of the Huayou Capital Injection Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Business and financial overview of the Group

The Company is an investment holding company. The principal activities of the Group are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia. According to the Directors, the Company will also explore into new business growth opportunities in city gas, vehicle fuel gas and related businesses in the future.

As disclosed in the joint announcements of the Company and PetroChina dated 27 August 2008 and 18 December 2008, PetroChina agreed to acquire for 2,513,917,342 Shares from CNPC and the acquisition was completed on 18 December 2008. As at the Latest Practicable Date, PetroChina was interested in approximately 56.61% of the issued share capital of the Company.

As disclosed in the announcement of the Company dated 19 December 2008, the Company has conditionally agreed to acquire for approximately 50.98% equity interest in Shennan Oil by way of capital injection. With reference to the said announcement, Shennan Oil is principally engaged in the supply of compressed natural gas as well as the construction and operation of compressed natural gas stations in the PRC.

As further disclosed in the announcement of the Company dated 9 January 2009, the Company has conditionally agreed to acquire for approximately 97.26% equity interests in Xinjiang Xinjie in total. With reference to the said announcement, Xinjiang Xinjie is principally engaged in the city gas related businesses, operation of natural gas stations, transmission and storage of refined products, the sales and transmission of natural gas, as well as the development and application of the technology of natural gas utilisation in the PRC.

Tabularised below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2007 as extracted from the Company's annual report for the year ended 31 December 2007 (the "**2007 Annual Report**") and the unaudited consolidated financial information of the Group for the six months ended 30 June 2008 as extracted from the Company's interim report for the six months ended 30 June 2008 (the "**2008 Interim Report**"):

Consolidated Income Statement	**For the year ended 31 December 2007** *(audited)* *HK$'000*	**For the year ended 31 December 2006** *(audited)* *HK$'000*	**Year on year change** *%*	**For the six months ended 30 June 2008** *(unaudited)* *HK$'000*
Turnover	3,842,723	3,893,732	(1.31)	2,838,677
Gross profit	1,523,783	1,793,071	(15.02)	1,261,632
Net profit attributable to shareholders of the Company	1,367,302	1,714,513	(20.25)	1,284,201

Consolidated Balance Sheet	**As at 31 December 2007** *(audited)* *HK$'000*	**As at 31 December 2006** *(audited)* *HK$'000*	**Year on year change** *%*	**As at 30 June 2008** *(unaudited)* *HK$'000*
Net asset value ("**NAV**")	20,479,924	19,081,705	7.33	21,787,221
Equity attributable to shareholders of the Company	15,294,329	13,816,122	10.70	16,235,911

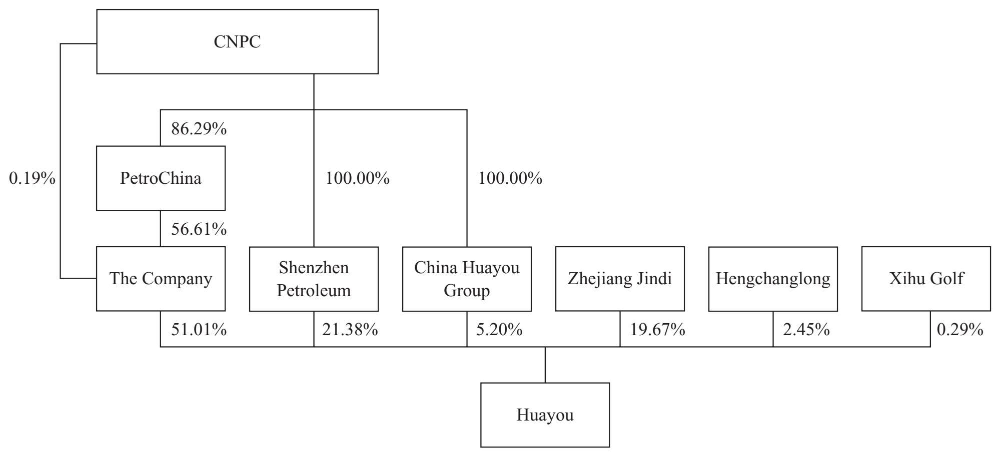
As depicted by the above table, the Group recorded an audited total turnover of approximately HK$3,843 million for the year ended 31 December 2007, representing a slight decline of approximately 1.31% as compared to the prior year. With reference to the 2007 Annual Report, the Group's sales of crude oil had dropped from 17,209,000 barrels in 2006 to 16,488,000 barrels in 2007 and its new oilfields in the Republic of Indonesia and the Azerbaijan Republic, which were still in the exploration stage, had not yet commenced production in 2007. Given that the accounting policies of the Group stipulated that exploration costs related to oilfields with no discovery of commercial reserves within one year shall be accounted for as expenses, the Group's profitability in 2007 had been hindered. Furthermore, we noted from the 2008 Interim Report that the Group's turnover and net profit after taxation and minority interest had both increased substantially as compared to the corresponding period in the prior year. According to the 2008 Interim Report and as further confirmed by the Directors, such increase was mainly due to the extensive rise of the weighted average realised selling price of crude oil from 2006 to mid 2008. In this relation, we have researched over the Bloomberg and the Bloomberg revealed that the Brent crude oil price has been sliding from its peak of US$146 per barrel in July 2008 to the recent trench of around US$30 to US$50 per barrel. In view of that the price of crude oil is likely to remain volatile and unpredictable, the Directors expect that the Group's turnover and profitability will continue to be affected by the fluctuation of crude oil price in the future.

Business and financial overview of Huayou

Huayou is a company established under the PRC laws and is a non wholly-owned subsidiary of CNPC. As extracted from the Board Letter, the Huayou Group is principally engaged in the city gas related businesses, comprising production, sales and distribution of natural gas and the operation of compressed natural gas stations in the PRC. The Huayou Group mainly provides natural gas for vehicular uses and it operates around 60 compressed natural gas stations in the Sichuan, Shandong, Shaanxi, Inner Mongolia and Hebei regions of the PRC.

As represented by the Directors, Huayou is one of the pioneers in the production, sales and distribution of natural gas and the operation of compressed natural gas stations with cross boarder distribution network in the PRC. The Directors further represented to us that the Huayou Group aims at operating more natural gas stations in the PRC in the future.

As at the Latest Practicable Date, the registered capital of Huayou was RMB170,000,000 and Huayou was owned as to approximately 43.64%, 10.62%, 40.15%, 5.00% and 0.59% by Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf respectively. Upon completion of the Huayou Capital Injection, the registered capital of Huayou will be increased to RMB347,000,000 and the shareholding structure of Huayou is expected to be as follows:



As illustrated above, Huayou will become a 51.01% owned subsidiary of the Company upon completion of the Huayou Capital Injection. The Directors confirmed that the Group will consolidate the financial results of the Huayou Group into its financial statements.

Set out below is a summary of the audited financial information of the Huayou Group for each of the three years ended 31 December 2008 prepared in accordance with the Hong Kong Financial Reporting Standards. Further details of the financial information of the Huayou Group are set out in Appendix IV to the Circular.

Consolidated Income Statement	**For the year ended 31 December 2008** *RMB*	**For the year ended 31 December 2007** *RMB*	**For the year ended 31 December 2006** *RMB*
Turnover	512,132,628	353,531,348	230,858,899
Gross profit	151,940,850	102,574,365	62,297,839
Net profit	89,137,843	49,842,057	29,960,395
Profit attributable to equity holder of Huayou	71,968,603	40,495,717	23,556,494
Gross profit margin	29.67%	29.01%	26.99%
Net profit margin	17.41%	14.10%	12.98%

Consolidated Balance Sheet	**As at 31 December 2008** *RMB*	**As at 31 December 2007** *RMB*	**As at 31 December 2006** *RMB*
Total assets	760,280,033	631,400,479	485,889,400
Total liabilities	277,596,038	249,570,286	156,764,916
NAV	482,683,995	381,830,193	329,124,484
Gearing ratio (total borrowings/ NAV)	0.11 times	0.38 times	0.20 times

As depicted by the above table, the Huayou Group's turnover had been rising satisfactorily since the year ended 31 December 2006. Moreover, the Huayou Group enjoyed substantial improvement in net profit over the past few years. In particular, we noted that both of the Huayou Group's gross profit margin and net profit margin have been showing a gradual improving trend since the year ended 31 December 2006.

With regard to the asset and liability position of the Huayou Group, the consolidated NAV of the Huayou Group had been expanding persistently and its gearing ratio (being calculated as total borrowings over NAV) was approximately 0.11 times as at 31 December 2008.

According to the Directors, Huayou will be managed by a board of seven directors. The Directors confirmed that the Company intends to assign representatives to the board of directors of Huayou to gain the majority on the board of directors of Huayou. For this reason, the Directors believe that the Company shall be able to manage the Huayou Group smoothly and efficiently upon completion of the Huayou Capital Injection.

Information on CNPC

CNPC is the controlling shareholder of the Company and PetroChina. From the Board Letter, we noted that CNPC is a petroleum and petrochemical conglomerate which was formed in the wake of a restructuring launched by the State Council of the PRC to restructure the predecessor of CNPC, i.e. China National Petroleum Company (中國石油天然氣總公司). At present, CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing.

Information on PetroChina

As referred to in the Board Letter, PetroChina and its subsidiaries are mainly engaged in petroleum and natural gas related activities, including:

(i) the exploration, development, production and sales of crude oil and natural gas;

(ii) the refining, transportation, storage and marketing of crude oil and petroleum products;

(iii) the production and sales of basic petrochemical products, derivative chemical products and other petrochemical products; and

(iv) the transmission of natural gas, crude oil and refined products, and sales of natural gas.

Information on the Existing Shareholders of Huayou
(Information contained in this section is extracted from the Board Letter)

(i) Shenzhen Petroleum

Shenzhen Petroleum is principally engaged in the exploration and development of natural gas, the development of city gas and compressed natural gas vehicle projects in the PRC. Shenzhen Petroleum is a wholly-owned subsidiary of CNPC.

(ii) China Huayou Group

China Huayou Group is principally engaged in the sales and production of oil and gas related products, development, exploration and utilisation of natural gas, development of oilfield and petrochemical in the PRC. It is also engaged in the production of construction materials, property development and operation of hotels in the PRC. China Huayou Group is a wholly-owned subsidiary of CNPC.

(iii) Zhejiang Jindi

Zhejiang Jindi is principally engaged in property development in the PRC. It is also engaged in property management and retailing businesses in the PRC.

(iv) Hengchanglong

Hengchanglong is principally engaged in property development in the PRC.

(v) Xihu Golf

Xihu Golf is principally engaged in the operation of a golf club in the PRC.

(2) Reasons for the Huayou Capital Injection

As aforementioned, it is the business strategy of the Company to explore into the new business growth opportunities in city gas, vehicle fuel gas and related businesses. The Group initiated such business strategy through the Shennan Oil Capital Injection and the Xinjiang Xinjie Acquisitions. To further implement the said strategy, the Company entered into the Huayou Capital Injection Agreement in respect of the Huayou Capital Injection. In light of the above, we consider that the Huayou Capital Injection is conducted in the ordinary and usual course of business of the Company.

As referred to in the 2008 Interim Report, natural gas is a clean and efficient source of energy which has been gaining the attention and interest of the PRC Government and enterprises, and is one of the most rapidly growing sectors in the PRC energy industry. Furthermore, the 2008 Interim Report stated that PetroChina is the PRC's largest enterprise in the production, transportation and sales of natural gas and is in the process of constructing the Second West-East Gas Pipeline and other long distance gas pipelines with the aim to further integrate the northern China and western China with the important consumer markets in central China, eastern China, southern China and other areas. In light of the foregoing, the Directors anticipate that the possible cooperation among the Company, PetroChina and CNPC would allow the Group to share the competitive advantage of PetroChina and CNPC in the PRC's natural gas market and create a new business growth area for the Group.

In order for us to form a better understanding on the future outlook of the natural gas market in the PRC, we have searched and noted from an article issued by the National Development and Reform Commission of the PRC dated 5 February 2007 regarding the 11th five-year plan of the PRC that the PRC Government has decided (i) to improve the efficiency of energy utilisation by developing natural gas, hydraulic power, renewable energy, new energy and other forms of clean energy; and (ii) to advocate additional investments in natural gas infrastructure. Based on BP Statistical Review of World Energy (June 2008), the production and consumption of natural gas in the PRC jumped by approximately 18.4% and 19.9% from 2006 to 2007 respectively. The said jumps demonstrated a general expanding trend of the natural gas market in the PRC. Besides that, the recent stimulus plan to spur vehicle demand and promote new energy cars (汽車產業調整振興規劃) as announced by the State Council of the PRC may have a positive impact on the new energy vehicles market in the PRC. Given that natural gas is a clean and efficient source of energy being supported by the PRC Government and its consumption may therefore be encouraged as a result of the probable increasing number of new energy vehicles in the PRC, the Directors are optimistic about the future business prospects of Huayou.

Having taken into account the possible cooperation among the Company, PetroChina and CNPC and the potential positive outlook of the natural gas market in the PRC, together with the improving financial performance of Huayou for the three years ended 31 December 2008 as outlined under the section headed "Business and financial overview of Huayou" of this letter, we consider that the Huayou Capital Injection is in the interests of the Company and the Shareholders as a whole.

(3) Terms of the Huayou Capital Injection Agreement

Basis of the Consideration

The Consideration was determined after arm's length negotiation among the Company, Huayou and the Existing Shareholders of Huayou and was based on (i) the appraised net asset value of Huayou as at the Valuation Date, being 31 August 2008, of RMB379,952,800 (equivalent to approximately HK$430,980,000) as set out in a valuation report of Huayou prepared by an independent qualified PRC valuer, the text of which is set out in Appendix II to the Circular; and (ii) a number of other factors including the Huayou Group's compressed natural gas station network and the growth potential of the Huayou Group in the future.

Trading multiples analysis for the Huayou Capital Injection

For the purpose of assessing the fairness and reasonableness of the Consideration, we have performed a trading multiples analysis which includes the price to book ratio ("**PBR**") and the price to earnings ratio ("**PER**").

Based on the financial information of the Huayou Group as set out in Appendix IV to the Circular, we calculated the implied PBR of the Huayou Capital Injection, being the Consideration divided by 51.01% of the sum of the audited consolidated NAV (prepared in accordance with the Hong Kong Financial Reporting Standards) of the Huayou Group as at 31 December 2008 and the Consideration to be of approximately 0.93 times. As for the implied PER of the Huayou Capital Injection, being the Consideration divided by 51.01% of the audited net profit after tax of the Huayou Group for the year ended 31 December 2008, we calculated it to be of approximately 9.57 times.

We have searched for companies listed on the Stock Exchange which are in similar lines of business to the Huayou Group, i.e. having business in the down-stream area of the natural gas industry in the PRC (the "**Market Comparables**"). To the best of our knowledge and endeavor, we found five companies which met the said criteria. It should be noted that the businesses, operations and prospects of the Huayou Group are not exactly the same as the Market Comparables and we have not conducted any in-depth investigation into the businesses and operations of the Market Comparables. The Market Comparables are hence only used for illustrative purpose.

Set out below are the implied PBRs and PERs of the Market Comparables based on their closing prices as at 16 February 2009, being the date of the Huayou Capital Injection Agreement, and their latest published financial information:

Company name (Stock code)	Principal business	Year end date	Market capitalisation *(in HK$ million)* *(Note 1)*	PBR	PER
Sino Gas Group Ltd. (260)	Operation of petroleum, compressed natural gas and liquefied petroleum gas refuelling station, and trading of motor vehicles conversion parts and gas station equipment.	31/12/2007	198.81	0.41	N/A *(Note 2)*
China Gas Holdings Ltd. (384)	Property investment, financial and securities investment, gas pipeline construction, sales of piped gas.	31/3/2008	3,866.99	0.83 *(Note 3)*	31.10
Towngas China Co. Ltd. (1083)	Sales and distribution of gas fuel and related products and gas pipelines.	31/12/2007	2,799.31	0.41	17.11
Zhengzhou Gas Co. Ltd. (3928)	Sales of natural gas, pressure control equipments and gas appliances to customers and construction of gas pipelines and the provision of renovation services of gas pipelines to local customers.	31/12/2007	396.48	0.48	6.16
Zhongyu Gas Holdings Ltd. (8070)	Gas pipeline construction, sales of piped gas, liquefied petroleum gas, stoves and related equipment.	31/12/2007	930.08	1.18	N/A *(Note 2)*
Minimum				**0.41**	**6.16**
Maximum				**1.18**	**31.10**
Median				**0.48**	**17.11**
The Huayou Capital Injection				**0.93**	**9.57**

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. As at 16 February 2009, being the date of the Huayou Capital Injection Agreement.

2. These companies recorded net losses for their respective latest financial year.

3. The PBR is calculated based on the unaudited net asset value of China Gas Holdings Ltd. as at 30 September 2008.

As depicted by the above table, the implied PBRs and PERs of the Market Comparables ranged from approximately 0.41 times to 1.18 times and approximately 6.16 times to 31.10 times respectively; while the implied PBR and PER of the Huayou Capital Injection are approximately 0.93 times and 9.57 times respectively. Taking into account that both of the implied PBR and PER are within the respective ranges of the Market Comparables, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

In addition, we have also reviewed the other major terms of the Huayou Capital Injection Agreement and are not aware of any terms which are uncommon. Consequently, we consider that the terms of the Huayou Capital Injection Agreement are on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned.

(4) Possible financial effects of the Huayou Capital Injection

Huayou will be owned as to approximately 51.01%, 21.38%, 5.20%, 19.67%, 2.45% and 0.29% by the Company, Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf respectively upon completion of the Huayou Capital Injection. As aforementioned, the Directors confirmed that the Group will consolidate the financial results of the Huayou Group into its financial statements.

Effect on NAV

As extracted from the 2008 Interim Report, the unaudited consolidated NAV of the Group was approximately HK$21,787 million as at 30 June 2008. With reference to the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix IV to the Circular, the Enlarged Group's NAV would be increased to approximately HK$22,335 million upon completion of the Huayou Capital Injection.

Effect on earnings

In light of the future business prospects of Huayou, the Directors are of the view that the Huayou Capital Injection would likely to have a positive impact on the future earnings of the Enlarged Group.

Effect on gearing and working capital

According to the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix V to the Circular, the Group's gearing level (being calculated as total borrowings divided by NAV) was approximately 3.82% as at 30 June 2008. Upon completion of the Huayou Capital Injection, the total borrowings of the Enlarged Group would be increased by approximately HK$60.69 million while the Enlarged Group's NAV would be increased by approximately HK$548 million. The Enlarged Group's gearing level would thus be increased slightly and we consider such slight increase to be acceptable.

Regarding the working capital position of the Group, although the Company intends to satisfy the Consideration by the internal resources of the Group, given that the financial results of the Huayou Group will be consolidated into the Group's financial statements upon completion of the Huayou Capital Injection, the Group's working capital would remain unchanged.

Lastly, as extracted from the Board Letter, in case goodwill arises as a result of the costs of the Huayou Capital Injection exceeding the fair value of identifiable net assets of the Huayou Group, the said goodwill will be recognised as an asset of the Group. In the event that, after reassessment, the Group's interest in the net fair value of the Huayou Group's identifiable assets, liabilities and contingent liabilities exceed the costs of the Huayou Capital Injection, the excess amounts will be recognised immediately in the income statement of the Group. Based on the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix V to the Circular, the amount of hypothetical excess arising from the Huayou Capital Injection (subject to adjustment) is estimated to be of approximately HK$37.47 million.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Huayou Capital Injection.

RECOMMENDATION ON THE HUAYOU CAPITAL INJECTION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Huayou Capital Injection Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Huayou Capital Injection is conducted in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Huayou Capital Injection Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

(B) THE CONTINUING CONNECTED TRANSACTIONS

(1) Background of the Continuing Connected Transactions

The Group entered into (i) the PSAs (comprising the Xinjiang Contract and the Liaohe Contract) with CNPC in 1996 and 1997 respectively; (ii) the Master Agreement with CNPC in 2003; (iii) the First Supplemental Agreement (amending certain terms of the Master Agreement) with CNPC in 2006. Under the Master Agreement and the PSAs, the CNPC Group has provided, and will continue to provide, certain products and services to the Group; while the Group has the rights to sell its share of the oil production from the PRC Oilfields to the CNPC Group. The Xinjiang Contract and the Liaohe Contract were approved by the then independent shareholders of the Company at the special general meetings of the Company held on 28 August 1996 and 23 February 1998 respectively.

The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016. Besides that, it is also proposed that the Company will enter into the Second Supplemental Agreement with CNPC expanding the scope of products and services under the Master Agreement and renewing the term of the Master Agreement to expire on 31 December 2011.

The Company considers that the existing Products and Services Cap and Oil Cap in respect of year 2009 may not be able to satisfy the Group's requirements for the whole year of 2009. The Board therefore proposes that the same be revised in order to cater for the Group's demand for the year ending 31 December 2009. Furthermore, the Board also proposes to set the Products and Services Caps and the Oil Caps for the two years ending 31 December 2011 and the Oil and Gas Products Caps for the three years ending 31 December 2011.

The PSAs (comprising the Xinjiang Contract and the Liaohe Contract)

As referred to in the Board Letter, under the PSAs, the Group procures from the CNPC Group on a continuing basis certain services and assistance such as personnel training, leasing of warehouses and terminal facilities and utilisation of transportation and communication facilities. Under the PSAs, the Group also has the right to sell and deliver its share of oil production from each of the PRC Oilfields to a destination of its choice, except for destination which infringe on the political interests of the PRC. However, given the transportation costs and prevailing oil prices, the possible purchaser of the entire oil production share attributable to the Company from each of the PRC Oilfields is likely to be the CNPC Group. The Directors further confirmed that, since the entering into of the PSAs, the Group has been selling all its share of the oil from the PRC Oilfields to the CNPC Group and the Directors expect that the Group will continue such arrangement and the CNPC Group will continue to accept all deliveries from the Group in the future.

The Master Agreement

The Master Agreement provides a framework for the Group to obtain a range of products and services from the CNPC Group in relation to oil exploration and production projects. The Master Agreement was amended by the First Supplemental Agreement in 2006.

Under the Master Agreement, the CNPC Group agrees, among other things, to provide the following products and services to the Group:

(i) equipment required for petroleum exploration and production;

(ii) materials, supplies and other products required for petroleum exploration and production;

(iii) engineering services including geological surveying, drilling, well cementing, logging, mud logging, well testing, work-over, oilfield construction (and installation), engineering and design, project management and supervision, equipment repairing and maintenance, equipment antiseptic testing, technical know-how (such as patent, know-how and software relating to the captioned services) and information services and other related or similar services;

(iv) production services including data management and filing services, asset leasing, environmental sanitation, repair and upgrade of equipment, transportation, maintenance of access road and other related or similar services; and

(v) logistics support services including procurement agency, quality inspection, storage and delivery and other related or similar services.

The Second Supplemental Agreement

As highlighted under the section headed "Business and financial overview of the Group" of this letter, the Group has entered into various agreements dated 19 December 2008, 9 January 2009 and 16 February 2009 in respect of the Shennan Oil Capital Injection, the Xinjiang Xinjie Acquisitions and the Huayou Capital Injection respectively. As confirmed by the Directors, the CNPC Group supplies natural gas and/or provides natural gas related services to each of Shennan Oil, Xinjiang Xinjie and Huayou (altogether, the "**Natural Gas Companies**") at present. Following the completion of the Shennan Oil Capital Injection, the Xinjiang Xinjie Acquisitions and the Huayou Capital Injection, the transactions between each of the Natural Gas Companies and the CNPC Group will constitute continuing connected transactions for the Company.

With reference to the Board Letter, in anticipation of the potential continuing connected transactions following the completion of the Shennan Oil Capital Injection, the Xinjiang Xinjie Acquisitions and the Huayou Capital Injection, the Company and CNPC will enter into the Second Supplemental Agreement with CNPC expanding the scope of products and services to be provided by the CNPC Group under the Master Agreement to cover such potential continuing connected transactions. The Second Supplemental Agreement, when entered into, will constitute an amendment to and will become part of the Master Agreement.

Set out below are the new categories of products and services to be procured from the CNPC Group pursuant to the Second Supplemental Agreement:

(i) crude oil, natural gas, refined oil products, chemical products and other ancillary or similar products;

(ii) amenities services, including but not limited to property management, staff canteen, training centres and guesthouses;

(iii) social and ancillary services, including but not limited to security services, education, hospitals, public transport; and

(iv) financial services, including but not limited to loans, deposit services and the associated interest incomes and expenses, guarantees and entrustment services.

As confirmed by the Directors, the terms of the PSAs and the Master Agreement (as to be amended by the Second Supplemental Agreement) were negotiated and entered into on arm's length basis between the parties thereto and the Directors (excluding the independent non-executive Directors) are of the view that the terms and conditions of the PSAs and the Master Agreement (as to be amended by the Second Supplemental Agreement) are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(2) Reasons for the Continuing Connected Transactions

There has been a long and smooth cooperation history between the Group and the CNPC Group regarding the Continuing Connected Transactions. According to the Board Letter, the Company is an enterprise whose business operations primarily focus on investing in petroleum up-stream business as well as other petroleum related businesses which generate stable income. It is also the business strategy of the Company to explore into the new business growth opportunities in city gas, vehicle fuel gas and related businesses. The business operations of CNPC, on the other hand, cover a broad spectrum of up-stream and down-stream activities, domestic marketing and international trade, technical services, and equipment manufacturing and supply. During our discussion with the Directors, we understand that a substantial number of personnel engaging in the supply of products and services to the Company relating to the exploration, development, production, storage and transportation of crude oil are employees of the CNPC Group and the Group does not currently have the requisite manpower, expertise and facilities to act as the sole operator of the PRC Oilfields and other overseas oilfields without the assistance from the CNPC Group and any other third parties. In addition, the Natural Gas Companies require abundant natural gas and natural gas related services for continual operation and therefore the Group will continue to purchase natural gas and natural gas related services from the CNPC Group in the future. Since CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing, the Directors consider that it is essential for the Group to secure certain products and services (including the Oil and Gas Products) from the CNPC Group in the future.

In respect of the above, we noted from the 2007 Annual Report that out of the Group's total turnover of approximately HK$3,843 million for the year ended 31 December 2007, approximately HK$2,506 million was attributable to the sales of crude oil to the CNPC Group. Thus, the CNPC Group has been regarded as a valuable business partner of the Group and the Directors consider that it is important for the Group to maintain and continue its business relationship with the CNPC Group for securing a stable source of revenue for the Group.

Having taken into account the strengths and scope of the CNPC Group's business activities and the strong favourable support which the Continuing Connected Transactions would possibly bring to the Group's business activities and financial performance, we concur with the Directors that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the Continuing Connected Transactions

The PSAs

The PSAs includes the Xinjiang Contract and the Liaohe Contract.

(a) The Xinjiang Contract

The Xinjiang Contract is an oil production sharing agreement in relation to the development and production of crude oil in the Karamay Oilfield, Xinjiang Province, the PRC. Pursuant to the Xinjiang Contract, the Group and the CNPC Group hold 54% and 46% participating interests in the Karamay Oilfield respectively and hence the Group is entitled to 54% of the oil production from the contracted area in the Karamay Oilfield.

The term of the Xinjiang Contract runs from 1 September 1996 to 31 August 2021 with an initial approved production period of 12 years which was due to expire in August 2008. On 15 April 2008, the Company and CNPC, having obtained the approval of the State Council of the PRC, extended the production period of the Xinjiang Contract for eight years to expire on 31 August 2016.

(b) The Liaohe Contract

The Liaohe Contract is an oil production sharing agreement in relation to the development and production of crude oil in the Leng Jiapu Oilfield, Liaoning Province, the PRC. Pursuant to the Liaohe Contract, the Group and the CNPC Group hold 70% and 30% participating interests in the Leng Jiapu Oilfield respectively and hence the Group is entitled to 70% of the oil production from the contracted area in the Leng Jiapu Oilfield.

The Liaohe Contract has a term of 20 years commencing from 1 March 1998 up to 28 February 2018.

Pursuant to the PSAs, the price of crude oil paid by the CNPC Group for the Group's share of the oil production from the PRC Oilfields is determined by reference to the prevailing market price of similar grade crude oil in an arm's length transaction by reference to the prevailing market price of similar grade crude oil in an arm's length transaction based on the trend of the international oil prices. Further information of the key terms and conditions of the PSAs are set out in the Board Letter.

The Master Agreement

Pursuant to the Master Agreement, the transactions under the Master Agreement are subject to, among other things, the following key general principles:

(i) the products and services shall be of good quality and the price of the products and services shall be fair and reasonable. The terms and conditions on which such products and services to be provided to the Group shall be no less favourable than those (i) offered by the CNPC Group to independent third parties; and (ii) offered by independent third parties to the Group, for similar products and services; and

(ii) the quality, price and other terms and conditions for the provision of the products and services by the CNPC Group to the Group shall be no less favourable than those offered by independent third parties to the Group.

Furthermore, the pricing for the products and services provided and to be provided pursuant to the Master Agreement is and will be based on the following general principles:

(i) the price (the "**Relevant Market Price**") shall not exceed the best price among all the prices as offered by all independent third parties in the relevant market in the ordinary course of business (the "**Best Local Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best Local Price to independent third parties in the relevant market, such lower price shall be the Relevant Market Price; and

(ii) in the absence of the Relevant Market Price, the price shall not exceed the best price among all the prices as offered by the independent third parties in the nearby market in the ordinary course of business (the "**Best International Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best International Price to independent third parties in the nearby market, such lower price shall be used.

Pursuant to the Master Agreement, the Group also retains the right to purchase the products or services from independent third parties where the products or services offered by such independent third parties are considered by the Group to be superior to those offered by the CNPC Group. So long as the

CNPC Group is able to supply the products and services required by the Group in accordance with the Master Agreement, the CNPC Group may supply such products and services to other independent third parties.

Further information of the key terms and conditions of the Master Agreement are set out in the Board Letter.

The Second Supplemental Agreement

The Second Supplemental Agreement regarding the potential continuing connected transactions following the completion of the Shennan Oil Capital Injection, the Xinjiang Xinjie Acquisitions and the Huayou Capital Injection and the new categories of products and services from the CNPC Group, when executed, will constitute an amendment to and will become part of the Master Agreement. The following is a summary of the principal terms of the supply of products and services under the Second Supplemental Agreement:

The price for the products and services to be provided to the Group shall be fair and reasonable. The terms and conditions on which products and services are provided to the Group shall be no less favourable than those (i) offered by the CNPC Group to independent third parties; and (ii) offered by independent third parties to the Group, for similar products and services.

The pricing for the products and services to be provided pursuant to the Second Supplemental Agreement will be based on the following general principles:

(i) the price (the "**New Relevant Market Price**") shall not exceed the best price among all the prices as offered by the independent third parties in the relevant market or nearby market in the ordinary course of business (the "**Best Market Price**"). If the CNPC Group provides the relevant products or services at a price lower than the Best Market Price to independent third parties in the relevant market or nearby market, such lower price shall be the New Relevant Market Price; and

(ii) in the absence of the New Relevant Market Price, the price shall be set at the agreed contractual price, being the aggregate value of the actual costs of all products and services to be provided under the Master Agreement (as to be amended by the Second Supplemental Agreement) which are required to be priced at the agreed contractual prices during the relevant year plus an additional margin of not more than 3%. As advised by the Directors, based on the information they obtained from similar transactions in the market, such margin is reasonable to cover any administrative costs and handling charges incurred by the CNPC Group in providing such products and services and is in line with market practice.

Further information of the key terms and conditions of the Second Supplemental Agreement are set out in the Board Letter.

We have also reviewed the other major terms and conditions of the PSAs, the Master Agreement and the Second Supplemental Agreement, and are not aware of any terms which are uncommon. Furthermore, given the aforesaid pricing mechanism and flexibility as offered to the Group under the PSAs and the Master Agreement (as to be amended by the Second Supplemental Agreement), we concur with the Directors (excluding the independent non-executive Directors) that the terms of the PSAs, the Master Agreement and the Second Supplemental Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

(3) Annual caps for the Continuing Connected Transactions

The table below illustrates the annual caps for the Continuing Connected Transactions for each of the three years ending 31 December 2011:

	Year ending 31 December 2009 *HK$'000*	**Year ending 31 December 2010** *HK$'000*	**Year ending 31 December 2011** *HK$'000*
Provision of products and services by the CNPC Group to the Group under the PSAs and the Master Agreement (and for the avoidance of doubt including those under the Second Supplemental Agreement but excluding the Oil and Gas Products) (the "**Products and Services Caps**")	1,293,000*	1,498,000	1,669,000
Purchase of the Group's share of crude oil by the CNPC Group under the PSAs (the "**Oil Caps**")	3,511,000*	4,372,000	4,840,000

	Year ending 31 December 2009 *HK$'000*	Year ending 31 December 2010 *HK$'000*	Year ending 31 December 2011 *HK$'000*
Purchase of the Oil and Gas Products by the Group from the CNPC Group under the Master Agreement (as to be amended by the Second Supplemental Agreement) (the "**Oil and Gas Products Caps**")	990,000	1,485,000	1,931,000

Note: Those annual caps which are marked with "*" represent revised cap. For details, please refer to the Board Letter.

In assessing the fairness and reasonableness of the Products and Services Caps, the Oil Caps and the Oil and Gas Products Caps, we have discussed with the Directors regarding the basis and assumptions underlying the projections of those cap amounts. The Directors confirmed that the Products and Services Caps, the Oil Caps and the Oil and Gas Products Caps were determined with reference to, among other things, the following factors:

The Products and Services Caps

– the historical level of products and services charges paid by the CNPC Group to the Group under the Master Agreement;

– the historical level of products and services charges paid by each of the Natural Gas Companies to the CNPC Group;

– the relevant pricing principles;

– the inflation rate;

– the development and production progress of the PRC Oilfields and the number of oil exploration and production projects which the Group will be involved in during the two years ending 31 December 2011; and

– the expected growth of the Group in light of the recent acquisitions of the Natural Gas Companies and other future potential acquisitions to be carried out pursuant to the restructuring of the Company.

The Oil Caps

– the historical level of purchase price of the Group's share of crude oil paid by the CNPC Group to the Group;

– the prevailing market price of similar grade crude oil with reference to the trend of the international oil prices; and

– the production progress of the PRC Oilfields during the three years ending 31 December 2011.

The Oil and Gas Products Caps

– the historical amounts of the Oil and Gas Products purchased by the Natural Gas Companies from the CNPC Group during the period between 2006 to 2008;

– the relevant pricing principles set out in the Master Agreement;

– the plan of the Group to further venture into and expand its business in the city gas, vehicle fuel gas and related business through the organic growth of the Natural Gas Companies as well as other possible acquisitions of potential suitable target companies; and

– the future oil price.

We have further enquired into the Directors in respect of the basis of determining the Caps. As represented by the Directors, the main reasons for the increase in the Products and Services Cap of year 2009 are that the original annual proposed cap has not taken into account the products and services provided for the Xinjiang Contract, the expansion of scope of products and services to be provided under the Master Agreement (as to be amended by the Second Supplemental Agreement) and the expected growth of the Group in light of the recent acquisitions of the Natural Gas Companies and the further possible acquisitions to be carried out pursuant to the restructuring of the Company. Whereas the main reason for the increase in the Oil Cap of year 2009 is that the original annual proposed cap has not taken into account the share of crude oil under the Xinjiang Contract.

From the 2008 Interim Report, we noted that a total of approximately 427,000 tonnes of crude oil was sold from the Karamay Oilfield under the Xinjiang Contract during the six months ended 30 June 2008, representing an upsurge of approximately 18% as compared to the corresponding period in the prior year. Moreover, the total amount of crude oil exploited from the PRC Oilfields under the PSAs increased from approximately 715,000 tonnes for the six months ended 30 June 2007 to approximately 870,000 tonnes for the six months ended 30 June 2008.

With regard to crude oil price, as highlighted under the section headed "Business and financial overview of the Group" of this letter, the Brent crude oil price has been sliding from its peak in July 2008 to the recent trench and is likely to remain volatile and unpredictable. As such, the Directors are of the view that it is justifiable for the Company to allow for certain buffer in determining the Oil Caps. Based also on the anticipated production volume of the PRC Oilfields for the coming three years, the Directors expect that there would be continuous growth in the Products and Services Caps and the Oil Caps from year 2009 to 2011 and we consider such growth to be justifiable.

As referred to in the announcements of the Company regarding the Shennan Oil Capital Injection, the Xinjiang Xinjie Acquisitions and the Huayou Capital Injection, the financial performance and scale of business of all of the Natural Gas Companies have been improving in recent years. As aforementioned and as also referred to in the said announcements, the operations of the Natural Gas Companies depend largely on the provision of the Oil and Gas Products by the CNPC Group. Moreover, in view of the potential positive outlook of the natural gas market in the PRC as illustrated under the section headed "Reasons for the Huayou Capital Injection" of this letter, we are of the opinion that the growth of the Oil and Gas Products Caps from year 2009 to 2011 as estimated by the Directors is acceptable.

Taking into account all of the foregoing basis in determining the Caps, we consider that the Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Shareholders should note that as the Caps are relating to future events and are estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2011, they do not represent forecasts of revenue to be generated from the transactions contemplated under the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual revenue to be generated and/or actual cost to be spent under the Continuing Connected Transactions will correspond with the Caps.

(4) Listing Rules implication and internal control of the Group

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.37 to 14A.41 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Continuing Connected Transactions must be restricted by the Caps for the three years ending 31 December 2011; (ii) the terms of the transactions contemplated under the Continuing Connected Transactions (including the Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the Continuing Connected Transactions (including the Caps) must be included in the Company's subsequent published annual reports and financial statements. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, that the transactions contemplated under the Continuing Connected Transactions are carried out in accordance with the pricing policies of the Company, and the Caps are not being exceeded. In the event that the total amount of transactions contemplated under the Continuing Connected Transactions exceeds the respective cap amounts, or that there is any material amendment to the terms of the PSAs and the Master Agreement (as to be amended by the Second Supplemental Agreement), the Company, as confirmed by the Directors, shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for the Continuing Connected Transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Continuing Connected Transactions (including the Caps) and hence the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION ON THE CONTINUING CONNECTED TRANSACTIONS

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the PSAs, the Master Agreement and the Second Supplemental Agreement (together with the Caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Continuing Connected Transactions and the Caps, and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 December 2008 of the properties located in the People's Republic of China held by Huayou Group.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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9 March 2009

The Directors
CNPC (Hong Kong) Limited
Rooms 3907-3910, 39th Floor
No. 118 Connaught Road West
Sheung Wan, Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from CNPC (Hong Kong) Limited (the "Company") for us to value the properties held by China Natural Gas Co., Ltd. (華油天然氣股份有限公司) ("Huayou") and/or its subsidiaries (hereinafter referred to as "Huayou Group") located in the People's Republic of China (the "PRC"). We confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 December 2008 (the "date of valuation").

BASIS OF VALUATION

Our valuations of the properties have been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

PROPERTY CATEGORISATIONS

In the course of our valuations, the properties are categorised into the following Groups:

Group I – Properties held by Huayou Group for owner-occupation in the PRC

Group II – Property held by Huayou Group for investment in the PRC

VALUATION METHODOLOGIES

In valuing Property Nos. 4 and 20, we have valued them on an open market basis by the Comparison Approach assuming sale in their existing states with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the properties and the comparables in terms of age, time, location and other relevant factors.

For Property No. 20, we have also adopted the Investment Approach where appropriate by taking into account the current passing rents of the properties being held under existing tenancies and the reversionary potential of the tenancies of they have been or would be let to tenants.

In valuing Property Nos. 1 – 3 and 5 – 14 in the PRC, due to the inherent nature of usage and lack of market sales comparables, the properties have been valued by the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic and functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement." This basis has been used due to the lack of an established market upon which to base comparable transactions. However this approach generally furnishes the most reliable indication of value for assets without a known used market.

For Property Nos. 15 – 19, no commercial value has been attributed to these properties due to the absence of relevant title document.

TITLE INVESTIGATION

For the properties located in the PRC, we have been provided with extracts of title documents and have been advised by the Company that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Company and its PRC legal adviser, Kaiwen Law Firm (凱文律師事務所) regarding the titles of the PRC properties. All documents have been used for reference only.

In valuing the properties in the PRC, we have relied on the advice given by the Company and its PRC legal adviser that Huayou Group has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted rights to use the same, for the whole of the unexpired terms granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION ASSUMPTIONS

Our valuations have also been made on the assumption that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

We have inspected the properties externally and where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, completion dates of the buildings, identification of the properties and other relevant information.

Except otherwise stated, dimensions, measurements and site/floor areas included in the valuation certificates are based on information contained in the leases and other documents provided to us and are therefore only approximations.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company and we have relied on your confirmation that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

We hereby certify that we neither have any present nor any prospective interest in the Company and the Huayou Group or the appraised properties or the values reported.

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfer.

Our summary of values and the valuation certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng
BSc, MUD, MBA (Finance), MSc (Eng), PhD (Econ), MHKIS, MCIArb, AFA, SCIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE
Director

Joannau W.F. Chan
BSc. MSc. MRICS MHKIS RPS(GP)
Director

Alan W.K. Lee
HD Surv, BCom, MHKIS, RPS(GP), AAPI, CPV
Valuation Manager

Notes:

Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 16 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 16 years' experience in valuations of properties in Hong Kong and over 10 years' experience in valuations of properties in the People's Republic of China.

Mr. Alan W.K. Lee is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 6 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
	Group I – Properties held by Huayou Group for owner-occupation in the PRC	
1.	An industrial complex located at No. 22 Xing Guang Road Central Longquanyi District Chengdu City Sichuan Province The PRC 中國四川省成都市龍泉驛區星光中路22號之一個工業區	4,800,000
2.	A Gas Filling Station with ancillary buildings and structures in No. 12 Er Xian Qiao Dong Road Chenghua District Chengdu City Sichuan Province The PRC 中國四川省成都市成華區二仙橋東路12號之一個加氣站及配套建築物	24,900,000
3.	A Gas Filling Station with ancillary buildings and structures in No. 9 Huayang Gucheng Village Shuangliu County Chengdu City Sichuan Province The PRC 中國四川省成都市雙流縣華陽古城村九社之一個加氣站及配套建築物	330,000

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
4.	Units 5-6, 5th Floor, Block A Composite Building, Shuangnan 6th Group Shuifeng Village, Wuhou District Chengdu City Sichuan Province The PRC 中國四川省 成都市武侯區 水豐鄉雙楠六組綜合樓 5樓A幢5-6室	2,000,000
5.	A Gas Filling Station with ancillary buildings and structures in No. 4 San Guan Tang Street, Jinjiang District Chengdu City Sichuan Province The PRC 中國四川省 成都市錦江區 三官堂街4號之 一個加氣站及 配套建築物	9,610,000
6.	A Gas Filling Station with ancillary buildings and structures in Sanyuan Village 1st Group Shiyang Village High and New Technology District Chengdu City Sichuan Province The PRC 中國四川省 成都市高新區 石羊鄉三元村一組之 一個加氣站及 配套建築物	1,070,000

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
7.	A Gas Filling Station with ancillary buildings and structures in Xilin Village 4th Group Qinglong Village Chenghua District Chengdu City Sichuan Province The PRC 中國四川省 成都市成華區 青龍鄉西林村四組之 一個加氣站及 配套建築物	5,000,000
8.	A Gas Filling Station with ancillary buildings and structures in No. 138 Shu Zhou Nan Road Chongyang Town Chongzhou City Chengdu City Sichuan Province The PRC 中國四川省 成都市崇州市 崇陽鎮蜀州南路138號之 一個加氣站及 配套建築物	3,980,000
9.	A Gas Filling Station with ancillary buildings and structures in Dashan Village 4th Group Dashanpu Town Daan District Zigong City Sichuan Province The PRC 中國四川省自貢市 大安區大山鋪鎮 大山村4組之 一個加氣站及 配套建築物	930,000

No.	Property	Market Value in existing state as at 31 December 2008
		RMB
10.	A Gas Filling Station with ancillary buildings and structures in No. 8 Guandu Village Jinyuan Town Dayi County Chengdu City Sichuan Province The PRC 中國四川省成都市大邑縣晉原鎮官渡村八社之一個加氣站及配套建築物	4,460,000
11.	A Gas Filling Station with ancillary buildings and structures in Nei Bei Road North Central District Neijiang City Sichuan Province The PRC 中國四川省內江市市中區內碑路北側之一個加氣站及配套建築物	2,600,000
12.	A Gas Filling Station with ancillary buildings and structures in Lower Maanshan Transformer Station Central District Neijiang City Sichuan Province The PRC 中國四川省內江市市中區馬鞍山變電站下面之一個加氣站及配套建築物	820,000

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
13.	A Gas Filling Station with ancillary buildings and structures in Zhan Qian Dong Road Xin Cheng Bei Street North Shulinzhao Town Ordos City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區 鄂爾多斯市 樹林召鎮新城北街 北站前東路之 一個加氣站及 配套建築物	2,750,000
14.	A Gas Filling Station with ancillary buildings and structures in Xi Street South Ordos City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區 鄂爾多斯市 西街南之 一個加氣站及 配套建築物	1,600,000
15.	Various Gas Filling Stations with ancillary buildings and structures in Baotou City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區 包頭市之數個加氣站及 配套建築物	No Commercial Value

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
16.	A Gas Filling Station with ancillary buildings and structures in Tian Village Yongle Town Jingyang County Shaanxi Province The PRC 中國陝西省涇陽縣永樂鎮田村之一個加氣站及配套建築物	No Commercial Value
17.	Various Gas Filling Stations with ancillary buildings and structures in Taian City Shandong Province The PRC 中國山東省泰安市之數個加氣站及配套建築物	No Commercial Value
18.	A Gas Filling Station with ancillary buildings and structures in Zibo City Shandong Province The PRC 中國山東省淄博市之一個加氣站及配套建築物	No Commercial Value

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
19.	A Gas Filling Station with ancillary buildings and structures in Shi Lian Road Yuhua District Shijiazhuang City Hebei Province The PRC 中國河北省石家莊市裕華區石煉路之一個加氣站及配套建築物	No Commercial Value
	Sub-Total:	64,850,000

Group II – Property held by Huayou Group for investment in the PRC

No.	Property	Market Value in existing state as at 31 December 2008 *RMB*
20.	A composite building in No. 81 Bei Street Liucheng Town Chengdu City Sichuan Province The PRC 中國四川省成都市柳城鎮北街81號一幢綜合樓	5,800,000
	Sub-Total:	5,800,000
	Grand Total:	70,650,000

VALUATION CERTIFICATE

Group I – Properties held by Huayou Group for owner-occupation in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
1.	An industrial complex located at No. 22 Xing Guang Road Central Longquanyi District Chengdu City Sichuan Province The PRC 中國四川省成都市龍泉驛區星光中路22號之一個工業區	The property comprises a parcel of land with a site area of approximately 15,487.73 sq.m. (or about 166,709.93 sq.ft.) upon which 4 buildings with ancillary structures were mainly erected in 2004. The total gross floor area ("GFA") of the property is approximately 7,132.66 sq.m. (or about 76,775.95 sq.ft.). The land use rights of the property have been granted for a term expiring on 19 September 2055 for industrial use.	As advised by the Company, portion of the property was subject to various tenancies with the latest term expiring on 31 August 2009 ("tenancies") for industrial and office uses and the remaining portion of the property is occupied by the Group for office, canteen, gatehouse and ancillary uses.	4,800,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Long Guo Yong (2005) Di No. 58262 (龍國用(2005)第58262號), issued by Chengdu City Longquanyi District People's Government (成都市龍泉驛區人民政府) dated 16 November 2005, the land use rights of the property with a site area of 15,487.73 sq.m. have been granted to Huayou for a term expiring on 19 September 2055 for industrial use.

2. Pursuant to 4 Building Ownership Certificates issued to Huayou by Chengdu City Longquanyi District Real Estate Administration Bureau (成都市龍泉驛區房管局) dated 22 January 2009, 4 buildings of the property with a total GFA of 7,132.66 sq.m. is legally owned by Chengdu Public Transport Compressed Natural Gas Co., Ltd. The details of which are summarized in the table below:

No.	Certificate No.	Use	GFA *(sq.m.)*
1	Long Fang Quan Zheng Jian Zheng Zi Di No.0156243	Office	4,126.49
2	Long Fang Quan Zheng Jian Zheng Zi Di No.0156244	Workshop	2,661.82
3	Long Fang Quan Zheng Jian Zheng Zi Di No.0156245	Other	323.02
4	Long Fang Quan Zheng Jian Zheng Zi Di No.0156246	Other	21.33
		Total:	7,132.66

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents. Subsequently, 4 Building Ownership Certificates shown in Note 2 were obtained after the date of valuation.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the land of the property and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   e. The tenancy agreements are legally valid and enforceable under the PRC laws. However, Huayou has not registered such tenancy agreements in the relevant government departments. As confirmed by Huayou, Huayou is in the process of applying for the registration of the tenancy agreements. After the registration, the tenancy agreements can be enforced against the third party interests on the property; and

   f. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market.

6. According to the tenancies, one of the tenants is Chengdu Huayou Maoyuan Natural Gas Development Co. Ltd. (成都華油茂源天然氣開發有限責任公司) which is effectively owned as to 51% by the Company. Therefore, it is considered as an intra-group tenancy.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
2.	A Gas Filling Station with ancillary buildings and structures in No. 12 Er Xian Qiao Dong Road Chenghua District Chengdu City Sichuan Province The PRC 中國四川省成都市成華區二仙橋東路12號之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 6,626.61 sq.m. (or about 71,328.83 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in about 2007. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title document is approximately 1,148.2 sq.m. (or about 12,359.22 sq.ft.) The land use rights of the property have been granted for a term expiring on 25 October 2045 for composite use.	As advised by the Company, portion of the land is subject to a tenancy ("tenancy") with the term expiring on 16 May 2009 for carparking use and the remaining portion of the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	24,900,000 (Please see Note 2 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Cheng Guo Yong (2001) Zi Di No. 1254 (成國用(2001)字第1254號), issued by Chengdu City Land and Resources Bureau (成都市國土資源局) dated 9 November 2001, the land use rights of the property with a site area of 6,626.61 sq.m. have been granted to Huayou for a term expiring on 25 October 2045 for composite use.

2. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

e. The tenancy agreement is legally valid and enforceable under the PRC laws. However, Huayou has not registered such tenancy agreement in the relevant government departments. As confirmed by Huayou, Huayou is in the process of applying for the registration of the tenancy agreement. After the registration, the tenancy agreement can be enforced against the third party interests on the property;

f. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

g. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
3.	A Gas Filling Station with ancillary buildings and structures in No. 9 Huayang Gucheng Village Shuangliu County Chengdu City Sichuan Province The PRC 中國四川省成都市雙流縣華陽古城村九社之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 1,866.68 sq.m. (or about 20,092.94 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in between 1995 and 2008. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title document is approximately 433.82 sq.m. (or about 4,669.64 sq.ft.) The land use rights of the property have been granted for a term expiring on 12 November 2052 for industrial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	330,000 (Please see Note 2 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Chuan Guo Yong (2003) Zi Di No. 00184 (川國用(2003)字第00184號), issued by Sichuan Province Land and Resources Bureau (四川省國土資源局) dated 22 January 2003, the land use rights of the property with a site area of 1,866.68 sq.m. have been granted to Shuangliu Huayou Natural Gas Co., Ltd. (雙流華油天然氣有限責任公司) for a term expiring on 12 November 2052 for industrial use.

2. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

    a. Shuangliu Huayou Natural Gas Co., Ltd. is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

    b. All land premium and other costs of ancillary utility services have been settled in full;

c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities;

e. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

5. As advised by the Company, Shuangliu Huayou Natural Gas Co., Ltd. is effectively owned as to 71.3% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
4.	Units 5-6, 5th Floor, Block A Composite Building Shuangnan 6th Group Shuifeng Village Wuhou District Chengdu City Sichuan Province The PRC 中國四川省 成都市武侯區 水豐鄉雙楠六組綜合樓 5樓A幢5-6室	The property comprises 2 office units in an office building which was completed in about 2005. The total gross floor area ("GFA") of the property is approximately 489.17 sq.m. (or about 5,265.43 sq.ft.). The land use rights of the property have been granted for a term expiring on 14 April 2038 for composite use.	As advised by the Company, the property was occupied by Huayou Group for office use as at the date of valuation.	2,000,000

Notes: -

1. Pursuant to 2 State-owned Land Use Rights Certificates, Wu Gong Yong (2005) Di Nos. 20714 and 20715 (武國用(2005)第20714及20715) both issued by Chengdu City People's Government (成都市人民政府), the land use rights of the property have been granted to Chengdu Public Transport Compressed Natural Gas Co., Ltd. (成都公交壓縮天然氣股份有限公司) for a term expiring on 14 April 2038 for composite use.

2. Pursuant to 2 Building Ownership Certificates both issued by Chengdu City Real Estate Administration Bureau (成都市房產管理局), the property is legally owned by Chengdu Public Transport Compressed Natural Gas Co., Ltd. The details of which are summarized in the table below:

No.	Certificate No.	Use	GFA *(sq.m.)*
1	Cheng Fang Quan Zheng Jian Zheng Zi Di No.1252242	Office	325.06
2	Cheng Fang Quan Zheng Jian Zheng Zi Di No.1252245	Office	164.11
		Total:	489.17

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Chengdu Public Transport Compressed Natural Gas Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

c. The property is not subject to mortgage or any other material encumbrances;

d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities; and

e. The property may be freely disposed of in the open market.

5. As advised by the Company, Chengdu Public Transport Compressed Natural Gas Co., Ltd. is effectively owned as to 62.45% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
5.	A Gas Filling Station with ancillary buildings and structures in No. 4 San Guan Tang Street Jinjiang District Chengdu City Sichuan Province The PRC 中國四川省成都市錦江區三官堂街4號之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 1,502.41 sq.m. (or about 16,171.94 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in about 2001. The total gross floor area ("GFA") of the property is approximately 474.33 sq.m. (or about 5,105.69 sq.ft.). Besides, as advised by the Company, the total GFA of the buildings and structures of the property without relevant title documents is approximately 20 sq.m. (or about 215.28 sq.ft.). The land use rights of the property have been granted for a term expiring on 19 October 2043 for commercial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	9,610,000 (Please see Note 4 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Cheng Guo Yong (2004) Di No. 1689 (成國用(2004)第1689號), issued by Chengdu City People's Government, the land use rights of the property with a site area of 1,502.41 sq.m. have been granted to Chengdu Public Transport Compressed Natural Gas Co., Ltd. for a term expiring on 19 October 2043 for commercial use.

2. Pursuant to a Building Ownership Certificate, Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di No. 1144917 (蓉房權證成房監證字第1144917號) issued by Chengdu City Real Estate Administration Bureau (成都市房產管理局), the property with a GFA of 474.33 sq.m. is legally owned by Chengdu Public Transport Compressed Natural Gas Co., Ltd. for other use.

3. As advised by the Company, the property is subject to a mortgage in favour of China Merchants Bank Co., Ltd. Chengdu Shuangnan Branch (招商銀行股份有限公司成都雙楠支行).

4. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property due to the absence of the relevant title documents.

5. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

6. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Chengdu Public Transport Compressed Natural Gas Co., Ltd. is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   d. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market subject to the consents of the mortgagee; and

   e. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

7. We have prepared our valuation based on the assumption that the property is not subject to mortgage or any other material encumbrances.

8. As advised by the Company, Chengdu Public Transport Compressed Natural Gas Co., Ltd. is effectively owned as to 62.45% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
6.	A Gas Filling Station with ancillary buildings and structures in Sanyuan Village 1st Group Shiyang Village High and New Technology District Chengdu City Sichuan Province The PRC 中國四川省成都市高新區石羊鄉三元村一組之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 1,251.90 sq.m. (or about 13,475.45 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in about 2001. The total gross floor area ("GFA") of the property is approximately 387.22 sq.m. (or about 4,168.04 sq.ft.). The land use rights of the property have been granted for a term expiring on 3 September 2042 for public utility use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	1,070,000

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Cheng Gao Guo Yong (2004) Di No. 9990 (成高國用(2004)第9990號), issued by Chengdu City People's Government, the land use rights of the property with a site area of 1,251.90 sq.m. have been granted to Chengdu Public Transport Compressed Natural Gas Co., Ltd. for a term expiring on 3 September 2042 for public utility use.

2. Pursuant to a Building Ownership Certificate, Rong Fang Quan Zheng Cheng Fang Jian Zheng Zi Di No. 1149357 (蓉房權證成房監證字第1149357號) issued by Chengdu City Real Estate Administration Bureau (成都市房產管理局), the property with a GFA of 387.22 sq.m. is legally owned by Chengdu Public Transport Compressed Natural Gas Co., Ltd. for office and other uses.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Chengdu Public Transport Compressed Natural Gas Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities; and

e. The property may be freely disposed of in the open market.

5. As advised by the Company, Chengdu Public Transport Compressed Natural Gas Co., Ltd. is effectively owned as to 62.45% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
7.	A Gas Filling Station with ancillary buildings and structures in Xilin Village 4th Group Qinglong Village Chenghua District Chengdu City Sichuan Province The PRC 中國四川省成都市成華區青龍鄉西林村四組之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 1,349.99 sq.m. (or about 14,531.29 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in about 2006. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 404.8 sq.m. (or about 4,357.27 sq.ft.). The land use rights of the property have been granted for a term expiring on 30 July 2040 for commercial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	5,000,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Cheng Guo Yong (2001) Zi Di No. 1098 (成國用(2001)字第1098號), issued by Chengdu City People's Government dated September 2001, the land use rights of the property with a site area of 1,349.99 sq.m. have been granted to Chengdu Public Transport Compressed Natural Gas Co., Ltd. for a term expiring on 30 July 2040 for commercial use.

2. As advised by the Company, the property is subject to a mortgage in favour of China Merchants Bank Co., Ltd. Chengdu Shuangnan Branch (招商銀行股份有限公司成都雙楠支行).

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property due to the absence of the relevant title documents.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Chengdu Public Transport Compressed Natural Gas Co., Ltd. is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

b. All land premium and other costs of ancillary utility services have been settled in full;

c. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

d. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market subject to the consents of the mortgagee; and

e. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

6. We have prepared our valuation based on the assumption that the property is not subject to mortgage or any other material encumbrances.

7. As advised by the Company, Chengdu Public Transport Compressed Natural Gas Co., Ltd. is effectively owned as to 62.45% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
8.	A Gas Filling Station with ancillary buildings and structures in No. 138 Shu Zhou Nan Road Chongyang Town Chongzhou City Chengdu City Sichuan Province The PRC 中國四川省成都市崇州市崇陽鎮蜀州南路138號之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 3,333.31 sq.m. (or about 35,879.75 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in about 2008. The total gross floor area ("GFA") of the property is approximately 407.76 sq.m. (or about 4,389.13 sq.ft.). Beside, as advised by the Company, the total GFA of the buildings and structures of the property without relevant title documents is approximately 636.78 sq.m. (or about 6,854.30 sq.ft.). The land use rights of the property have been granted for a term expiring on 7 April 2047 for commercial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	3,980,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Chong Guo Yong (2007) Di No. 12582 (崇國用(2007)第12582號), issued by Chongzhou City People's Government (崇州市人民政府) dated 8 October 2007, the land use rights of the property with a site area of 3,333.31 sq.m. have been granted to Huayou for a term expiring on 7 April 2047 for commercial use.

2. Pursuant to a Building Ownership Certificate, Chong Fang Quan Zheng Jian Zheng Zi Di No. 0034902 (崇房權證監證字第0034902號), issued by Chongzhou City Real Estate Administration Bureau (崇州市房產管理局), the property with a GFA of 407.76 sq.m. is legally owned by Huayou.

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   e. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

   f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
9.	A Gas Filling Station with ancillary buildings and structures in Dashan Village 4th Group Dashanpu Town Daan District Zigong City Sichuan Province The PRC 中國四川省自貢市大安區大山鋪鎮大山村4組之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 2,811.77 sq.m. (or about 30,265.89 sq.ft.) upon which a gas filling station with ancillary buildings and structures were mainly erected in about 1995. The gross floor area ("GFA") of the property is approximately 160.58 sq.m. (or about 1,728.48 sq.ft.). Besides, as advised by the Company, the GFA of the buildings and structures of the property without relevant title documents is approximately 124 sq.m. (or about 1,334.74 sq.ft.). The land use rights of the property have been granted for a term expiring on 2 March 2041 for industrial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	930,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Zi Guo Yong (2001) Zi Di No. 040132 (自國用(2001)字第040132號), issued by Zigong City People's Government (自貢市人民政府), the land use rights of the property with a site area of 2,811.77 sq.m. have been granted to Huayou for a term expiring on 2 March 2041 for industrial use.

2. Pursuant to a Building Ownership Certificate, Zi Fang Quan Zheng Da An Zi Di No. 00028650 (自房權證大安字第00028650號), issued by Zigong City Real Estate Administrative Bureau (自貢市房地產管理局), the property with a GFA of 160.58 sq.m. is legally owned by Huayou for non-residential use.

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   e. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

   f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
10.	A Gas Filling Station with ancillary buildings and structures in No. 8 Guandu Village Jinyuan Town Dayi County Chengdu City Sichuan Province The PRC 中國四川省成都市大邑縣晉原鎮官渡村八社之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 3,605.01 sq.m. (or about 38,804.33 sq.ft.) upon which a gas filling station with ancillary buildings and structures were mainly in about 2001. The gross floor area ("GFA") of the property is approximately 204.07 sq.m. (or about 2,196.61 sq.ft.). Besides, as advised by the Company, the GFA of the buildings and structures of the property without relevant title documents is approximately 585.2 sq.m. (or about 6,299.09 sq.ft.). The land use rights of the property have been granted for a term expiring on 28 July 2044 for commercial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	4,460,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Yi Guo Yong (2004) Di No. 38248 (邑國用(2004)第38248號), issued by Da Yi County People's Government (大邑縣人民政府), the land use rights of the property with a site area of 3,605.01 sq.m. have been granted to Dayi Huayou Energy Compressed Natural Gas Co., Ltd. (大邑華油能源壓縮天然氣有限責任公司) for a term expiring on 28 July 2044 for commercial use.

2. Pursuant to a Building Ownership Certificate, Da Fang Quan Zheng Jian Zheng Zi Di No. 0017714 (大房權證監證字第0017714號), issued by Dayi County Real Estate Administration Bureau (大邑縣房產管理局) dated 29 January 2002, the property with a GFA of 204.07 sq.m. is legally owned by Dayi Huayou Energy Compressed Natural Gas Co., Ltd. for factory use.

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Dayi Huayou Energy Compressed Natural Gas Co., Ltd. is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   e. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

   f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

6. As advised by the Company, Dayi Huayou Energy Compressed Natural Gas Co., Ltd. is effectively owned as to 40% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
11.	A Gas Filling Station with ancillary buildings and structures in Nei Bei Road North Central District Neijiang City Sichuan Province The PRC 中國四川省內江市市中區內碑路北側之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 2,066.2 sq.m. (or about 22,204.58 sq.ft.) upon which a gas filling station with ancillary buildings and structures were mainly erected in about 2007. As advised by the Company, the gross floor area ("GFA") of the buildings and structures of the property without relevant title documents is approximately 968 sq.m. (or about 10,419.55 sq.ft.). The land use rights of the property have been granted for a term expiring on 9 January 2045 for commercial use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	2,600,000 (Please see Note 2 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Nei Shi Guo Yong (2007) Di No. 011066 (內市國用(2007)第011066號), issued by Neijiang City People's Government (內江市人民政府), the land use rights of the property with a site area of 2,066.2 sq.m. have been granted to Huayou for a term expiring on 9 January 2045 for commercial use.

2. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

b. Huayou will carry out capital injection of Neijiang Huaqi Public Transport Compressed Natural Gas Co., Ltd. (內江華氣公交壓縮天然氣有限責任公司) in a consideration of the land use rights of the land of the property. The transfer progress is under preparation as at the date of valuation;

c. All land premium and other costs of ancillary utility services have been settled in full;

d. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

e. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

f. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

g. Huayou Group is in the process of applying for the relevant ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title document.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
12.	A Gas Filling Station with ancillary buildings and structures in Lower Maanshan Transformer Station Central District Neijiang City Sichuan Province The PRC 中國四川省內江市市中區馬鞍山變電站下面之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 4,160.30 sq.m. (or about 44,781.47 sq.ft.) upon which a few structures were mainly erected in about 2007. The land use rights of the property have been granted for a term expiring on 29 November 2020 for godown use.	As advised by the Company, the property was vacant with various structures as at the date of valuation.	820,000

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Nei Shi Guo Yong (2008) Di No. 007834 (內市國用(2008)第007834號), issued by Neijiang City People's Government (內江市人民政府), the land use rights of the property with a site area of 4,160.30 sq.m. have been granted to Huayou for a term expiring on 29 November 2020 for godown use.

2. The status of title in accordance with the information provided by the Company is as follows:

   State-owned Land Use Rights Certificate Yes

3. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property and is entitled to transfer the property with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities; and

   e. The property may be freely disposed of in the open market.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
13.	A Gas Filling Station with ancillary buildings and structures in Zhan Qian Dong Road Xin Cheng Bei Street North Shulinzhao Town Ordos City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區鄂爾多斯市樹林召鎮新城北街北站前東路之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 7,200 sq.m. (or about 77,500.8 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in between 2002 and 2005. The total gross floor area ("GFA") of the property is approximately 300.8 sq.m. (or about 3,237.81 sq.ft.). Beside, as advised by the Company, the total GFA of the buildings and structures of the property without relevant title documents is approximately 543 sq.m. (or about 5,844.85 sq.ft.). The land use rights of the property have been granted for a term expiring on 1 April 2052 for composite use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	2,750,000 (Please see Note 3 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Da Guo Yong (2005) Di No. 5768 (達國用(2005)第5768號), issued by Dalate Banner People's Government (達拉特旗人民政府) dated 23 December 2005, the land use rights of the property with a site area of 7,200 sq.m. have been granted to Ordos City Huaqi Dachang Gas Co., Ltd. (鄂爾多斯市華氣達昌燃氣有限責任公司) for a term expiring on 1 April 2052 for composite use.

2. Pursuant to a Building Ownership Certificate Fang Quan Zheng (2006) Zi Di No. 17826 (房權證(2006)字第17826號) issued by Dalate Banner Real Estate Administration Bureau (達拉特旗房產管理局) dated 18 April 2006, the property with a GFA of 300.8 sq.m. is legally owned by Ordos City Huaqi Dachang Gas Co., Ltd. for operation.

3. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

4. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

5. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Ordos City Huaqi Dachang Gas Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities;

   e. The property may be freely disposed of in the open market; and

   f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

6. As advised by the Company, Ordos City Huaqi Dachang Gas Co., Ltd. is effectively owned as to 60% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
14.	A Gas Filling Station with ancillary buildings and structures in Xi Street South Ordos City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區鄂爾多斯市西街南之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 4,570.20 sq.m. (or about 49,193.63 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in 2004. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title document is approximately 498.8 sq.m. (or about 5,369.08 sq.ft.) The land use rights of the property have been granted for a term expiring on 20 October 2045 for commercial services use.	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	1,600,000 (Please see Note 2 below)

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Dong Guo Yong (2006) Di Chu Rang No. 096 (東國用(2006)地出讓096號), issued by Dongsheng District People's Government (東勝區人民政府) dated 21 June 2006, the land use rights of the property with a site area of 4,570.20 sq.m. have been granted to Ordos City Huaqi Xinsheng Gas Technology Co., Ltd. (鄂爾多斯市華氣新聖燃氣技術有限公司) for a term expiring on 20 October 2045 for commercial services use.

2. As at the date of valuation, no commercial value has been attributed to the buildings and structures of the property without relevant title documents.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	No

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Ordos City Huaqi Xinsheng Gas Technology Co., Ltd. is in possession of a proper legal title to the property excluding the buildings and structures without relevant title documents and is entitled to transfer it with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

c. The property excluding the buildings and structures without relevant title documents is not subject to mortgage or any other material encumbrances;

d. The existing use of the property excluding the buildings and structures without relevant title documents is in compliance with the local planning regulations and has been approved by the relevant government authorities;

e. The property excluding the buildings and structures without relevant title documents may be freely disposed of in the open market; and

f. Huayou Group is in the process of applying for the relevant building ownership documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

5. As advised by the Company, Ordos City Huaqi Xinsheng Gas Technology Co., Ltd. is effectively owned as to 95% by Huayou.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
15.	Various Gas Filling Stations with ancillary buildings and structures in Baotou City Inner Mongolia Autonomous Region The PRC 中國內蒙古自治區包頭市之數個加氣站及配套建築物	The property comprises various gas filling stations with ancillary buildings and structures. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 11,772 sq.m. (or about 126,713.81 sq.ft.).	As advised by the Company, the property was occupied by Huayou Group as various gas filling stations as at the date of valuation.	No Commercial Value

Notes: -

1. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents.

2. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

3. As advised by the Company, the property is owned by Baitou Huaqi New Energy Development Co., Ltd. (包頭華氣新能源開發有限責任公司) which is effectively owned as to 80% by Huayou.

4. Huayou Group is in the process o f applying for the relevant title documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
16.	A Gas Filling Station with ancillary buildings and structures in Tian Village Yongle Town Jingyang County Shaanxi Province The PRC 中國陝西省涇陽縣永樂鎮田村之一個加氣站及配套建築物	The property comprises a parcel of land with a site area of approximately 20,000 sq.m. (or about 215,280 sq.ft.) upon which a gas filling station with ancillary buildings and structures were erected in between 2005 and 2008. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 1,646.8 sq.m. (or about 17,726.16 sq.ft.).	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	No Commercial Value

Notes: -

1. Pursuant to a Gas Station Project Contract entered into between Shanxi Province Jingyang County People's Government (陝西省涇陽縣人民政府) and Jingyang Huaqi Anran Compressed Natural Gas Co., Ltd. (涇陽華氣安然壓縮天然氣有限公司) dated 7 April 2005, the latter has been approved to build a gas filling station with ancillary buildings and structures in the subject land with a site area of 20,000 sq.m.

2. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

4. As advised by the Company, the property is owned by Jingyang Huaqi Anran Compressed Natural Gas Co., Ltd. which is effectively owned as to 60% by Huayou.

5. Huayou Group is in the process of applying for the relevant title documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
17.	Various Gas Filling Stations with ancillary buildings and structures in Taian City Shandong Province The PRC 中國山東省泰安市之數個加氣站及配套建築物	The property comprises various gas filling stations with ancillary buildings and structures. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 788.52 sq.m. (or about 8,487.63 sq.ft.).	As advised by the Company, the property was occupied by Huayou Group as gas filling stations as at the date of valuation.	No Commercial Value

Notes: -

1. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents.

2. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

3. As advised by the Company, the property is owned by Taian Zhongyou Huaqi Natural Gas Co., Ltd. (泰安中油華氣天然氣利用有限公司) which is effectively owned as to 51% by Huayou.

4. Huayou Group is in the process of applying for the relevant title documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
18.	A Gas Filling Station with ancillary buildings and structures in Zibo City Shandong Province The PRC 中國山東省淄博市之一個加氣站及配套建築物	The property comprises a gas filling station with ancillary buildings and structures. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 208 sq.m. (or about 2,238.91 sq.ft.).	As advised by the Company, the property was occupied by Huayou Group as gas filling stations as at the date of valuation.	No Commercial Value

Notes: -

1. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents.

2. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

3. As advised by the Company, the property is owned by Zibo Huayou Natural Gas Co., Ltd. (淄博華油天然氣利用有限公司) which is effectively owned as to 90% by Huayou.

4. Huayou Group is in the process of applying for the relevant title documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
19.	A Gas Filling Station with ancillary buildings and structures in Shi Lian Road Yuhua District Shijiazhuang City Hebei Province The PRC 中國河北省石家莊市裕華區石煉路之一個加氣站及配套建築物	The property comprises a gas filling station with ancillary buildings and structures. As advised by the Company, the total gross floor area of the buildings and structures of the property without relevant title documents is approximately 852 sq.m. (or about 9,170.93 sq.ft.).	As advised by the Company, the property was occupied by Huayou Group as a gas filling station as at the date of valuation.	No Commercial Value

Notes: -

1. As at the date of valuation, no commercial value has been attributed to the property due to the absence of the relevant title documents.

2. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	No
Building Ownership Certificate	No

3. As advised by the Company, the property is owned by Hebei Huayou Natural Gas Co., Ltd. (河北華油天然氣有限責任公司) which is effectively owned as to 51% by Huayou.

4. Huayou Group is in the process of applying for the relevant title documents which can be obtained upon the approval from relevant Government Departments and settlement of land premium. However, Huayou Group has undertaken to be responsible for any loss arising from the application of title documents.

VALUATION CERTIFICATE

Group II – Property held by Huayou Group for investment in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2008 *RMB*
20.	A composite building in No. 81 North Street Liucheng Town Chengdu City Sichuan Province The PRC 中國四川省成都市柳城鎮北街81號一幢綜合樓	The property comprises a 7-storey composite building which was completed in about 1997. The total gross floor area ("GFA") of the property is approximately 2,784.76 sq.m. (or about 29,975.16 sq.ft.). The land use rights of the property have been granted for a term expiring on 5 March 2051 for residential use.	As advised by the Company, portion of the property has been leased out. The remaining portion of the property is vacant.	5,800,000

Notes: -

1. Pursuant to a State-owned Land Use Rights Certificate, Wen Guo Yong (2002) Zi Di No. 3399 (溫國用(2002)字第3399號), issued by Wen Jiang County People's Government (溫江縣人民政府), the land use rights of the property with a site area of 371.8 sq.m. have been granted to Huayou for a term expiring on 5 March 2051 for residential use.

2. Pursuant to a Building Ownership Certificate, Wen Fang Quan Zheng Jian Quan Zi Di No. 0017015 (溫房權證監權字第0017015號), issued by Wen Jiang County People's Government (溫江縣人民政府), the property with a GFA of 2,784.76 sq.m. is legally owned by Huayou for residential use.

3. The status of title in accordance with the information provided by the Company is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

4. The opinion of the PRC legal adviser to the Company contains, inter alia, the following:

   a. Huayou is in possession of a proper legal title to the property and is entitled to transfer the property with their residual terms of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services have been settled in full;

   c. The property is not subject to mortgage or any other material encumbrances;

   d. The existing use of the property is in compliance with the local planning regulations and has been approved by the relevant government authorities; and

   e. The property may be freely disposed of in the open market.

The following is the English translation of the Assets Valuation Report prepared by China United Assets Appraisal Co., Ltd., an independent valuer, in connection with the valuation of Huayou as at 31 August 2008 prepared for the purpose of inclusion in this circular.

CAPITAL INJECTION OF CNPC (HONG KONG) LIMITED TO CHINA NATURAL GAS CO., LTD.
ASSETS VALUATION REPORT
ZHONG LIAN PING BAO ZI [2008] NO. 419

To CNPC (Hong Kong) Limited,

China United Assets Appraisal Co., Ltd. is engaged by the Company to conduct a valuation on all of the assets and liabilities of China Natural Gas Co., Ltd. in accordance with the provisions on asset valuation of the country, with the generally accepted asset valuation methods under the principles of objectivism, independence, fairness and scientism. The valuation staff implemented field studies, market surveys and evidence confirmation to the assets and liabilities under valuation in accordance with the necessary asset valuation procedures to reflect the fair value of the equity interests (net asset) as at 31 August 2008. The asset valuation details and the valuation results are reported as follows:

1. SUMMARY OF ENTRUSTING PARTY, EQUITY HOLDER AND ASSET OWNER

(1) Summary of Entrusting Party

Name of Enterprise:	CNPC (HONG KONG) LIMITED
Registration No.:	15322942-000-08-08-5
Address:	Room 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong
Nature of Business:	Investment holding

CNPC (Hong Kong) Limited is a company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). China National Petroleum Corporation ("CNPC"), the ultimate parent of CNPC (Hong Kong) Limited, was established in the People's Republic of China. The immediate holding company of CNPC (Hong Kong) Limited is Sun World Limited, which was incorporated in British Virgin Islands. The principal office and the registered office of CNPC (Hong Kong) Limited are Room 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong and Clarendon House, Church Street, Hamilton HM11, Bermuda, respectively.

CNPC (Hong Kong) Limited is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are the exploration and production of crude oil and natural gas in the PRC, the Republic of Kazakhstan, the Sultanate of Oman, Peru, the Kingdom of Thailand, the Azerbaijan Republic and the Republic of Indonesia.

The oil operation in the PRC is conducted through production sharing arrangements between CNPC (Hong Kong) Limited and PetroChina Company Limited ("PetroChina", its shares are listed on the Stock Exchange of Hong Kong and Shanghai Stock Exchange), a subsidiary of CNPC, whereby CNPC (Hong Kong) Limited is entitled to a fixed percentage of assets, liabilities, income and expense in accordance with the respective oil production sharing contracts entered into with PetroChina.

Apart from the exploration and oil business in Thailand and Indonesia which are conducted by CNPC (Hong Kong) Limited with independent third parties, the rest of the overseas business are all conducted jointly with China National Oil and Gas Exploration and Development Corporation ("CNODC") which is responsible for the operation and control.

(2) Summary of Equity holder

Name of Enterprise:	CNPC Shenzhen Petroleum Industrial Co., Ltd.
Company Address:	22/F, Block B, Jintong Building, 10 Aiguo Road, Luohu District, Shenzhen City
Legal Representative:	Tao Yuchun
Registered Capital:	RMB452.24 million
Business License Registration No.:	440301102904247

CNPC Shenzhen Petroleum Industrial Co., Ltd. (hereinafter referred to as the "Company"), a wholly-owned subsidiary of CNPC, was established in January 1989 with the approval of Shenzhen People's Government.

After years of development, the Company has primarily formed its business structure, with natural gas exploration and development, piped city-gas and CNG vehicle project development, and petroleum and chemical products distribution as its primary business and gas pipe material production and pipe construction and international trading of oil and natural gas supplies and equipment as its supplementary business, which provides a solid foundation for the sustainable, healthy and rapid development of the Company.

Eight departments and offices (General Manager Office (Party Member Office), Personnel Department, Planning Department, Treasury Department, Capital Operation Department, Quality, Safety and Environment Department, Audit Control Department and Gas Fuel Department) and two direct organizations (Oil Product Sale Department and International Trading Department) are set up in the headquarters of the Company. The Company has 11 secondary companies and 32 tertiary companies which include 四川華油天然氣股份有限公司 (Sichuan Huayou Natural Gas Joint Stock Company Limited*), CNPC Shennan Oil Technology Development Co., Ltd., 深圳市中油大廈酒店有限公司 (Shenzhen CNPC

Building Hotel Ltd.*) and 深圳華油實業發展有限公司 (Shenzhen Huayou Enterprise Development Limited*), etc. Total staff number of the headquarters and subordinate companies amounts to about 2,200.

(3) Summary of Asset Owner

Company Name:	China Natural Gas Co., Ltd. (hereinafter referred to as "Huayou")
Company Address:	No. 1-1-2 Longbo Road, Longquan Town, Longquanyi District, Chengdu City
Legal Representative:	Li Hualin
Registered Capital:	RMB170 million
Business License Registration No.:	5100001824152
Business scope:	oil and natural gas development (excluding pre-approvals; post-approvals projects could be operated with permissions or approval documents); burning gas production and sale. (the operation period is limited to that stated in the permit)

1. History and Development

With the approval by document Ti Gai Sheng (1994) No. 23 of the State Commission for Restructuring the Economic System, China Natural Gas Co., Ltd. was established in August 1994. The total share capital of Huayou is 53 million shares with registered capital of RMB53 million. Copies of this approval document from the State Commission for Restructuring the Economic System were simultaneously sent to state organizations of Ministry of Finance, National State-owned Assets Management Bureau and State Administration for Industry and Commerce. The then founders of Huayou (all shareholders) comprised of 11 entities in total, all of them paid for their share capital. The shareholding of each of the shareholders are:

Table1–1 Table of Shareholding Structure 1

Founder name	No. of Shares Subscribed *(0,000')*	Shareholding ratio	Note
四川華油實業發展總公司 (Sichuan Huayou Enterprise Development Corporation*)	1200	22.64%	State-owned enterprise affiliated to CNPC
華油實業開發總公司 (Huayou Industrial Development Co.)	1000	18.86%	State-owned enterprise affiliated to CNPC

Founder name	No. of Shares Subscribed *(0,000')*	Shareholding ratio	Note
新疆華油企業集團 (Xinjiang Huayou Enterprise Group*)	500	9.43%	State-owned enterprise affiliated to CNPC
四川石油管理局 (Sichuan Petroleum Administration*)	400	7.54%	State-owned enterprise affiliated to CNPC
長慶石油勘探局 (Changqing Oil Exploration Bureau*)	400	7.54%	State-owned enterprise affiliated to CNPC
華北石油管理局 (Huabei Petroleum Administration*)	300	5.66%	State-owned enterprise affiliated to CNPC
中國石油天然氣銷售公司 (China National Oil and Natural Gas Sales Company*)	300	5.66%	State-owned enterprise affiliated to CNPC
塔里木石油勘探開發指揮部 (Tarim Oil Exploration and Exploitation Headquarters*)	300	5.66%	State-owned enterprise affiliated to CNPC
塔里木石油經濟發展總公司 (Tarim Oil Economy Development Corporation*)	300	5.66%	State-owned enterprise affiliated to CNPC
中國光大國際信托投資公司 (China Everbright International Trust and Investment Corporation*)	300	5.66%	legal person shareholder from the public
中川國際合作股份有限公司 (Zhong Chuan International Cooperation Joint Stock Company Limited*)	300	5.66%	legal person shareholder from the public

The then shareholders of Huayou were all legal person corporations, which were divided into two categories: 9 large-medium oil enterprises under CNPC, with total shareholding of 47 million shares representing 88.68% of total share capital; 2 legal person shareholders from the public, with total shareholding of 6 million shares representing 11.32% of total share capital.

In the second half of 1997, under the initiation of Sichuan Petroleum Administration, a shareholder of Huayou, Chuan Xinan Huayou Group Company, a subordinate enterprise of Sichuan Petroleum Administration which cooperated with Huayou in establishing gas stations and drilling natural gas wells proposed to subscribe for new shares in Huayou and to pay for its subscription with the assets formed under their cooperation, which was valued at RMB19.5 million.

Huayou subsequently convened a general meeting in which the issue of 19.5 million shares to be made to Chuan Xinan Huayou Group Company, the collectively-owned enterprise affiliated to Sichuan Petroleum Administration was approved. Huayou then filed application to State Commission for Restructuring the Economic System, the examination and approval organization of company establishment, in respect of capital expansion through placing according to the provisions of Company Law. In December 1997, State Commission for Restructuring the Economic System approved such application with document Ti Gai Sheng (1997) No. 189. Upon the capital expansion, the number of shareholders of Huayou increased to 12, total share capital changed to 72.5 million shares and registered capital changed to RMB72.5 million. The additional collective-owned enterprise shareholder to Huayou has a shareholding ratio of 26.89%, while the shareholdings of other oil enterprise shareholders and other legal person shareholders from the public changed to 64.84% and 8.27% respectively.

State Commission for Restructuring the Economic System examined and approved the application of capital expansion of Huayou with strict compliance to the relevant provisions of the Company Law. The official reply of State Commission for Restructuring the Economic System stated 3 points: 1. the capital expansion was approved; 2. amendment of registration at the industrial and commercial administration authorities should be applied for with the approval document; 3. proper operation according to the Company Law should be continued after the examination and approval. In the examination and approval procedures, the capital expansion application document of Huayou was reported to State Commission for Restructuring the Economic System by CNPC, the administration organization for the industry. State Commission for Restructuring the Economic System replied Huayou directly, while the reply document was simultaneously sent to the state authorities of National State Assets Management Bureau, State Development Planning Commission, State Economic and Trade Commission, Securities Committee of the State Council and State Land Bureau. After receiving the reply, Huayou immediately applied for amendment of registration with State Administration for Industry and Commerce in compliance with the requirements of the approval document.

From April 2000 to August 2003, as CNPC undertook an internal restructuring, Huayou collected loans to shareholders and a shareholder (CEITIC) was revoked by the state, 31.35 million shares out of 72.50 million shares of Huayou were transmitted in the CNPC system, representing 43.24% of total shares of Huayou; 23.95 million shares were transferred in the CNPC system, representing 33.03% of total shares of Huayou; other legal person from the public received shares and held 9 million shares of the company, representing 12.41% of the total shares of the company. Correspondingly, number of shareholders of the company reduced from 12 to 8; Sichuan Huayou Enterprise Development Corporation, Huayou Industrial Development Co., Xinjiang Huayou Enterprise Group, Changqing Oil Exploration Bureau, China National Oil and Natural Gas Sales Company, Huabei Petroleum Administration, the founding shareholders of Huayou which belongs to the CNPC system and Chuan Xinan Huayou Group Company (which had injected capital) withdrew as shareholders; CNPC Shennan Oil Technology Development Company and China Huayou Group Corporation which are state-owned enterprises in the CNPC system became two major shareholders holding a total of 42 million shares of Huayou, representing 57.93% of the total shares of the company. In addition, legal persons Zhong Chuan International Joint Stock Company Limited and China Everbright International Trust and Investment Corporation withdrew completely, while new legal person shareholders from the public of Jiangyin City Hengchanglong Company Limited, Chengdu Longquan Huake Investment Company and Hangzhou Xihu International Golf Company joined, holding in aggregate 12.41% of shares of Huayou.

Following the above changes of shareholding, shareholders and total shares of Huayou had no change until March 2004. The registered capital of Huayou approved for change of registration by State Administration for Industry and Commerce by then was RMB72.5 million and 72.5 million shares of total share capital. Breakdown of shareholdings are:

Table 1–2 Shareholding Structure 2

Founder name	**No. of Shares Subscribed** *(0,000')*	**Shareholding ratio**
中油深南石油技術公司 (CNPC Shennan Oil Technology Development Company)	2395	33.03%
中國華油集團公司 (China Huayou Group Company*)	1805	24.90%
四川石油管理局 (Sichuan Petroleum Administration*)	1730	23.86%
江陰市恒昌隆公司 (Jiangyin City Hengchanglong Company Limited*)	500	6.90%
成都龍泉華科投資公司 (Chengdu Longquan Huake Investment Company*)	300	4.14%
塔里木石油勘探開發指揮部 (Tarim Oil Exploration and Exploitation Headquarters*)	210	2.90%
塔里木石油經濟開發總公司 (Tarim Oil Economy Development Corporation*)	210	2.90%
杭州西湖高爾夫有限公司 (Hangzhou Xihu International Golf Company*)	100	1.38%
Total	7250	100.00%

In 2004, Huayou commenced its second capital expansion. During March of the year, Huayou convened a general meeting, in which the resolution of placing of 27.5 million new shares was passed at an issue price of RMB1.50 each. Afterwards, the share subscription monies for new share placing were received, Huayou immediately applied for the industrial and commercial registration for change of registered capital according to law. Given that there was change in the state-owned equity in Huayou in such issue of new shares, CNPC asked for instruction in respect of the capital expansion of Huayou from the State-owned Assets Supervision and Administration Commission of the State Council with document Zhong You Zi Zi (2004) No. 312.

On 9 December 2004, the SASAC approved the plans for the increase of share capital and issue of additional shares of Huayou reported by CNPC through its approval document (Guo Zi Chan Quan[2004]1137). Meanwhile, the registered share capital of Huayou increased to RMB100 million; the total share capital also increased to 100 million shares; all shareholders and details of the ownership are as follows:

Table 1–3 Shareholding Structure 3

Name of founders	**Number of shares subscribed** *('0000 shares)*	**Shareholding ratio**
中油深南石油技術公司 (CNPC Shennan Oil Technology Development Company)	2395	23.95%
中國華油集團公司 (China Huayou Group Company*)	1805	18.05%
四川石油管理局 (Sichuan Petroleum Administration*)	1730	17.30%
深圳市中油投資有限公司 (Shenzhen CNPC Investment Limited*)	900	9.00%
山東泰安泰山燃氣集團公司 (Shandong Tai'an Taishan Gas Group Limited*)	900	9.00%
浙江金帝實業集團公司 (Zhejiang Jindi Enterprise Group Company*)	900	9.00%
江陰市恒昌隆公司 (Jiangyin City Hengchanglong Company Limited*)	850	8.50%
塔里木石油勘探開發指揮部 (Tarim Oil Exploration and Exploitation Headquarters*)	210	2.10%
塔里木石油經濟開發總公司 (Tarim Oil Economy Development Corporation*)	210	2.10%
杭州西湖高爾夫有限公司 (Hangzhou Xihu International Golf Company*)	100	1.00%
Total	10000	100.00%

After the increase of share capital and issue of additional shares by Huayou, due to the need for internal consolidation of CNPC, the related parties transferred all the shares in four shareholders, namely CNPC Shennan Oil Technology Development Co., Ltd., 四川石油管理局, 塔里木石油勘探開發指揮部 and 新疆塔里木石油經濟開發總公司 to CNPC Shenzhen Petroleum Industrial Co., Ltd. in accordance with the spirit of document Zhong You Zi Zi [2005]282 in November 2005 and also reported the same request to SASAC. On 21 June 2006, SASAC approved the state-owned share transfer of Huayou reported by CNPC through its approval document (Guo Zi Chan Quan[2006]690). After the transfer, details of the all shareholders of Huayou and their shareholdings are as follows:

Table 1–4 Shareholding Structure 4

Name of founders	**Number of shares subscribed** *('0000 shares)*	**Shareholding ratio**
深圳石油實業有限公司 (CNPC Shenzhen Petroleum Industrial Co., Ltd.)	4545	45.45%
中國華油集團公司 (China Huayou Group Company*)	1805	18.05%
深圳市中油投資有限公司 (Shenzhen CNPC Investment Limited*)	900	9.00%
山東泰安泰山燃氣集團公司 (Shandong Tai'an Taishan Gas Group Limited*)	900	9.00%
浙江金帝實業集團公司 (Zhejiang Jindi Enterprise Group Company*)	900	9.00%
江陰市恒昌隆公司 (Jiangyin City Hengchanglong Company Limited*)	850	8.50%
杭州西湖高爾夫有限公司 (Hangzhou Xihu International Golf Company*)	100	1.00%
Total	10000	100.0%

Huayou implemented the increase of share capital and issue of additional shares for the third time in 2006. 70 million new shares were issued to all shareholders of the company at RMB1.60 per share. The largest shareholder of the company, CNPC Shenzhen Petroleum Industrial Co., Ltd., subscribed for 19.75 million shares among the further issued new shares in accordance with the spirit of document Zhong You Zi Zi [2006]272. After the further issue, Huayou has completed the commercial changes registration for registered capital of RMB170 million and total share capital of 170 million shares in April 2007. After the further issue, the shareholders and proportion of ownership are as follows:

Table 1–5 Shareholding Structure 5

Name of founders	**Number of shares subscribed** *('0000 shares)*	**Shareholding ratio**
深圳石油實業有限公司 (CNPC Shenzhen Petroleum Industrial Co., Ltd.)	6520	38.35%
中國華油集團公司 (China Huayou Group Company*)	1805	10.62%
深圳市中油投資有限公司 (Shenzhen CNPC Investment Limited*)	900	5.29%
山東泰安泰山燃氣集團公司 (Shandong Tai'an Taishan Gas Group Limited*)	900	5.29%
浙江金帝實業集團公司 (Zhejiang Jindi Enterprise Group Company*)	5925	34.85%
江陰市恒昌隆公司 (Jiangyin City Hengchanglong Company Limited*)	850	5.00%
杭州西湖高爾夫有限公司(Hangzhou Xihu International Golf Company*)	100	0.59%
Total	17000	100.00%

From the above increase of share capital and issue of additional shares to August 2008, there were two share transfers between shareholders of the Company and the changes of registration in Administration of Industry and Commerce was completed:

Firstly, the nine million shares of Huayou held by Shenzhen CNPC Investment Limited were all transferred to CNPC Shenzhen Petroleum Industrial Co., Ltd..

Secondly, the nine million shares of Huayou held by Shandong Tai'an Taishan Gas Group Limited were all transferred to Zhejiang Jindi Enterprise Group Company.

On 14 March 2008, CNPC has performed an Approval and Review on the Share Transfer of China Natural Gas Co., Ltd. (Zhong You Zi [2008]136) and agreed to transfer the 10.62% shareholding of China Natural Gas Co., Ltd. held by China Huayou Group to Shenzhen Petroleum for free and the date of transfer was 31 December 2007 and the transfer was at nominal value.

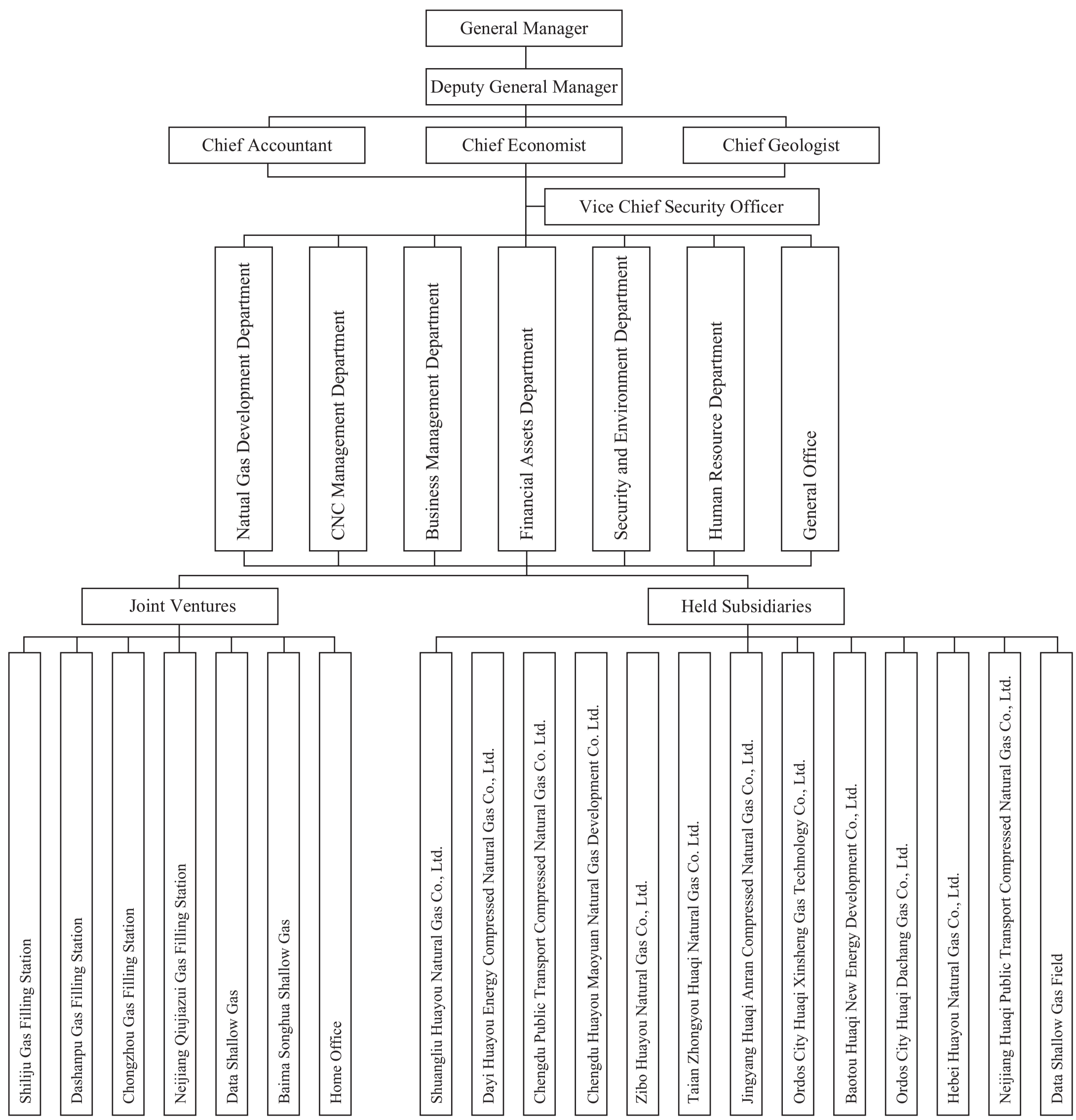
The date for end of assessment was 31 August 2008 and the registered share capital was RMB170 million with the shareholding as follows:

Table 1–6 Shareholding Structure 6

Names of shareholders	**Contribution** *(RMB'0000)*	**Shareholding ratio**
深圳石油實業有限公司 (CNPC Shenzhen Petroleum Industrial Co., Ltd.)	9,225.00	54.26%
浙江金帝實業集團公司 (Zhejiang Jindi Enterprise Group Company*)	6,825.00	40.15%
江陰市恒昌隆房地產有限公司 (Jiangyin City Hengchanglong Real Estates Co. Ltd.*)	850	5.00%
杭州西湖國際高爾夫鄉村俱樂部有限公司 (Hangzhou Xihu International Golf Club Co. Ltd.*)	100	0.59%
Total	17,000.00	100.00%

2. *Structure of organization*

The internal organization structure and the wholly-owned subsidiaries, controlling companies and shareholding companies of China Natural Gas Co., Ltd. as at the date of assessment were as follows:



3. Operations of the company

The 2005 accounting statements of Huayou were audited by 重慶天健會計師事務所; the 2006 accounting statements were audited by 廈門天健華天有限責任會計師事務所 ; and the 2007 accounting statements were audited by 天健華證中洲(北京)會計師會計師事務所有限公司廈門分公司.

As at 31 August 2008, according to the audited statements of the parent company, total assets amounted to RMB515,127,500, liabilities amounted to RMB224,779,000, net assets amounted to RMB290,348,500; from January to August 2008, income from principal operations amounted to RMB80,840,600, total profits amounted to RMB31,032,700 and net profits amounted to RMB30,642,100.

Fig 1-7 Assets and financial positions in the statements of the parent company

Unit: RMB'0000

Items	As at 31 December 2005	2006	2007	31 August 2008
Total assets	25,586.60	34,330.11	48,506.61	51,512.76
Net assets	12,878.79	24,118.04	25,970.65	29,034.85

Items	Year ended 31 December 2005	2006	2007	January to August 2008
Income from principal operations	2,773.56	5,206.65	9,088.17	8,084.06
Total Profits	997.42	1,453.49	3,073.29	3,103.27
Net Profits	954.26	1,175.85	2,702.60	3,064.21

The Tian Jian Guang Hua Suo Shen (2008) Jun Zi 020399 audit report was issued by 天健光華(北京)會計師事務所有限公司廈門分公司 for the accounting statement as at 31 August 2008.

Special note: Data from the above tables is all audited data from the statement.

4. Scope of principal operations of the company and key results

The current scope of operations of the company is primarily the extraction of natural gas and sales of compressed natural gas. The results of the principal operations for the last three years were as follows:

In 2005, sales of natural gas amounted to 14.44 million cubic metre, sales of compressed natural gas amounted to 13.67 million cubic metre, sales income amounted to RMB27,735,600 or an increase of 34%; total profits amounted to RMB9,970,000 or an increase of 49% and net profits amounted to RMB9,540,000 or an increase of 56%.

In 2006, sales of natural gas amounted to 31.37 million cubic metre, sales of compressed natural gas amounted to 16.77 million cubic metre, sales income amounted to RMB52,066,500 or an increase of 88%; total profits amounted to RMB14,534,900 or an increase of 46% and net profits amounted to RMB11,758,500 or an increase of 23%.

In 2007, sales of natural gas amounted to 73.55 million cubic metre, sales of compressed natural gas amounted to 16.19 million cubic metre, sales income amounted to RMB90,881,700 or an increase of 75%; total profits amounted to RMB30,730,000 or an increase of 114% and net profits amounted to RMB27,020,000 or an increase of 130%.

From January to August 2008, sales of natural gas amounted to 44.13 million cubic metre, sales of compressed natural gas amounted to 9.77 million cubic metre, sales income amounted to RMB80,840,600; total profits amounted to RMB31,032,600 million and net profits amounted to RMB30,642,100.

China Natural Gas Co., Ltd. is the first cross-sector and cross-district joint stock limited company principally engaged in the compressed natural gas automobile industry in the PRC.

China Natural Gas Co., Ltd. is a high technology enterprise in Sichuan Province (No: 0351001B0487) and the Company has first constructed CNG gas stations and achieved scale and industrialization. 42 CNG gas stations have been constructed in the PRC, which contributed for a leading position among the enterprises that construct CNG gas stations in Sichuan.

The company and its subsidiaries currently have 82 shallow gas wells with accumulated natural gas production of 378.72 million cubic metre.

The company has created five new technologies and has one technology achievement in technology research and development, which was adopted by state, industrial or regional technology standards and was promoted and applied nationwide:

– Integrated technology for the construction of stations for natural gas and gasoline refueling and automobile alteration was created;

– The first generation molecular sieve high pressure dehydration technology in the PRC was researched and developed for CNG stations;

– The CNG gas station twin tower desulfurization technology was created;

– The natural gas power machine technology used by CNG gas stations was created;

– Tests for technology in replacing gas cylinder storage with underground gas wells were successfully performed.

Outstanding results in the scientific research in natural gas automobile: participated in the Research in Utilization of Natural Gas in Sichuan by the provincial construction consultancy company and was presented a first class award in research in Sichuan Province. Participated in the Research in Development of Sichuan Natural Gas Automobile Industry by the natural gas automobile office in Sichuan Province and was presented a second class award in research in Sichuan Province and a first class award of the provincial automobile industry association. Participated in the preparation of the five technology standards for the state and for the oil industry.

The company enjoys high reputation and popularity in the industry both in the country and overseas: the company is a Member of Sichuan Province Natural Gas Vehicle Office Expert Team, Executive Officer of Electronic Vehicle and Alternative Fuel Vehicle Branch of Society of Automotive Engineers of China, Vice President of Sichuan Province Vehicle Engineering Association, and Chairing Member of Sichuan Province Natural Gas Vehicle Professionals Committee.

2. OBJECTIVE OF THE ASSESSMENT

On 27 August 2008, PetroChina Company Limited (PetroChina) announced the acquisition of interest in CNPC (Hong Kong) Limited (CNPC Hong Kong) and will jointly study the potential opportunities for cooperation with CNPC Hong Kong in the end consumption market of natural gas such as urban gas in China and natural gas for automobile etc, combine the advantages in the resources and supply of oil and natural gas in China and utilize the flexible management and capital operations in Hong Kong as a platform, so as to jointly develop the fast-growing and vast opportunities in the end market of natural gas in China.

Business representatives from CNPC, PetroChina Company Limited and CNPC (Hong Kong) Limited have reached a consensus through sufficient communications for the acquisition of equity interest in China Natural Gas Co., Ltd. by CNPC Hong Kong, so as to activate the business development of natural gas for automobile in Sichuan.

Pursuant to the memorandum of CNPC (Hong Kong) Limited, the objective of this assessment is to reflect the market value of all equity interest of the shareholders of China Natural Gas Co., Ltd. on the assessment date, so as to provide a reference of value for the acquisition of equity interest in China Natural Gas Co., Ltd. by CNPC (Hong Kong) Limited.

3. TYPE OF VALUE

Based on the objective of this assessment, the type of value of this assessment is confirmed as market value.

Market value refers to the estimated amount of the value of the normal fair transactions made by the assets on the assessment date under the circumstances that a willing buyer and a willing seller conduct reasonably without duress.

4. APPRAISAL SCOPE AND TARGET

The appraisal target is the value of all shareholders' equity interest of China Natural Gas Co., Ltd. as of the appraisal base date; the appraisal scope is all assets and liabilities on the balance sheet of China Natural Gas Co., Ltd. as of the appraisal base date, with audited carrying value of total assets of RMB515,127,518.21, liabilities of RMB224,778,997.97, net assets of RMB290,348,520.24; and in particular current assets of RMB94,189,756.33, non-current assets of RMB420,937,761.88 and current liabilities of RMB224,778,997.97.

The above scope and target of this appraisal matched with that of the assets confirmed when entrusting for appraisal.

5. APPRAISAL BASE DATE

The assets appraisal base date is 31 August 2008.

Upon consultation with the parties, and taking into consideration of making the appraisal base date as close to the completion date for the appraisal purpose as possible, and the actual possibility of completion of the appraisal, 31 August 2008 is determined the appraisal base date, so as to speed up the whole process.

6. APPRAISAL PRINCIPLE

We appraised all assets and liabilities of China Natural Gas Co., Ltd. related to the investment of CNPC (Hong Kong) Limited under the principle of independence, objectivity and science and the generally accepted professional standards of assets appraisal, and in accordance with related state regulations on assets appraisal, so as to ensure the effectiveness of the asset appraisal work and the accuracy of appraisal results. Reference principles are:

(I) Working principles of independence, objectivity and science

The independence principle: to comply strictly with state laws and regulations, not interfered by outsiders and the party entrusted the appraisal, ensure the authenticity and reliability of asset appraisal information.

The objective principle: to base everything on facts, engage serious on site inspection and research, get hold of reliable information and reference, adopt realistic pricing standards and methods, so as to achieve a reasonable, trustworthy, objective and fair appraisal result.

The science principle: to formulate a scientific operation approach, adopt scientific appraisal procedures and methods, implement appraisal in strict compliance with related state regulations on asset appraisal, and conduct evaluation and estimate of asset price in a scientific and reasonable manner.

(II) Professional principles of fair assets appraisal

The principle of continuous operation: to assess whether the assets appraised shall be used continuously in accordance with current purpose, mode of usage, scale, frequency and environment or on a changed base, and to decide the appraisal approach, parameter and criteria accordingly.

The substitution principle: to consider thoroughly the selectivity and substitutability of each asset appraised, take into consideration of functional similarity, and base the value of asset appraised on the fair market value.

The principle of open market: both the pricing basis selected for the assets appraisal and the appraisal results exist or can be established in the open market.

7. APPRAISAL CRITERIA

(I) Major legal reference

1. "Company Law of the People's Republic of China" (revised on the 18th meeting of the standing committee of the National People's Congress on 27 October 2005);

2. "Urban Real Estate Administration Law of the People's Republic of China" (revised, 2007);

3. "Land Administration Law of the People's Republic of China" (revised, 2004);

4. "Provisional Regulations on the Supervision and Administration of State Assets of Enterprises" (Decree No. 378 of the State Council, 2003);

5. "Provisional Measures on the Administration of Transfer of State-owned Property of Enterprises" (Decree No. 3 of the SASAC and the Ministry of Finance, 31 December 2003);

6. "Administration Measures on Appraisal of State-owned Assets" (Decree No. 91 of the State Council, 1991);

7. "Implementing Rules on Administrative Measures on Appraisal of State-owned Assets" (Circular No. 36 [1992] of the State-owned Assets Office);

8. "Interim Provisions on Basic Content and Format of Assets Appraisal Report" (Cai Ping Zi [1999] No. 91);

9. "Provisional Measures on the Administration of Appraisal of State-owned Property of Enterprises" (Decree No. 12 of the Stated-owned Assets Supervision and Administration Commission of the State Council, 25 August 2005);

10. "Opinions of the Ministry of Finance with regard to the Reform of Administrative Methods of State Asset Appraisal, and the Strengthening of Supervision and Administration of Asset Appraisal" (Guo Ban Fa [2001] No. 102, 2001);

11. "Notice of Related Issues in Strengthening Administration on State-owned Assets Appraisal" (Guo Zi Wei Chan Quan [2006] No. 274);

12. "Regulatory Opinions on Operations of Assets Appraisal (trial)" (promulgated by the China Asset Appraisal Association, 7 May 1996);

13. "Guidance to Entitlement of Valuation Object for Certified Assets Appraisers" (the Chinese Institute of Certified Public Accountants, 2003);

14. "Principles for Assets Appraisal – Basic Principles" (Cai Qi [2004] No. 20);

15. "Principles for Assets Appraisal – Intangible Assets" (Cai Qi [2001] No. 1051);

16. "Ethical Norms for Assets Appraisal – Basic Norms" (Cai Qi [2004] No. 20);

17. "Principles for Assets Appraisal – Appraisal Report" (Zhong Ping Xie [2007] No. 189);

18. "Principles for Assets Appraisal – Appraisal Procedure" (Zhong Ping Xie [2007] No. 189);

19. "Principles for Assets Appraisal – Business Agreement" (Zhong Ping Xie [2007] No. 189);

20. "Principles for Assets Appraisal – Work Draft" (Zhong Ping Xie [2007] No. 189);

21. "Principles for Assets Appraisal – Machine and Equipment" (Zhong Ping Xie [2007] No. 189);

22. "Principles for Assets Appraisal – Fixed Asset" (Zhong Ping Xie [2007] No. 189);

23. "Guidance on Price Model of Asset Appraisal" (Zhong Ping Xie [2007] No. 189);

24. "Guidance on Appraisal of Enterprise Valuation" (Zhong Ping Xie [2007] No. 189);

25. State standardized "Real Estate Evaluation Standard" of the People's Republic of China; and

26. "Enterprise Accounting Standard" (2006).

(II) Economic act documents

1. "The Reply with regard to the capital increase of China Natural Gas Co., Ltd. and CNPC Shennan Oil Technology Development Co., Ltd." (Zhong You Zi [2008] No. 518); and

2. Memorandum of CNPC (Hong Kong) Limited with regard to the acquisition of China Natural Gas Co., Ltd.

(III) Property right documents

1. Asset entitlement documents (mining permit, exploration permit, building ownership certificate, mobile vehicle license, state land use right certificate);

2. Contracts and evidential documents for equipment purchase and acquisition of major assets; and

3. Other property right documents.

(IV) Pricing reference

1. Notice of the State Planning Committee and the Ministry of Construction with regard to the "Administrative Measures on Fee Collection in Construction Inspection and Design" (Ji Jia Ge [2002] No. 10);

2. Supplemental Notice from the offices of the State Planning Committee and the Ministry of Construction with regard to related issues in the Administrative Measures on Fee Collection in Construction Inspection and Design (Ji Ban Jia Ge [2002] No. 1153);

3. "Pricing Handbook for Electrical Products" (2008);

4. "Design and Construction Standard for Vehicle Gas Stations" GB50016-2002 (2006);

5. "State Standard for Vehicle Compressed Natural Gas Machine GB/T 2003";

6. "State Standard for High Pressure Gas Underground Storage Well SY/T 6535-2002";

7. "Defined Pricing List for Construction Project in Sichuan Province – Construction Project" (2004):

8. "Defined Pricing List for Construction Project in Sichuan Province – Decoration Project" (2004):

9. "Defined Pricing List for Construction Project in Sichuan Province – Installation Project" (2004):

10. "Sichuan Project Pricing Information" (August 2008);

11. "Nationwide Defined Term for Construction and Installation Projects";

12. Building Aging Identification (evaluation standard for completeness);

13. "Research Report on the Updating of Base Land Price in Central Districts in Chengdu City";

14. RMB base exchange rates on 31 August 2008 announced by the State Foreign Exchange Administration;

15. "Loan Interest Rate Lists of the People's Bank of China" implemented on 21 December 2007;

16. "Defined Project Budget for Oil and Gas Drilling in Sichuan (Trial)" of CNPC Group (2003);

17. "Estimated Index for Oil Construction and Installation Projects of PetroChina Company Limited" (2005);

18. "Report on Newly Increased Reserves in Baimamiao, Xihekou and Qiuling Oil and Gas Fields", "Confirmation of Mineral Reserve" (Guo Tu Zi Ren Chu Zi No. 2001-87);

19. Related oil and gas well feasibility study reports, development of shallow gas, annual production plans and etc. provided by China Natural Gas Co., Ltd.; and

20. Other reference information.

(V) Major Reference Information

1. Business License of China Natural Gas Co., Ltd. (copy);

2. Accounting statements and audit reports of China Natural Gas Co., Ltd. for the years 2005, 2006 and 2007 and as of the appraisal base date;

3. Equipment asset purchase contracts and accounting evidence;

4. "Handbook for Common Data and Parameter in Asset Appraisal";

5. Advertising Information from Hui Cong Business Information (August 2008);

6. Vehicle Information from Hui Cong(August 2008);

7. Vehicle Pricing from Topcars (August 2008);

8. Related information in the price information data base of China United Assets Appraisal Co., Ltd.;

9. Statistical data and technical standard information promulgated by related state departments, and other related information collected by the appraiser; and

10. Other reference information.

8. VALUATION METHOD

Asset valuation methods principally include the Reinstatement Costs Method, Income Present Value Method, Market Comparison Method.

The Reinstatement Costs Method mentioned in this report is a valuation approach whereby the difference between all the costs needed to repurchase or build an asset under valuation in brand new conditions and the substantive depreciation, functional depreciation and economic depreciation is used as the appraisal value of the asset under valuation. When assessing a specific value, various Percentages in New Conditions of the assets are first ascertained for depreciation purposes, then the product of the total costs (total replacement cost) times the residue ratio will be used as the appraisal value of the asset under valuation.

The basic idea of the Income Present Value Method mentioned in the report is an approach for calculating values whereby the expected income forecast under continuity principle are divided into two periods. Firstly, a forecast is made on the expected income amounts of each year for a certain number years in the future, they are converted into present values with a suitable discounting rate respectively; secondly, assuming that the expected income amounts for each subsequent year are the same starting from one year after those years onwards, then the expected income amounts of each year are discounted into their present values and capitalized; finally the discounted present values of the income amounts of these two periods are added together.

The Market Comparison Method mentioned in this report is an approach for ascertaining appraisal values of assets under valuation whereby the same or similar assets in the market are chosen for reference assets, the assets under valuation is compared and adjusted in terms of price difference with each reference asset one by one by focusing on those factors affecting the values of the reference assets, then various adjustment results of are analyzed together.

The assets under valuation included in this valuation are the entire assets and liabilities of China Natural Gas Co., Ltd., based on the purposes of this valuation, the valuation results of assets are values obtained from cost approach and income approach under the criteria of continuous use and open market.

The asset-based valuation methods for various types of assets are as follows:

1. Current assets

The current assets included in this valuation include monetary funds, accounts receivable, prepayment, other receivables and inventory.

(1) Monetary funds: The appraisal value will be determined according to the verified carrying value.

(2) Accounts receivable, prepayment, accrued dividends, other receivables: The valuer makes a detailed analysis of the amount, time and reasons for the outstanding amounts, collection status, debtors' funds, credibility and management situation etc with the help of historical information and the situation learnt from the current research after he has verified the accuracy of the receivable items. Based on the specific situations of each company, a valuation is made to assess the risk of losses by using individual identification method.

When there is sufficient ground to believe that the full amount in the current accounts of connected parties can be recovered, the assessed risk of losses is 0%.

When there is concrete proof indicating that the amount cannot be recovered or its ageing is excessive, the assessed risk of losses is 100%.

The appraisal value is the adjusted carrying amount minus assessed risk of losses. The provision for bad debts on the carrying amount is zero.

(3) Valuation of inventory

Inventories include raw materials and consumables of low value in stock.

A valuation is made after the amounts have been verified: for materials with an active market on the valuation basis date, an appraisal is made according to "appraisal value of the materials = market price excluding tax on the valuation basis date x quantity on the basis date"; for inventory, after the actual quantity in stock on the valuation basis date has been verified, the appraisal value is obtained by multiplying the actual quantity of stocks by the actual costs or realizable price; for those stocks over purchased recently, and which have high stock turnover, and which do not have a very large difference between their carrying amounts and market values plus reasonable expenses, the verified carrying amount will be the appraisal value.

2. Long term investment

There are 20 companies under long term investment in companies, of which 13 are wholly owned subsidiaries and controlled companies, 7 are associated companies. An overall valuation of the controlled companies under normal operation has been made in order to ascertain the appraisal value from the entire value of shareholders' interests after valuation and shareholding ratio. For investment projects in non-controlled companies, since the shareholding is relatively small, or where the span of investment is not long, the appraisal value is ascertained from the net asset value in the audited financial statement on the valuation basis date of the investee company times the shareholding ratio; for those non-controlled companies without balance sheets as at the appraisal base date, the appraisal value is ascertained from the verified carrying amount of investment costs.

3. *Fixed assets – assets under building & construction category*

Based on the construction project information and completion settlement information, the current fixed standard, infrastructure expenses and costs of capital are used to calculate the total replacement price of the constructions, and the residue ratio is ascertained from the integral situation of the limit of years in use and on site prospection of the constructions, in order to calculate the net appraisal value of the constructions.

Appraisal values of buildings & constructions (structures), pipes and troughs = Total replacement price x residue ratio

(1) Total replacement price

The total replacement price is composed of three components namely construction and installation price, preliminary and other expenses, costs of capital.

(i) Ascertaining construction and installation price

The replacement accounting method is used to make ratings and computation in the appraisal of constructions. The price of construction and installation project includes the total of the prices of land construction project, decoration and repair project, drainage, electricity and gas, fire prevention and other projects. Forecast (final) adjustment method is used to compute the prices of land construction project, decoration and repair project.

The valuer uses "Standard for the pricing of work volume list of construction projects GB50500-2003", "Norm for the pricing of construction and decoration project of Sichuan province (2004)", "Norm for the pricing of installation project of Sichuan province (2004)", "Norm for the pricing of construction project of Sichuan", "Bulletin on the pricing of projects in Sichuan", "Standard for the pricing of work volume list of construction projects GB50500-2008".

(ii) Ascertaining preliminary and other expenses

Preliminary and other expenses include two elements, namely the construction costs required by the local government and the other expenses paid by the construction company other than the construction price on the construction projects.

Rate standard for preliminary and other expenses are as per the following table:

Table 1-8 preliminary and other expenses of project work in Chengdu city

Serial no	Expense item	Calculation basis	Rate	Remarks
1	Management fees of the construction company	Construction & installation price	1.0%	Ministry of Finance, Ministry of Construction [2002]No. 394
2	Prospecting & design expenses	Construction & installation price	2.5%	Prices by the State Price Bureau, Ministry of Construction (2002)No.10
3	Project supervision expenses	Construction & installation price	1.04-3.30%	Prices by NDRC[2007] No.670
4	Agency fee of tender	Construction & installation price	0.04-0.20%	According to the Prices by State Development Planning Commission [2002]No.1980
5	Environmental audit fee	Construction & installation price	0.70%	Prices by State Development Planning Commission & Environmental Protection Bureau (2002)No. 125
6	Expenses of local administration & non-profit making institutions			
	Termite treatment costs for newly constructed buildings	RMB/m^2	33.00	Letter from Chengdu Government [2004]No. 87
	Fixed testing fees of projects			
	Quality monitoring of construction projects			
	Costs of exploration and unearthing antiques			
	Plantation for greenery costs	RMB/m^2	3.00	Letter from Szechuan Government (1999)No.31
	Construction costs of urban shelters in other provinces	RMB/m^2	10.00	State Pricing Bureau, Ministry of Construction 2002 JiaNo.10
	Special Fund for New Construction Materials	RMB/m^2	8.00	Letter from Chengdu Government[2004]No. 87
	Special Fund for Bulk Cement	RMB/m^2	1.00	Ministry of Finance – comprehensive 2002]No. 55

(iii) Ascertaining of costs of capital

During the construction period, the costs of capital are the interest on loan for the capital invested, its interest rate used is calculated from the standard fixed by the People's Bank of China on the appraisal base date, computed on the assumption that the work periods are based on work cycles under normal construction conditions by taking into account that the investments have been made in equal proportions:

Costs of capital = (construction and installation price of project + preliminary and other expenses) x reasonable work periods x borrowing interest rate x 50%

On site prospection of the residue ratio and theoretical residue ratio are the two calculation methods used in ascertaining the residue ratio of buildings and constructions (structures) of this valuation. The residue ratio is further calculated by the weighted average of the two results at a rate of 6:4 for on site and theoretical residue ratio respectively. In particular:

Prospecting residue ratio N_1: On site prospection of the residue ratio of each construction is rated separately through on site prospection of each construction (structure), prospection of the foundation of the construction (structure), loading structural parts (beam, panel, pillar), wall, floor, house exterior part, door and windows, wall coating, suspending ceiling, water intake and drainage, ventilation, electricity and lighting etc according to "Rating Scale of Grade of Integrity or Damage of Buildings", "Basis of reference for Identifying the Degree of Ageing of Buildings" and "Scoring Scale and Revised Factor of Different Percentages in New Conditions of Buildings" released by the former Urban and Rural Environmental Construction & Protection Department by taking into account the utilization status, repair and maintenance situations of the building.

Theoretic residue ratio N_2: Calculated from the number of years of usable economic life and the number of years already in use of the buildings.

Theoretic residue ratio N_2 = (1–Number of years already in use/ Number of years of usable economic life) x 100%

The residue ratio is calculated from the weighted average of the results from the above two methods.

Residue ratio N = residue ratio N_1 x 60% + residue ratio N_2 x 40%

As for the ducts and troughs, the valuer makes a calculation with the Number of years of usable economic life and Number of years already in use of the ducts and troughs.

Residue ratio = (1–Number of years already in use/Number of years of usable economic life) x 100%

Regarding commercial buildings bought externally, the market comparison method is used. Under the market approach, the substitution principles are adopted for establishing property prices whereby a comparison is made among the property to be appraised and actual cases of similar properties transactions which took place recently, and revisions are made according to the known prices of the latter, differences among the transaction situation, dates, regional and individual factors etc so as to obtain the property price of the valuation target at a particular moment during the valuation. The formula is as follows:

Price of the property to be appraised = Price of the property in actual case for comparison x (Adjustment factor of the valuation target to be appraised / Adjustment factor of the actual case for comparison) x Property price index of the valuation target on the valuation date / Property price index of the actual case for comparison on the transaction date) x (Adjustment index of regional factors and conditions of the valuation target / Adjustment index of regional factors and conditions of the actual case for comparison) x (Adjustment index of individual factors and conditions of the valuation target / Adjustment index of individual factors and conditions of the actual case for comparison)

(2) Choice of actual case for comparison

When choosing actual cases of transactions for comparison, based on the situation of the valuation target, the following requirements must be fulfilled

A. same purposes

B. similar type of transactions

C. transactions are normal

D. regional and individual factors and conditions are similar

E. uniform price basis

For this valuation, three recent successful transactions of properties with the same purposes as the valuation target have been chosen, and an adjustment of factors is made in respect of those factors affecting property prices in order to obtain price of the valuation target.

For other buildings and constructions (structures), the replacement unit price is ascertained and net appraisal value is computed using an analog method by taking into account all valuation factors provided that an on site prospection has been made.

(IV) Fixed assets–equipment assets

According to the purpose of the valuation, in the principle of ongoing utilization, based on the market price as well as taking into consideration of the characteristics of the equipment entrusted to value and the data collected, the replacement cost method was mainly adopted for the valuation.

Appraised value = full price of replacement x residue ratio

1. Determination of the full price of replacement

The full price of replacement for the equipment is determined based on its purchase price with consideration of various fees incurred before it reaches the normal state of use, including purchase price, transportation and miscellaneous costs, installation and commissioning costs, other costs of engineering construction and cost of capital, etc.

Full price of replacement = purchase price of the equipment + transportation and miscellaneous costs + installation and commissioning costs+ other costs + cost of capital

Purchase price of the equipment

The purchase prices of the standard and prototype equipment are determined mainly through making an enquiry to the manufacturers and equipment procurement department of Huayou, or referring to Mechanical and Electrical Products Quotation Manual 2008, searching the contracts and invoices in respect of the equipment recently purchased by the Company and recent quotation for similar equipment. The purchase prices of a few equipment, which we could not find out, are imputed based on the price change ratio for the equipment of the same age and same type.

For the non-standard and self-made equipment, Non-standard Equipment Survey Form shall be filled out by type, and are used to record the weight of main materials, the weight of special materials as well as the quantity, specification and types of major parts purchased externally respectively, upon which the pre-tax prices of main and auxiliary materials and parts externally purchased are calculated. On top of that, the full price of replacement is calculated through taking into consideration of various charges, such as manufacturing costs of main body parts, installation and commissioning costs, design costs, profit and taxes.

Transportation and miscellaneous costs

Transportation and miscellaneous costs are calculated based on the purchase price and different transportation and miscellaneous cost ratios, which depend on the distance between the location of manufacturers and that of the equipment.

Installation and commissioning costs

According to the characteristics, weight and the difficulty of installation of the equipment, installation and commissioning costs are calculated based on their purchase price and different installation cost ratios. No installation and commissioning costs will be considered for small-sized equipment, which do not need installation and commissioning.

Other costs of engineering construction

The main charge items of the early engineering stage and other costs include construction unit management fee, construction supervision fee, survey and design fee, engineering tender agency fee, and joint trial operation fee, the specific standards for each of which are as follows:

Table 1-9 Other costs of Engineering Construction

Serial Number	Name of fee	rate(%)	calculation formula	Charging basis
1	Construction unit management fee	0.8	Construction and installation cost x rate	Cai Jian(2000) No.394
2	Survey and design fee	2.5	Construction and installation cost x rate	Ji Jia Ge[2002] No.10
3	Construction supervision fee	2.5	Construction and installation cost x rate	Fa Gai Jia Ge(2007)NO.670
4	Tender agency fee	0.7	Construction and installation cost x rate	Ji Jia Ge(2002) No.1980
5	Joint trial operation fee	1.5	Construction and installation cost x rate	Jian Biao [1996] No. 628 document Composition and Compilation Method of Other costs of Engineering Construction
	total	8		

Cost of capital

The cost of capital is calculated based on the purchase price of the equipment, transportation and miscellaneous costs, installation and commissioning costs and other costs of engineering construction, the reasonable construction period for the capital invested and the rate of loan implemented on the appraisal base date. No such cost will be considered for the equipment which can be used immediately without installation or have a relatively short period of construction.

Electronic equipment: Their replacement value is determined mainly through searching the current relevant quotation information;

The replacement value of the motor vehicles is determined based on the prevailing pre-tax market price for the same type motor vehicles on the valuation date with consideration of the corresponding costs, such as purchase additional tax, license fee and handling charges.

2. *Determination of the residue ratio*

(1) The residue ratio for machines and equipment

The residue ratio, N, is determined based on the weighted average of the theoretical residue ratio, N_1 and actual residue ratio N_2, i.e.:

Residue N = theoretical residue ratio N_1 x 0.4 + Actual residue ratio N_2 x 0.6

Theoretical residue ratio N_1: it is calculated based on the economic life for different types of equipment assessed according to their useful life consumed, and the remaining useful life over the economic life assessed on the basis of the field survey and the overhaul cycle of the equipment:

Theoretical residue ratio N_1 = (1–useful life actually consumed/ Economic life) x 100%

Actual residue ratio N_2: it is determined through field survey of the present status of the equipment and referral to the archive information in relation to operation, repair and management as well as the survey of each of the component of the equipment.

(2) Residue ratio for the motor vehicles

Pursuant to the Notice on the Amendments to Obsolescence Standards on Motor Vehicle, the lower of the residue ratio calculated using straight line method and that using mileage method shall be selected as the theoreticalal residue ratio for different types of motor vehicles, to the extent of which the will adjust the theoretical residue ratio based on the field assessment of the motor vehicles. The adjusted theoretical residue ratio shall be its comprehensive residue ratio.

Where:

a) The calculation formula for the residue ratio determined using the straight line method is:

Residue ratio determined using the straight line method = (designated useful life -useful life consumed)/designated useful life x 100%

b) The calculation formula for the residue ratio determined using the mileage method is:

Residue ratio determined using the mileage method = (designated mileage traveled -mileage already traveled)/ designated mileage traveled x 100%

c) Determination of coefficient of adjustment through field assessment. Appraisers, together with the relevant experts, conduced a field assessment of the motor vehicles, obtained from drivers, repairers and management the information regarding the operation of the vehicles, intensity of use, frequency of use and daily repair and maintenance as well as overhauls, assuming the motor vehicles will continued to be used as they are now and whether there are early or delayed obsolescence, all the aforesaid will be used to determine the coefficient of adjustment.

(3) Residue ratio for electronic equipment

Residue ratio = (1–useful life actually consumed/economic life) x 100%

Or residue ratio = [remaining useful life/(useful life consumed + remaining useful life)] x 100%

Note: No residue ratio will be calculated for electronic equipment valued based on the secondary market price.

3. *Determination of the appraised value*

Appraised value=full price of replacement x residue ratio

(V) Fixed assets – construction in progress – civil works

After investigation and verification, the civil works are uncompleted gas wells. Subject to the confirmation on the reasonable project budget, the valuer verified the truthfulness of the contracts and agreements on the basis of the investigation and verification of the image progress of the projects. The adjusted carrying value refers to the drilling expenses, of which the carrying costs mainly comprised of pre-drilling cost, drilling cost, well cementing cost, mud logging cost, logging cost, well testing cost, management fee and risk fee, as well as amortization cost for dry wells and capital cost during the reasonable construction period, generally reflecting the value as at the valuation date. Therefore, the valuation is arrived on the basis of the adjusted carrying value.

(VI) Oil and gas properties

In valuing the oil and gas properties, for this valuation purposes, the assessed net values of various oil and gas properties are determined on a ongoing concern, using replacement cost method, the calculation of which is as follows:

Assessed value = full replacement cost x composite residue ratio

1. Determination of original value after valuation

The original value after valuation is determined based on different features of various types of oil and gas properties, using different methods respectively.

A. Determination of original value after valuation of oil, gas and water wells

The original value after valuation of oil, gas and water wells should cover all cost incurred during the period from the commencement of pre-drilling work to the completion and reporting of well testing, including pre-drilling cost, drilling cost, well cementing cost, mud logging cost, logging cost, well testing cost, management fee and risk fee, as well as amortization cost for dry wells and capital cost during the reasonable construction period.

Original value after valuation = engineering cost + amortization cost for dry wells + capital cost

a. Engineering costs

Each engineering cost has been clearly defined in "Work quota for drilling engineering" and "Work quota for well testing", while the re-compilation budget method are adopted throughout the valuation to calculate the engineering cost of typical well.

b. Amortization cost for dry wells

Some dry wells below the industrial oil output standard arose during the development and production of petroleum gas in oilfield due to a number of factors including geological structures and exploring technologies etc. To consider the oilfield as a whole, the reasonable investment in these dry wells should be collected through the normal operating wells of the oilfield where they are located. In this valuation, the amortization cost for dry wells is determined after synthetically recognizing its amortization rate based on the historical data of number of wells, percentage of dry wells and their costs within the oilfield concerned.

c. Capital cost

The oilfield concerned has a reasonable construction period of half a year, and its investment intensity is accounted for with reference to equal investment with an applicable interest rate of 6.57%.

B. Determination of original value after valuation of oil and gas transportation facilities

Oil and gas transportation facilities include transportation stations, united stations, transit stations and metering stations etc.

The assets of each station can be divided into two types, namely houses and buildings, and equipment. Each station is built for a specific useful life and mostly simple in design, as each oilfield has different reserves and wide spread of useful life. Therefore, in this valuation, the original values of the facilities in the whole station are calculated in total by separately assessing the individual houses and buildings, structures and other ancillaries as well as machines and equipment which have the same valuation method as other types of assets.

China Natural Gas Co., Ltd. does not operate its own transportation stations, united stations, transit stations and metering stations, but share the transportation stations with Shu'nan Gas Production Division under Southwest Oil and Gas Field Branch. It does not have its own houses and buildings and only possesses the pipeline metering facilities which are assessed together with pipelines and ditches.

C. Gas transportation refers to the pipelines connecting the oil and gas wells in the oilfield to the transportation stations; power lines are lines transmitting electrical power to each well via the power box of the transformation stations; other oil and gas facilities refers to machines and equipments used in the gas recovery area of the oilfield, excluding the transportation facilities.

2. *Determination of residue ratio*

A. Determination of residue ratio of oil, gas and water well

The oil, gas and water wells have a long durable life, and generally have longer useful life unless otherwise in contingency such as impairment losses of sleeves and oil pipelines damaged by diastrophism and earthquake etc. Having made investigation and site inspection, the Wenchuan earthquake on 12 May 2008 did not leave impairment losses on the wells of the oilfield.

The function of the oil and gas wells is to produce oil and gas. The well life ceased and the residue ratio will be zero when the oil and gas resources in the stratum where the wells are located become depleted and exhausted or the values brought by the possible exploration are lower than the exploration cost. Generally, there exists a degressive trend in the production of wells, i.e., over the whole life of the wells, there is high degressive rate in the short initial period with high production output and lower in the long remaining life with low production output, roughly matching the exponential decline rule. According to the above theory, reserve/production ratio is measured by synthetically considering the consolidated degressive rate and economic recoverable reserves, and the expected production volume of each area is determined based on reserve/production ratio and economic recoverable reserves of each block, then the remaining economic recoverable reserves of single well can be concluded from the accumulated per unit area yield. At last, the residue ratio is arrived based on the correlation between the remaining economic recoverable reserves of single well and accumulated production output of single well. This valuation adopts the following formula to calculate the residue ratio of oil and gas wells:

Residue rate = remaining economic recoverable reserves of single well/(accumulated production output of single well + remaining economic recoverable reserves of single well)

The accumulated production output means the accumulated production output from the first operation of a single well to the valuation date, the data of which can be reasonably obtained from the statistics of the entities' daily, monthly and annual report of the production.

The remaining economic recoverable reserves of single well = remaining economic recoverable reserves of the block where the well are located x allocated ratio of remaining economic recoverable reserves of single well. These data are redetermined by geological professionals having referring to the historical information.

B. Determination of residue ratio of oil and gas transportation facilities

Taking into account the features of oil and gas transportation facilities, in combined with the renovation, upgrading, expanding and maintenance conditions of each system of oil and gas transportation as well as the geological reserves, quality and production capability of each block, the composite residue ratio of oil and gas transportation is determined according to the site inspection and technological examination after comprehensive analysis and synthetic consideration.

The factors affecting the composite residue ratio of the oil and gas transportation facilities mainly include technical condition, useful life and the oil and gas reserves of the block where they are deployed (i.e. life of the block), while the actual useful life is subject to the actual use of the specific ancillary facilities. The maximum useful life in respect of assets unable to be demolished and relocated should not exceed the useful life of the block where they are deployed.

C. The determination of the composite residue ratio of gas pipelines, power lines and other oil and gas equipment is basically the same as the assets of equipment category, having resemblant features with that of oil and gas transportation facilities, which is related to the useful life of the block where they are deployed.

(VII) Fixed assets – land use right

The generally accepted valuation methods of land premium under "The Rules of Town Land Valuation" are market comparison basis, the capitalization of income approach, residual approach, cost approach and the adjustment approach of benchmark land value index etc. The proper selection of valuation method should be conducted on the basis of the local market development, pursuant to the rules of land valuation and combined with the characteristics specific to the valuation object and valuation purpose.

After due and careful analysis of the information obtained and site inspection, the valuer adopts two approaches of the adjustment approach of benchmark land value index and cost approach in determining the final land premium conclusion, taking into consideration of the characteristics of the land concerned, the valuation purpose and the land market development.

*(VIII) **Liability***

Examination and verification are conducted to the actual debtor and amount of each debt after achieving the valuation purpose. The assessed value is determined over the debt items and amount actually undertaken by the appraised unit after achieving the valuation purpose.

The capitalization of income approach is as follows:

I. SUMMARY

According to relevant regulations of national administrative authorities and Instruction Opinion of Enterprise Valuation as well as international and domestic valuation practice for similar transactions, this valuation was conducted for estimating the equity capital value of China Natural Gas Co., Limited adopting income approaches and the Discounted Cash Flow method.

Discounted Cash Flow method evaluates asset value by discounting the future expected net cash flow of an enterprise into present value, the fundamental basis of which is to appraise the value of an asset by estimating its expected net cash flow in future and then to discounting the same into present value at appropriate rates. The basic criteria of adopting Discounted Cash Flow method are that the enterprise is a going concern with relative stable coefficient between the operation and income, and the value of an asset of the future income and risk can be forecasted and quantified. The greatest difficulties for applying the Discounted Cash Flow method are forecasting the future expected cash flow, and maintaining objectivity and reliability of data collecting and processing. The valuation result will be more objective if the forecast of future expected cash flow is objective and fair and the selection of discount rate is reasonable.

II. FUNDAMENTAL APPROACH FOR VALUATION

According to the due diligence conducted for this valuation and the asset composition and characteristics of the principal businesses of the valuation subject, the fundamental approach of this valuation is estimating its equity interest assets based on the audited statements of the parent company of the valuation subject, that is, firstly, estimating the operating assets value of the valuation subject by applying the Discounted Cash Flow method in terms of income approach, then taking the equity value arising from its external long term investments and the value of other non-operating or surplus assets as at the valuation date into account in order to arrive at the enterprise value of the valuation subject, the shareholders' equity of the valuation subject is computed by further deducting the interest bearing liabilities.

III. VALUATION MODEL AND BASIC FORMULA

The model and basic formula of the valuation is $E = B - D$

Among which:

E: All shareholders' equity value of the valuation subject;

B: Enterprise value of the valuation subject;

$$B = P + I + \sum C_i$$

P: Operating asset value of the valuation subject;

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_n}{r(1+r)^n}$$

Among which:

R_i: Expected income of the valuation subject for the i th year in future (free cash flow);

R_n: Expected income of the valuation subject for a permanent period (free cash flow);

r: Discount rate

n: Operating period for the valuation subject in future

I: Long-term equity investment value

ΣC_i: Non-operating or surplus asset value of the valuation subject at the valuation date

IV. DETERMINATION OF FORECAST PERIOD

The forecast period for this valuation was determined at an unlimited duration.

V. DETERMINATION OF NET CASH FLOW

Free cash flow of enterprise is taken as the income indicator for investment asset of the valuation subject, the basic definition of which is as follows:

R = net profit + depreciation and amortization +interest on active debts after tax – additional capital

The expected future free cash flow was estimated in accordance with the operation history and development of market in future. Applying discounted settlement for the free cash flow within future operation period and summation to calculate the operating asset value of enterprise.

VI. DETERMINATION OF DISCOUNT RATE

In this valuation, the Weighted Average Cost of Capital (WACC) model was adopted to determine the discount rate(r):

$$r = r_d \ x \ w_d + r_e \ x \ w_e$$

Among which:

W_d: Long-term debt ratio of the valuation subject;

$$w_d = \frac{D}{(E + D)}$$

W_e: Equity capital ratio of the valuation subject;

$$w_e = \frac{E}{(E + D)}$$

r_e: Cost of equity capital. Applying Capital Asset Pricing Model (CAPM) to determine the cost of equity capital r_e;

$$r_e = r_f + \beta_e \ x \ (r_m - r_f) + \epsilon$$

Among which:

r_f: Risk-free return rate;

r_m: Market expected rate of return;

ϵ: Characteristic risk-adjusted factor of the valuation subject;

β_e: Expected market risk factor of equity capital of the valuation subject;

$$\beta_e = \beta_t \ x \ (1 + (1 - t) \ x \ \frac{D}{E})$$

β_t: Expected average market risk factor without financial leverage of comparable company

$$\beta_t = 34\%K + 66\%\beta_x$$

Among which:

K: Average risk value for a certain period in stock market, normally assuming K=1;

β_x: Historical average market risk factor without financial leverage of comparable company

IX VALUATION PROCESS

The entire valuation was conducted in four stages:

(i) Preparation

1. In mid-September 2008, we reached unanimity through negotiation with the appraised unit in respect of the purpose for this valuation, valuation date and scope etc., and prepared for an asset valuation working plan.

2. We cooperated with the evaluated unit in asset assessment and filling in asset valuation declaration list. Staff from the valuation project team entered the sites to have a general understanding of assets entrusted for appraisal, assisted enterprise in reporting for assets entrusted for appraisal and collecting documents and information required for assets valuation.

(ii) On-site Valuation

The time for the project team implementing on-site valuation was from 18 September 2008 to 28 September 2008, and its major works were as follows:

1. Listened to introduction on enterprise's overall condition and history as well as current situation of assets entrusted for appraisal made by the relevant staff from the entrusting party and appraised unit, getting to know the financial system, operating situation and technical status of fixed assets of enterprise;

2. Reviewed and distinguished the asset checkup and valuation declaration list provided by the enterprise, checking against relevant financial data recorded by the enterprise, and cooperating with the enterprise to make adjustments for any discovered problems;

3. According to the asset checkup and valuation declaration list, based on the requirements for No.91 Document and valuation standards, conducted overall checkup and verification for fixed assets, inspected intangible assets item by item and spot-checked tangible assets of inventory type in current assets;

4. Looked up and collected documentary evidence of title rights;

5. Determined specific valuation methods for each type of asset in accordance with actual conditions and characteristics of assets entrusted for appraisal;

6. Looked up technical information and acceptance materials with regard to major equipment; as for general equipment, collected the price information mainly by means of market investigation and inquiring relevant information;

7. Made primary valuation estimation for assets and liabilities within valuation scope on basis of checkup and verification.

(iii) Compilation of Valuations

We analyzed and summarized the primary results after valuing each type of asset and reviewing liabilities from 4 October 2008 to 10 October 2008, and made necessary adjustments and revisions for the results. We modified and proofread the report repeatedly according to the internal triple-examination system and procedures for asset valuation report for the valuation institution.

(iv) Submission of report

We drafted the assets valuation report based on the works aforementioned, and exchanged views of valuation results with the entrusting party, consequently issued a formal asset valuation report.

X. VALUATION CONCLUSION

We performed statutory and necessary procedures on asset valuation based on the relevant laws, rules and regulations on asset valuation, with independent, fair, scientific and objective principles. We separately adopted asset-based approach and income present value method to access the corporate value of China Natural Gas Co. Ltd to reach the appraisal conclusion on the net asset value of China Natural Gas Co. Ltd as at the valuation date, being 31 August 2008.

(1) Valuation conclusion on asset-based approach

The valuation conclusion as at valuation date, being 31 August 2008 concluded by evaluating the total assets and liabilities of China Natural Gas Co. Ltd using asset-based approach, is as follows:

The carrying amount of assets was RMB 515.1275 million, the carrying amount after adjustment was RMB 515.1275 million, the appraised value was RMB 604.594 million, the surplus value was RMB 89.4665 million, the appreciation rate was 17.37%.

The carrying amount of liabilities was RMB 224.779 million, the carrying amount after adjustment was RMB 224.779 million, the valuation value was RMB 224.6412 million, decreased valuation amount RMB 137,800, impaired rate was 0.06%.

The net carrying amount of assets was RMB 290.3485 million, the carrying amount after adjustment was RMB 290.3485 million, the valuation value was RMB 379.9528 million, increased valuation amount was RMB 89.6043 million, the appreciation rate was 30.86%.

Table7–1 Summary table on results of assets valuation

Evaluated unit: China Natural Gas Co. Ltd Valuation date: 31 August 2008 Unit: RMB10,000

Items	Carrying amount	Carrying amount after adjustment	Appraised value	Increase/ decrease in value	Appreciation rate%
Current assets	9,418.98	9,418.98	9,418.98	–	–
Long-term investment	17,114.95	17,114.95	22,083.75	4,968.80	29.03
Fixed assets	6,214.91	6,214.91	6,732.84	517.93	8.33
Of which: Construction in progress	513.29	513.29	513.29	–	–
Buildings	4,370.94	4,370.94	4,447.92	76.98	1.76
Equipment	1,420.67	1,420.67	1,771.64	350.97	24.70
Oil and gas assets	17,603.71	17,603.71	18,561.16	957.45	5.44
Intangible assets	1,160.20	1,160.20	3,662.67	2,502.47	215.69
Of which: Land use right	1,160.20	1,160.20	3,662.67	2,502.47	215.69
Total assets	**51,512.75**	**51,512.75**	**60,459.40**	**8,946.65**	**17.37**
Current liabilities	22,477.90	22,477.90	22,464.12	–13.78	–0.06
Long-term liabilities	–	–	–	–	
Total liabilities	**22,477.90**	**22,477.90**	**22,464.12**	**–13.78**	**–0.06**
Net assets	**29,034.85**	**29,034.85**	**37,995.28**	**8,960.43**	**30.86**

(2) Valuation conclusion on income approach

The equity capital (net assets) value as at valuation date being 31 August 2008, calculated by valuing the equity capital value of China Natural Gas Co. Ltd using income approach, was RMB 378.2491 million. The surplus value was RMB 87.9006 million, with appreciation rate of 30.27%.

(3) the differential analysis between asset-based approach and income approach and final election

The shareholders' equity interest calculated by using income approach was RMB 378.2491 million, RMB 1.7037 million lower than that of RMB 379.9528 million calculated using asset-based approach.

First of all, this valuation result is the investment reference for CNPC (Hong Kong) Limited investing on China Natural Gas Co. Ltd. The estimated future revenue could only be predicted under the certain assumption conditions, therefore it is with uncertainty. We hence chose the valuation results from asset-based approach as the reference basis for CNPC (Hong Kong) Limited investing into total equity interest of China Natural Gas Co. Ltd.

XI. EXPLANATION ON SPECIAL ITEMS

(1) This valuation result determined the existing market value based on the objective of this valuation purpose, with reference to continuing use and open market, without taking into account of charge and guarantee that are possibly assumed in the future, the impact on the valuation value brought by increasing price resulted from special transaction forms, and the changes on China's marco-economic policy and other impact on the asset price caused by acts of god and other force majeure.

(2) The appraised unit assumes the responsibility for the accuracy and completeness of this valuation scope, and the data, statements and relative information provided by the appraised unit.

(3) The relevant title documents and relevant information involved in the valuation report were provided by the evaluated unit, for which the appraised unit assumed legal responsibilities for the accuracy and legality.

(4) Significant events that may affect the evaluation results:

1. This valuation result is based on the assumption that Southwest branch of PetroChina Company Limited obtained valid mining license for the gas field in Data, Lichang Town, Yibin County, Sichuan Province, and has entered into valid long-term cooperative mining agreement with China Natural Gas Co. Ltd for exploration of the natural gas within the designated scope. If this assumption could not materialize in future operation period for any reason, it would have significant impact on the valuation result.

2. The valuation result was based on the controlled gas reserve of 8 billion cubic meters in the sand-gas reserve shadow in the gas field in Data, Lichang Town, Yibin County, Sichuan Province, with remaining recoverable reserve of 3.8 billion cubic meters, which had been approved by State Reserve Committee.

   If the remaining recoverable reserve in this block was not approved by State Reserve Committee or was different from the results approved by State Reserve Committee, it would have significant impact on the valuation result.

3. The valuation result was based on the assumption that the mining activities in Baima gas field in Qionglai City, Xinjin County and Pujiang County were granted by long-term and effective Entrustment Letter on Construction Work provided by Southwest branch of PetroChina Company Limited; and exploring natural gas in the approved operation area. If the assumption could not be materialized subsequently for any reason, it would have significant impact on the valuation result.

(5) The revenues and the relevant costs used in this valuation were the professional judgments made by this valuation institution after the due diligence, which had based on the historical data provided by the evaluated unit. The reasonableness of the judgments made by the valuation institution will, to a certain extent, affect our valuation conclusion.

(6) The valuers have not made the technical testing for all kinds of equipment in respect of their technology parameters and performance as at the valuation date in this valuation conclusion, and only judged for them through site visit on the assumption that the related technical information and the track records provided by the appraised unit were true and valid.

(7) the Valuers have not made the technical testing for the underground construction work and the interior structure (which can't be observed directly by eyes) of the buildings in this valuation conclusion, and only judged for them through site visit without the use of any testing equipment on the assumption that the related work information provided by appraised unit were true and valid.

(8) The shareholding structure of Shuangliu Huayou Natrual Gas Co., Ltd. at its inception of establishment is owned as to 80% and 20% by China Natural Gas Co., Ltd. and Chengdu Liuling Chemical Factory respectively. Pursuant to the shareholder's resolution dated January 2001, it was confirmed that the shareholding percentage of Shuangliu Huayou Natrual Gas Co., Ltd. was adjusted to 71.3% for China Natural Gas Co., Ltd. and 28.7% for Chengdu Liuling Chemical Factory, but procedures for this change in shareholding was not yet conducted with the related industrial and commercial administrative authority. This valuation was based on the fact that 71.3% of the shareholding held by China Natural Gas Co., Ltd., and it may have an impact on China Natural Gas Co., Ltd.'s shareholding value in Shuangliu Huayou Natrual Gas Co., Ltd..

(9) This valuation involves twenty long-term investment units, and the entrusted entities include wholly-owned subsidiaries, non wholly-owned subsidiaries and associated companies. In determining the appraised value of the long-term equity investment by each appraised unit, our valuers only considered the normal facts which would effect on our valuation conclusion, which has not taken into account the discounts arising from the premium of the controlling shareholding and minority interest.

(10) As at the valuation date, parts of the buildings owned by the appraised unit have not yet applied for building title certificates and our valuation conclusion has taken into account the deduction of the necessary expenses for the application of the title certificates.

(11) For other special matters, please refer to the valuation explanation statement of each subsidiary.

XII. SIGNIFICANT EVENTS SUBSEQUENT TO THE VALUATION DATE OF THE REPORT

(1) Based on the results of the due diligence conducted by our valuers, we have not found any matters affecting our valuation conclusion subsequent to the valuation date until the date of issue of our valuation report.

(2) If the quantity of assets and its basis of consideration have changed after the valuation date and within the valid period, it should be treated on the basis of the following principles:

1. It shall adjust correspondingly on the amounts of assets based the origin valuation methods when the quantity of assets were changed.

2. The entrusting party shall engage promptly a qualified valuation institution to reconfirm the appraised value when the appraisal basis of the assets have changed, with result that they have affected obviously on the appraised value of the assets.

3. The entrusting party shall fully take into account the changes for the quantity of the assets and the basis of price when the entrusting party was considering the actual consideration of the assets, and for which corresponding adjustments shall be made.

(3) Users of the report should note particularly that the relevant state authority has lowered the benchmark loan interest rate in three times on 16 September, 8 October, and 30 October 2008 respectively, and the reductions may have an impact on the value of the assets which require the funding.

XIII. LEGAL EFFECT OF THE VALUATION REPORT

1. The conditions precedent required in the preparation of the valuation report was that the relevant authority approves the acquisition of shares of China Natural Gas Co., Ltd. by CNPC (Hong Kong) Limited under the stipulated procedures.

2. The assumptions adopted in the preparation of the valuation report: the assets within the range of the entrusted appraisal were of ongoing concern; and our valuation work, to a great extent, relied on the related information provided by the appraised unit. Accordingly, our valuation work was on the basis that the relevant economic behavior documents, the relevant asset ownership documents, permits and the accounting documents were true and lawful.

3. It is the responsibility of the valuers and the valuation institution to make professional judgment on the target assets stated in this report, and no judgment of any corresponding economic behavior will be given by the valuers and the valuation institution for the purpose of the valuation.

4. Pursuant to the current relevant regulations, our valuation conclusion in this report is effective and valid within one year commencing from the valuation date, that is, the effective period of the valuation conclusion is from 31 August 2008 to 30 August 2009. If the purpose of this valuation is realized within one year after the valuation date, the valuation conclusion may be made for reference in determining the consideration of the realized corresponding economic behavior for the purpose of the valuation. If the period exceeded one year, the valuation conclusion would cease to be valid, and the assets shall be revalued to serve the original purpose.

5. This valuation conclusion shall only be used by the entrusting party and shall be submitted to the competent property valuation authority for review and examination, the whole and part of the content of the valuation report shall not be distributed and disclosed to any other unit or individual, nor be published in public medium without the consent of the entrusting party.

XIV. DATE OF THE VALUATION REPORT

The valuation report is issued on 30 October 2008.

(no text on this page)

China United Assets Appraisal Co., Ltd.

Legal Representative: Shen Qi

Registered

Certified Asset Valuer: Ju Jianan

Certified Asset Valuer: Mo Shaoxia

30 October 2008

(A) FINANCIAL INFORMATION

SUMMARY OF FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 DECEMBER 2007

Set out below is a summary of the audited consolidated financial information of the Group for each of the three years ended 31 December 2007 (extracted from the 2006 and 2007 annual reports of the Company):

Consolidated Income Statement
For the year ended 31 December

	2007	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	
Turnover	3,842,723	3,893,732	3,378,323
Cost of sales	(2,318,940)	(2,100,661)	(1,780,745)
Gross profit	1,523,783	1,793,071	1,597,578
Investment income	122,113	77,611	–
Other gains and income	203,082	270,905	89,667
Discount on acquisition of a subsidiary	–	–	1,705,847
Impairment losses on loans to and amounts due from jointly controlled entities	(32,642)	(99,160)	–
Impairment loss and write-off of exploration and evaluation assets	(174,372)	–	(59,000)
Exploration costs	(316,136)	(4,175)	(3,155)
Administrative expenses	(155,521)	(33,778)	(32,705)
Finance costs	(76,983)	(101,204)	(33,627)
Share of results of jointly controlled entities	185,817	84,839	193,246
Share of results of an associate	1,036,302	788,983	793,281
Profit before taxation	2,315,443	2,777,092	4,251,132
Income tax expense	(630,546)	(750,290)	(415,660)
Profit for the year	1,684,897	2,026,802	3,835,472
Attributable to:			
Shareholders of the Company	1,367,302	1,714,513	3,644,514
Minority interests	317,595	312,289	190,958
	1,684,897	2,026,802	3,835,472
Dividends paid	484,409	386,727	165,693
Earnings per share			
– Basic	HK28.23 cents	HK35.49 cents	HK76.16 cents
– Diluted	HK27.88 cents	HK35.05 cents	HK75.82 cents

Consolidated Balance Sheet
At 31 December

	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Non-current assets			
Property, plant and equipment	3,132,130	2,969,926	2,805,036
Prepaid lease payments	3,560	3,701	3,842
Interests in jointly controlled entities	787,078	674,727	648,203
Loans to jointly controlled entities	142,023	126,727	170,932
Interests in an associate	13,802,574	13,959,954	14,611,072
Available-for-sale investments	126,467	61,881	59,030
Exploration and evaluation assets	–	48,506	–
Other non-current assets	2,162	2,162	2,162
Deferred taxation assets	71,587	–	13,530
	18,067,581	17,847,584	18,313,807
Current assets			
Inventories	30,491	31,929	29,346
Trade and other receivables	376,156	249,494	772,019
Amounts due from jointly controlled entities	8,815	31,711	–
Bank deposits with original maturity more than three months	901,089	729,125	–
Bank balances and cash	3,343,291	2,127,612	1,831,521
	4,659,842	3,169,871	2,632,886
Current liabilities			
Trade and other payables	726,662	483,955	311,937
Amount due to ultimate holding company	1,322	1,229	1,185
Amounts due to minority shareholders of subsidiaries	49,058	49,718	924
Taxation payable	93,278	110,410	199,722
Bank loans	–	–	928,800
Other loans – amount due within one year	–	–	21,672
	870,320	645,312	1,464,240
Net current assets	3,789,522	2,524,559	1,168,646
Total assets less current liabilities	21,857,103	20,372,143	19,482,453

	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*
Non-current liabilities			
Other loans-amount due over one year	832,623	828,132	827,511
Deferred taxation liabilities	544,556	462,306	197,631
	1,377,179	1,290,438	1,025,142
	20,479,924	19,081,705	18,457,311
Capital and reserves			
Share capital	48,450	48,401	48,241
Reserves	15,245,879	13,767,721	12,558,831
Equity attributable to shareholders of the Company	15,294,329	13,816,122	12,607,072
Minority interests	5,185,595	5,265,583	5,850,239
Total equity	20,479,924	19,081,705	18,457,311

AUDITED FINANCIAL STATEMENTS

Set out below are the audited financial statements of the Group together with the notes thereto for each of the two years ended 31 December 2007, as extracted from the annual report of the Company for the year ended 31 December 2007:

Consolidated Income Statement
For the year ended 31 December 2007

	NOTES	**2007** *HK$'000*	**2006** *HK$'000* *(Restated)*
Turnover	*6*	3,842,723	3,893,732
Cost of sales		(2,318,940)	(2,100,661)
Gross profit		1,523,783	1,793,071
Investment income	*7*	122,113	77,611
Other gains and income	*8*	203,082	270,905
Impairment losses on loans to and amounts due from jointly controlled entities		(32,642)	(99,160)
Impairment loss and write-off of exploration and evaluation assets	*19*	(174,372)	–
Exploration costs		(316,136)	(4,175)
Administrative expenses		(155,521)	(33,778)
Finance costs	*9*	(76,983)	(101,204)
Share of results of jointly controlled entities		185,817	84,839
Share of results of an associate	*17*	1,036,302	788,983
Profit before taxation	*10*	2,315,443	2,777,092
Income tax expense	*11*	(630,546)	(750,290)
Profit for the year		1,684,897	2,026,802
Attributable to:			
Shareholders of the Company		1,367,302	1,714,513
Minority interests		317,595	312,289
		1,684,897	2,026,802
Dividends paid	*12*	484,409	386,727
Earnings per share	*13*		
– Basic		HK28.23 cents	HK35.49 cents
– Diluted		HK27.88 cents	HK35.05 cents

Consolidated Balance Sheet
At 31 December 2007

	NOTES	2007 HK$'000	2006 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	3,132,130	2,969,926
Prepaid lease payments	15	3,560	3,701
Interests in jointly controlled entities	16	787,078	674,727
Loans to jointly controlled entities	16	142,023	126,727
Interests in an associate	17	13,802,574	13,959,954
Available-for-sale investments	18	126,467	61,881
Exploration and evaluation assets	19	–	48,506
Other non-current assets		2,162	2,162
Deferred taxation assets	27	71,587	–
		18,067,581	17,847,584
Current assets			
Inventories	20	30,491	31,929
Trade and other receivables	21	376,156	249,494
Amounts due from jointly controlled entities	22	8,815	31,711
Bank deposits with original maturity more than three months	23	901,089	729,125
Bank balances and cash	23	3,343,291	2,127,612
		4,659,842	3,169,871
Current liabilities			
Trade and other payables	24	726,662	483,955
Amount due to ultimate holding company	25	1,322	1,229
Amounts due to minority shareholders of subsidiaries	25	49,058	49,718
Taxation payable		93,278	110,410
		870,320	645,312
Net current assets		3,789,522	2,524,559
Total assets less current liabilities		21,857,103	20,372,143

	NOTES	2007 HK$'000	2006 HK$'000 (Restated)
Non-current liabilities			
Other loans-amount due over one year	26	832,623	828,132
Deferred taxation liabilities	27	544,556	462,306
		1,377,179	1,290,438
		20,479,924	19,081,705
Capital and reserves			
Share capital	28	48,450	48,401
Reserves		15,245,879	13,767,721
Equity attributable to shareholders of the Company		15,294,329	13,816,122
Minority interests		5,185,595	5,265,583
Total equity		20,479,924	19,081,705

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to shareholders of the Company										
	Share capital	Share premium	Contributed surplus	Employee share-based compensation reserve	Asset revaluation reserve	Available–for-sale investments reserve	Translation reserve	Retained profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 30)		*(Note 30)*						
Balance at 1 January 2006 (Originally stated)	48,241	1,338,537	134,323	21,120	2,713,131	53,006	(2,843)	8,301,557	12,607,072	5,850,239	18,457,311
Restatement of prior year figures *(Note 2)*	–	–	–	–	–	–	–	(183,433)	(183,433)	(122,289)	(305,722)
Balance at 1 January 2006 (Restated)	48,241	1,338,537	134,323	21,120	2,713,131	53,006	(2,843)	8,118,124	12,423,639	5,727,950	18,151,589
Loss on fair value changes of available-for-sale investments	–	–	–	–	–	(2,548)	–	–	(2,548)	–	(2,548)
Exchange differences arising on translation	–	–	–	–	–	–	22,521	–	22,521	7,255	29,776
Share of reserve of associates	–	–	–	–	–	–	23,737	–	23,737	15,824	39,561
Share of reserve of jointly controlled entities	–	–	–	–	–	–	8,963	–	8,963	–	8,963
Net income recognised directly in equity	–	–	–	–	–	(2,548)	55,221	–	52,673	23,079	75,752
Profit for the year	–	–	–	–	–	–	–	1,714,513	1,714,513	312,289	2,026,802
Total recognised income and expense for the year	–	–	–	–	–	(2,548)	55,221	1,714,513	1,767,186	335,368	2,102,554
Exercise of share options	160	13,174	–	(1,310)	–	–	–	–	12,024	–	12,024
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(797,735)	(797,735)
2005 final dividend	–	–	–	–	–	–	–	(386,727)	(386,727)	–	(386,727)
	160	13,174	–	(1,310)	–	–	–	(386,727)	(374,703)	(797,735)	(1,172,438)
Balance at 31 December 2006 and 1 January 2007	48,401	1,351,711	134,323	19,810	2,713,131	50,458	52,378	9,445,910	13,816,122	5,265,583	19,081,705
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	48,380	–	–	48,380	–	48,380
Exchange differences arising on translation	–	–	–	–	–	–	223,677	–	223,677	(10,942)	212,735
Share of reserve of associates	–	–	–	–	–	–	175,067	–	175,067	116,711	291,778
Share of reserve of jointly controlled entities	–	–	–	–	–	–	26,476	–	26,476	–	26,476
Net income recognised directly in equity	–	–	–	–	–	48,380	425,220	–	473,600	105,769	579,369
Profit for the year	–	–	–	–	–	–	–	1,367,302	1,367,302	317,595	1,684,897
Total recognised income and expense for the year	–	–	–	–	–	48,380	425,220	1,367,302	1,840,902	423,364	2,264,266
Recognition of equity-settled share based payments	–	–	–	115,716	–	–	–	–	115,716	–	115,716
Exercise of share options	49	7,223	–	(1,274)	–	–	–	–	5,998	–	5,998
Dividends paid to minority interests	–	–	–	–	–	–	–	–	–	(503,352)	(503,352)
2006 final dividend	–	–	–	–	–	–	–	(484,409)	(484,409)	–	(484,409)
	49	7,223	–	114,442	–	–	–	(484,409)	(362,695)	(503,352)	(866,047)
Balance at 31 December 2007	48,450	1,358,934	134,323	134,252	2,713,131	98,838	477,598	10,328,803	15,294,329	5,185,595	20,479,924

Consolidated Cash Flow Statement
For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Cash flows from operating activities		
Profit before taxation	2,315,443	2,777,092
Adjustments for:		
Share of results of jointly controlled entities	(185,817)	(84,839)
Share of results of an associate	(1,036,302)	(788,983)
Finance costs	76,983	101,204
Release of prepaid lease payments	141	141
Impairment losses on loans to and amounts due from jointly controlled entities	32,642	99,160
Impairment loss on property, plant and equipment	314	–
Impairment loss and write-off of exploration and evaluation assets	174,372	–
Depletion, depreciation and amortisation of property, plant and equipment	663,327	565,936
Employee share option benefits expense	115,716	–
Dividend income	(10,588)	(1,868)
Exchange difference arising from dividend income	(65,135)	(59,682)
Interest income	(111,525)	(75,743)
Operating cash flow before movements in working capital	1,969,571	2,532,418
Decrease (increase) in inventories	1,438	(2,583)
(Increase) decrease in trade and other receivables	(126,662)	24,844
Increase in trade and other payables	242,707	171,922
Cash generated from operating activities	2,087,054	2,726,601
Taxation in other jurisdictions paid	(676,605)	(871,369)
Net cash generated from operating activities	1,410,449	1,855,232
Cash flows from investing activities		
Dividend received from an associate	1,548,075	2,037,611
Interest received	111,525	75,743
Dividend received from jointly controlled entities	127,876	40,408
Dividend received from available-for-sales investment	4,428	–
Proceeds from disposal of property, plant and equipment	–	29,262
Payment for exploration and evaluation assets	(125,734)	–
Increase of deposits with maturity more than three months	(171,964)	(729,125)

	2007 *HK$'000*	2006 *HK$'000* *(Restated)*
Purchase of property, plant and equipment	(647,723)	(676,226)
Purchase of available-for-sale investments	(4,405)	–
Loans to jointly controlled entities	(50,564)	(54,955)
Repayment from (advance to) amounts due from jointly controlled entities	728	(4,841)
Acquisition of a subsidiary, net of cash acquired *(note 31)*	–	(202)
Net cash generated from investing activities	792,242	717,675
Cash flow from financing activities		
Repayments of bank loans	–	(1,547,800)
Repayments of other loans	–	(75,183)
Dividends paid	(484,409)	(386,727)
Dividends paid to minority interests	(503,352)	(797,735)
Proceeds from issue of shares	5,998	12,024
Interest paid	(76,983)	(101,204)
Bank loans raised	–	619,000
Other loans raised	–	54,132
Net cash used in financing activities	(1,058,746)	(2,223,493)
Net increase in cash and cash equivalents	1,143,945	349,414
Cash and cash equivalents at 1 January	2,127,612	1,831,521
Effect of foreign exchange rate changes	71,734	(53,323)
Cash and cash equivalents at 31 December, represented by bank balances and cash	3,343,291	2,127,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

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"). Its ultimate holding 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, respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries, the associate and the jointly controlled entities 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") and the Republic of Indonesia ("Indonesia").

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 and The Shanghai Stock Exchange, whereby the Group is entitled to a fixed percentage of assets, liabilities, income and expenses 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, Lioaning 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 33 and 34.

The consolidated financial statements are presented in Hong Kong Dollars ("HK$") while the functional currency of the Company is United States Dollars ("US$"). 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. RESTATEMENT OF PRIOR YEAR FIGURES

On 14 October 2005, CNPC International (Caspian) Limited ("Caspian") became a 60% owned subsidiary of the Group (the "Acquisition"). On the date of acquisition, the assets and liabilities of Caspian including the interest in its associate, CNPC-Aktobemunaigas Joint Stock Company ("Aktobe") of which operations are located in Kazakhstan, were acquired at their fair values. Under the relevant rule of Kazakhstan, dividend paid by Aktobe is subject to 15% withholding tax and the deferred tax liability for that withholding tax on the undistributed reserve should be recognised at the date of Acquisition. As a result, cumulative effect of deferred taxation liabilities in relation to the 15% withholding tax previously not provided for has been adjusted as follows:

	1.1.2006	**Adjustments**	**1.1.2006**
	HK$'000	*HK$'000*	*HK$'000*
	(Originally stated)		*(Restated)*
Deferred taxation liabilities	197,631	305,722	503,353
Retained profits	8,301,557	(183,433)	8,118,124
Minority interests	5,850,239	(122,289)	5,727,950

	31.12.2006	Adjustments	31.12.2006
	HK$'000	*HK$'000*	*HK$'000*
	(Originally stated)		*(Restated)*
Deferred taxation liabilities	124,120	338,186	462,306
Translation reserve	54,928	(2,550)	52,378
Retained profits	9,646,271	(200,361)	9,445,910
Minority interest	5,400,858	(135,275)	5,265,583

The effects of the adjustments described above on the consolidated income statement are summarised as follows:

For the year ended 31 December 2006

	HK$'000
Increase in income tax expenses and decrease in profit for the year	28,214
Decrease in profits attributable to shareholders of the Company	16,928
Decrease in profits attributable to minority interest	11,286
	28,214

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of embedded derivatives
HK(IFRIC)-INT 10	Interim financial reporting and impairment

The Group has applied the disclosure requirements under HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation" has been removed and the relevant comparative information based on the requirements of HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business combinations[2]
HKFRS 8	Operating segments[1]

HK(IFRIC)-INT 11	HKFRS 2: Group and treasury share transactions[3]
HK(IFRIC)-INT 12	Service concession arrangements[4]
HK(IFRIC)-INT 13	Customer loyalty programmes[5]
HK(IFRIC)-INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[4]

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

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

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

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

5 Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new or revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

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 ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, 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 business 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, and equity instruments issued 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 that meet the conditions for recognition under HKFRS 3 "Business Combinations" 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.

Joint ventures

Jointly controlled assets

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled assets, the Group's share of the assets and share of any liabilities incurred jointly with other ventures are recognised in the consolidated balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis.

The income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred are recognised 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 net assets 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, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Interests in an 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 the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets 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 amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Sales of crude oil and natural gas

Revenue from 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 from investments is recognised when the shareholder's rights to receive payment have been established.

Property, plant and equipment

Oil and gas properties

Oil and gas properties are stated at cost less subsequent accumulated depletion, depreciation and amortisation and any accumulated impairment losses. 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 the expenditure incurred to date, together with projected future development expenditure and the volume of oil and gas produced in the current year. 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 includes 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 amortisation and any accumulated impairment losses.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than certain oil and gas properties and construction in progress over their estimated useful lives and after taking into account of their estimated 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 consolidated income statement in the year in which the item is derecognised.

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 as dry holes. The Group has no costs of unproven properties capitalised in oil and gas properties.

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 in profit or loss 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.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 consolidated income statement.

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 balances and cash and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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 consolidated income statement (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in the consolidated income statement 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans to and amounts due from the jointly controlled entities, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in consolidated income statement in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

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 Group's financial liabilities are generally classified into other financial liabilities.

Borrowings

Other loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest 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 in accordance with the Group's accounting policy for borrowings costs.

Other financial liabilities

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

Equity instruments

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are 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 the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

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 and payable is recognised in consolidated income statement.

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 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 other 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 investments 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 profits 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 profit or loss, 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 in the periods when the grants became unconditional and there is reasonable assurance that the grants will be received.

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 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 Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Share options granted to the employees after 7 November 2002 and vested on or after 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 equity (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 estimates during the vesting period, if any, is recognised in profit or loss with a corresponding adjustment to employee share-based compensation 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. 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 the reserve.

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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 the respective 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. 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 which are stated at functional currency of the respective group entity other than Hong Kong Dollars are translated into 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.

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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 expense immediately.

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 as income immediately.

5. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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, depreciation and amortisation calculation and in testing for impairment. Changes in proven oil and natural gas reserves will affect unit-of-production depreciation charges to the consolidated 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 profit.

Oil production sharing contract

As disclosed in note 33 and pursuant to the Xinjiang Contract, the operating licenses issued by the PRC Government for the Xinjiang Contract will expire on 30 August 2008. However, under the terms of Xinjiang Contract, the jointly operating parties are permitted to apply for another thirteen years of production period. The management of the Group expects that this contract will be permitted for the extension of another thirteen years of production period. Up to the date of this report, the success of the application to extend the contract has not yet confirmed. If the Group fails in its application for the extension, the related oil properties existed of approximately HK$111,540,000 may be impaired and this would reduce profit.

6. 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 turnover 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:

For the year ended 31 December 2007

	PRC	**South America**	**Central Asia**	**South East Asia**	**Middle East**	**Total**
	HK$'000	*HK'$000*	*HK'$000* *(Note)*	*HK'$000* *(Note)*	*HK'$000*	*HK'$000*
Turnover	2,506,092	577,300	514,746	244,585	–	3,842,723
Segment results	1,072,782	76,030	93,523	(120,876)	(307)	1,121,152
Unallocated income						227,821
Unallocated expenses						(178,666)
Finance costs						(76,983)
Share of results of						
An associate	–	–	1,036,302	–	–	1,036,302
Jointly controlled entities	25,789	–	–	–	160,028	185,817
Profit before taxation						2,315,443
Income tax expense						(630,546)
Profit for the year						1,684,897
The segment assets and liabilities at 31 December 2007 are as follows:						
Segment assets	1,912,381	283,250	524,784	518,348	–	3,238,763
Interest in an associate	–	–	13,802,574	–	–	13,802,574
Interests in jointly controlled entities	289,082	–	–	–	497,996	787,078
Loans to jointly controlled entities	44,101	–	97,922	–	–	142,023
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	3,436,247	399,101	14,617,700	629,517	498,056	22,727,423

	PRC *HK$'000*	South America *HK'$000*	Central Asia *HK'$000* *(Note)*	South East Asia *HK'$000* *(Note)*	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
Taxation payable	31,932	33,545	–	27,801	–	93,278
Deferred taxation liabilities	87,981	–	450,336	6,239	–	544,556
Other unallocated corporate liabilities						8,169
Total liabilities	371,512	97,898	1,450,676	209,486	109,758	2,247,499
Other segment information:						
Capital expenditure	488,966	22,723	50,146	211,962	–	773,797
Depletion, depreciation and amortisation	551,777	42,753	20,711	48,086	–	663,327
Impairment loss on property, plant and equipment	–	–	–	314	–	314
Impairment loss and write-off of exploration and evaluation assets	–	–	–	174,372	–	174,372

Note: Central Asia represented the operations in Kazakhstan and Azerbaijan. South East Asia represented the operations in Thailand, Indonesia and Myanmar.

For the year ended 31 December 2006

	PRC *HK$'000*	**South America** *HK'$000*	**Central Asia** *HK'$000* *(Note)*	**South East Asia** *HK'$000* *(Note)*	**Middle East** *HK'$000*	**Total** *HK'$000* *(Restated)*
Turnover	2,713,025	556,369	467,544	156,794	–	3,893,732
Segment results	1,440,795	262,259	121,011	49,603	(16)	1,873,652
Unallocated income						252,110
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						(750,290)
Profit for the year						2,026,802
The segment assets and liabilities at 31 December 2006 are as follows:						
Segment assets	2,048,917	326,848	503,205	485,934	–	3,364,904
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	26,870	–	4,702	–	139	31,711
Bank deposits with original maturity more than three months	729,125	–	–	–	–	729,125
Bank balances and cash	497,075	110,219	83,815	200,233	–	891,342
Other unallocated corporate assets						1,238,965
Total assets	3,608,603	437,067	14,633,157	686,167	413,496	21,017,455

	PRC *HK$'000*	South America *HK'$000*	Central Asia *HK'$000* *(Note)*	South East Asia *HK'$000* *(Note)*	Middle East *HK'$000*	Total *HK'$000* *(Restated)*
Segment liabilities	188,807	105,461	168,661	17,396	10	480,335
Amounts due to ultimate holding company	1,229	–	–	–	–	1,229
Amounts due to minority shareholders 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	–	338,186	–	–	462,306
Other unallocated corporate liabilities						3,620
Total liabilities	413,309	105,461	1,334,979	78,371	10	1,935,750
Other segment information:						
Capital expenditure	452,729	58,138	65,059	148,806	–	724,732
Depletion, depreciation and amortisation	466,216	45,452	21,284	32,984	–	565,936

Note: Central Asia represented the operations in Kazakhstan and Azerbaijan. South East Asia represented the operations in Thailand, Indonesia and Myanmar.

7. INVESTMENT INCOME

	2007	2006
	HK$'000	*HK$'000*
Interest on bank deposits	106,555	63,736
Interest on loan to jointly controlled entities	4,970	12,007
Total interest income	111,525	75,743
Dividends from listed equity investments	10,588	1,868
	122,113	77,611

Investment income earned on financial assets, analysed by category of asset, is as follows:

	2007	2006
	HK$'000	*HK$'000*
Available-for-sale financial assets	10,588	1,868
Loans and receivables (including bank balances and deposits)	111,525	75,743
	122,113	77,611

8. OTHER GAINS AND INCOME

	2007	2006
	HK$'000	*HK$'000*
Government grants related to reinvestment of profits generated from oil production sharing contracts *(note)*	93,526	97,261
Exchange gain	102,729	172,880
Others	6,827	764
	203,082	270,905

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.

9. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable over five years:		
– loan from immediate holding company	76,983	74,978
– loan from a fellow subsidiary	–	1,861
– bank borrowings	–	24,365
	76,983	101,204

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2007	2006
	HK$'000	*HK$'000*
Directors' emoluments (see below)	87,077	9,708
Other key management personnel	12,035	2,820
Total key management personnel	99,112	12,528
Other staff costs		
Staff's retirement benefits scheme contributions	10,744	6,256
Employee share option benefits expense	30,092	–
Other staff costs	113,356	99,958
	154,192	106,214
Total staff cost	253,304	118,742
Auditor's remuneration	3,755	4,224
Cost of inventories sold	2,318,940	2,100,661
Depletion, depreciation and amortisation of property, plant and equipment	663,327	565,936
Impairment loss on property, plant and equipment	314	–
Operating lease rental in respect of rented premises	3,825	2,771
Release of prepaid lease payments	141	141
Share of tax of		
– an associate (included in share of results of an associate)	1,171,866	1,049,593
– jointly controlled entities (included in share of results of jointly controlled entities)	2,600	1

Directors' emoluments

The remuneration of each director for the year ended 31 December 2007 is set out below:

Name of director	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefits expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr Li Hualin	2,835	945	–	29,082	32,862
Mr Zhang Bowen	–	2,340	293	23,266	25,899
Mr Wang Mingcai	–	1,800	225	11,633	13,658
Mr Cheng Cheng	–	1,800	225	11,633	13,658
Dr Lau Wah Sum	450	–	–	–	450
Mr Li Kwok Sing Aubrey	300	–	–	–	300
Dr Liu Xiao Feng	250	–	–	–	250
	3,835	6,885	743	75,614	87,077

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

Name of director	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Share option benefits expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: three) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining one (2006: two) highest paid individual during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	1,800	2,507
Retirement benefits scheme contributions	225	313
Share option benefits expense	10,010	–
	12,035	2,820

The emolument was within the following bands:

	Number of employee 2007	2006
HK$1,000,001 to HK$1,500,000	–	2
HK$12,000,001 to HK$12,500,000	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

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Current tax:		
Other jurisdictions	426,224	556,211
Withholding tax in other jurisdictions	233,249	230,876
Underprovision in prior years	–	108
	659,473	787,195
Deferred taxation *(note 27)*:		
Charge (credit) to consolidated income statement	2,165	(36,905)
Attributable to change in PRC Enterprise Income Tax rate *(note)*	(31,092)	–
	(28,927)	(36,905)
	630,546	750,290

Note: On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset realised or the liability is settled (adjust as appropriate).

No provision for Hong Kong Profits Tax has been made in the consolidated 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% (2006: 33%) for the year.

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% for 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. So, the New Law has not affected the tax rate used by the Xinjiang Contract for the year 2007 and 2008.

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

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

	2007 *HK$'000*	2006 *HK$'000* *(Restated)*
Profit before taxation	2,315,443	2,777,092
Tax of domestic income tax rate of 33% (2006: 33%)	764,096	916,440
Effect of different tax rates of subsidiaries operating in other jurisdictions	(11,049)	(7,868)
Effect on deferred tax for changes in PRC Enterprise Income Tax rate	(31,092)	–
Effect of income tax at preferential rate	(79,617)	(100,959)
Tax effect of income not taxable for tax purpose	(98,971)	(72,583)
Tax effect of expenses not deductible for tax purpose	163,273	43,504
Tax effect of share of results of associates	(341,980)	(260,364)
Tax effect of share of results of jointly controlled entities	(61,319)	(27,997)
Underprovision in prior years	–	108
Tax effect of tax losses not recognised	1,643	1,497
Withholding tax	313,795	259,090
Others	11,767	(578)
Income tax expense	630,546	750,290

The domestic tax rate used in the calculation above is the PRC tax rate which is the jurisdiction where the operations of the Group are substantially based.

12. DIVIDENDS PAID

	2007 *HK$'000*	2006 *HK$'000*
Dividend recognised as distribution during the year:		
2006 final dividend-HK10 cents (2005 final dividend: HK8 cents) per share	484,409	386,727

The final dividend of HK12 cents (2006: HK10 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 consolidated financial statements.

13. EARNINGS PER SHARE

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

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Earnings attributable to equity shareholders of the Company for the purposes of basic and diluted earnings per share	1,367,302	1,714,513

	2007	2006
	Number of shares *(in thousand)*	
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,843,570	4,831,564
Effect of dilutive potential ordinary shares in respect of share options	60,594	60,705
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,904,164	4,892,269

A reconciliation of the restatement of basic and diluted earnings per share to adjust for the effects of the prior year adjustments is as follows:

	2006 Basic earning per share	2006 Diluted earnings per share
	HK cents	*HK cents*
Reported figures before adjustments	35.84	35.39
Effects of the prior year adjustments	(0.35)	(0.34)
Restated	35.49	35.05

14. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties	Buildings	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2006	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
Currency realignment	438,184	–	–	96	1,395	439,675
Additions	263,626	–	293	–	383,804	647,723
Disposals	–	–	(49)	–	–	(49)
Reclassifications	365,884	–	–	–	(365,884)	–
At 31 December 2007	7,412,533	1,365	2,823	4,599	28,705	7,450,025
DEPLETION, DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1 January 2006	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 disposals	(46)	–	–	–	–	(46)
At 31 December 2006	3,387,620	132	2,269	2,729	–	3,392,750
Currency realignment	261,507	–	–	46	–	261,553
Provided for the year	662,362	54	201	710	–	663,327
Impairment loss recognised in the income statement	314	–	–	–	–	314
Eliminated on disposals	–	–	(49)	–	–	(49)
At 31 December 2007	4,311,803	186	2,421	3,485	–	4,317,895
CARRYING VALUES						
At 31 December 2007	3,100,730	1,179	402	1,114	28,705	3,132,130
At 31 December 2006	2,957,219	1,233	310	1,774	9,390	2,969,926

The buildings are situated in the PRC under medium term lease and long term lease amounting to HK$1,111,000 (2006: HK$1,163,000) and HK$68,000 (2006: HK$70,000), respectively.

During the year, the directors conducted a review of the Group's property plant and equipment and determined that a number of assets were impaired, due to the expiry of operating license in Bengara-II PSC Oil Field which is owned by Continental GeoPetro (Bengara-II) Limited ("CGBII"), a subsidiary of the Group, on 4 December 2007. Accordingly, impairment loss of HK$314,000 has been recongnised in respect of oil and gas properties which are used in the oil exploration and extraction on the oil field.

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:

	2007	2006
	HK$'000	*HK$'000*
Leasehold interest in land outside Hong Kong:		
Lease of over 50 years	150	153
Leases of between 10 to 50 years	3,410	3,548
	3,560	3,701

16. INTERESTS IN/LOANS TO JOINTLY CONTROLLED ENTITIES

	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	511,274	511,274
Share of post-acquisition profits and reserves	275,804	163,453
	787,078	674,727
Loans to jointly controlled entities	333,341	284,887
Less: Impairment losses recognised	(191,318)	(158,160)
	142,023	126,727

Loans to jointly controlled entities are unsecured and not repayable within one year. The amounts of HK$44,101,000 and HK$289,240,000 (2006: HK$45,246,000 and HK$239,641,000) bear interest at fixed rate 5% and London Interbank Offered Rate ("LIBOR") plus 3.75% (2006: 5% and LIBOR plus 3.75%) per annum, respectively. The effective interest rate is 8% (2006: 9%).

In 2007, the Group recognised an impairment loss of HK$32,642,000 (2006: HK$99,160,000) for loans to jointly controlled entities. The allowance 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 the relevant jointly controlled entities and the present value of the estimated future cash flows discounted at the original effective interest rate.

At 31 December 2007 and 31 December 2006, all loans to jointly controlled entities are not past due and not impaired.

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

	2007	2006
	HK$'000	*HK$'000*
Assets and liabilities		
Current assets	833,192	516,825
Non-current assets	665,768	858,962
Current liabilities	(663,214)	(417,541)
Non-current liabilities	(48,668)	(283,519)
Net assets	787,078	674,727
Results for the year		
Income	1,143,215	971,357
Expenses	(957,398)	(886,518)
	185,817	84,839

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the years and cumulatively, are as follows:

	2007	2006
	HK$'000	*HK$'000*
Unrecognised share of losses of jointly controlled entities for the year	26,110	12,552
Accumulated unrecognised share of losses of jointly controlled entities	38,662	–

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 2007 and 2006, are set out in note 43.

17. INTERESTS IN AN ASSOCIATE

	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,176,586	1,176,586
Share of post-acquisition profits and reserves	12,625,988	12,783,368
	13,802,574	13,959,954
Market value of listed shares		
– Investment in Aktobe	N/A	25,261,293

Aktobe was a joint stock company listed on the Kazakhstan Stock Exchange in 2006. In August 2007, Aktobe is delisted from the Kazakhstan Stock Exchange due to inactive trading. 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.

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

	2007	**2006**
	HK$'000	*HK$'000*
Assets and liabilities		
Total assets	66,946,762	63,807,582
Total liabilities	(12,000,210)	(8,234,517)
Net assets	54,946,552	55,573,065
The Group's share of net assets	13,802,574	13,959,954
Result for the year		
Turnover	19,865,658	16,810,377
Profit for the year	4,125,407	3,140,856
Group's share of profit of associate of the year *(note)*	1,036,302	788,983

Note: During the year ended 31 December 2007, the Group's share of profit of Aktobe included an amount of HK$984,937,000 (2006: HK$877,310,000) related to the amortisation of fair value adjustments on oil and gas properties in connection with the acquisition of interest in Aktobe.

Details of the associate, which in the directors' opinion materially affect results and/or net assets of the Group at 31 December 2007 and 2006, are set out in note 42.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2007	**2006**
	HK$'000	*HK$'000*
Listed investments:		
– Equity securities listed in Hong Kong	71,016	12,980
– Equity securities listed in Australia	55,451	48,901
	126,467	61,881

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.

Included in available-for-sale investment are the following amounts denominated in currency other than the functional currency of the entity to which they relate.

	2007	**2006**
	HK$'000	*HK$'000*
Australian dollars	55,451	48,901

19. EXPLORATION AND EVALUATION ASSETS

	2007	2006
	HK$'000	*HK$'000*
Carrying value		
At 1 January	48,506	–
Exchange realignment	132	–
Additions	125,734	–
Arising on acquisition of subsidiary	–	48,506
Write-off	(48,638)	–
Impairment loss	(125,734)	–
At 31 December	–	48,506

During the year, the directors conducted a review of the Group's exploration and evaluation assets and determined that a number of assets were impaired, due to the expiry of operating license in Bengara-II PSC Oil Field which is owned by CGBII, a subsidiary of the Company, on 4 December 2007. The renewal of the operating license is under the progress of application and subject to the approval from local government. The status of the application is uncertain as at the reporting date. Accordingly, impairment loss of HK$125,734,000 has been recongnised in respect of exploration and evaluation properties which are used in the oil exploration and extraction on the oil field. During the year, exploration and evaluation assets amounting to HK$48,638,000 (2006: nil) had been written off due the uncertainty of the potential economic oil and gas reserve in Bengara-II PSC Oil Field in accordance with the Group's policy.

20. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Crude oil in tanks	16,889	18,327
Marina club debentures and wet berths	13,602	13,602
	30,491	31,929

21. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables		
from third parties	218,595	69,028
from fellow subsidiaries	100,184	129,295
	318,779	198,323
Prepayments and other receivables	25,607	19,435
Amounts due from fellow subsidiaries	31,770	31,736
	376,156	249,494

The Group grants a credit period of 30 to 90 days to its customers. At 31 December 2007 and 31 December 2006, all trade receivables were aged within three months and are not past due and no allowance for doubtful debts for both years.

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

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and expected to be settled within one year.

22. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

The amounts are unsecured, non-interest bearing and expected to be settle within one year. No allowance for doubtful debts for both years.

23. BANK DEPOSITS, BANK BALANCES AND CASH

	2007	**2006**
	HK$'000	*HK$'000*
Bank deposits with original maturity more than three months	901,089	729,125
Cash at bank and in hand	424,764	666,426
Short-term bank deposits	2,918,527	1,461,186
	3,343,291	2,127,612

Bank deposits with original maturity more than three months carry fixed interest at market rate at 3.00% per annum (2006: 2.25% per annum). The original maturity ranged from 6 months to 1 year. Cash at bank and short-term bank deposits carry interest at prevailing market rate at 1.44% per annum (2006: 1.21% per annum).

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

	2007	**2006**
	HK$'000	*HK$'000*
Hong Kong dollars	7,371	25,594

24. TRADE AND OTHER PAYABLES

	2007	**2006**
	HK$'000	*HK$'000*
Trade payables		
to third parties	123,705	31,663
to fellow subsidiaries	43,313	59,831
	167,018	91,494
Other payables and accrued expenses	192,500	204,381
Other payables to fellow subsidiaries	205,893	27,698
Other payables to immediate holding company	161,251	160,382
	726,662	483,955

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

	2007	2006
	HK$'000	*HK$'000*
Within three months	157,673	83,955
Between three months to six months	2,377	–
Over six months	6,968	7,539
	167,018	91,494

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 within the credit timeframe.

Other payables due to fellow subsidiaries and immediate holding company are unsecured, non-interest bearing and repayable on demand.

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

The amounts are unsecured, interest-free and repayable on demand.

26. OTHER LOANS

	2007	2006
	HK$'000	*HK$'000*
Loan from immediate holding company repayable over 5 years *(note)*	832,623	828,132

Note: The loan is unsecured, carries fixed interest at 8% per annum and repayable by 5 equal instalments starting from 2011.

27. DEFERRED TAXATION

The following are the major deferred taxation liabilities and assets recognised by the Group:

	Accelerated tax depreciation	Withholding tax	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006 (Originally stated)	(197,631)	–	13,530	(184,101)
Restatement of prior year figures *(note 2)*	–	(305,722)	–	(305,722)
At 1 January 2006 (Restated)	(197,631)	(305,722)	13,530	(489,823)
Currency realignment	(5,142)	(4,250)	4	(9,388)
Reversed during the year	–	230,876	–	230,876
Credit (charge) to consolidated income statement for the year *(note 11)*	78,653	(259,090)	(13,534)	(193,971)
At 31 December 2006 and 1 January 2007	(124,120)	(338,186)	–	(462,306)
Currency realignment	(7,986)	(31,604)	–	(39,590)
Reversed during the year	–	233,249	–	233,249
Credit (charge) to consolidated income statement for the year *(note 11)*	78,381	(313,795)	–	(235,414)
Attributable to change in PRC Enterprise Income Tax rate *(note 11)*	31,092	–	–	31,092
At 31 December 2007	(22,633)	(450,336)	–	(472,969)

As at 31 December 2007, the Group had tax losses carried forward for Hong Kong Profits Tax purpose amounting to HK$52,783,000 (2006: HK$47,803,000) available for offset against future profits that may be carried forward indefinitely. Deferred taxation 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 taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2007	2006
	HK$'000	*HK$'000*
		(Restated)
Deferred taxation assets	71,587	–
Deferred taxation liabilities	(544,556)	(462,306)
	(472,969)	(462,306)

28 SHARE CAPITAL

	Number of ordinary shares *'000*	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1 January 2006, 31 December 2006 and 31 December 2007	8,000,000	80,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1 January 2006	4,824,094	48,241
– exercise of share options	16,000	160
– at 31 December 2006	4,840,094	48,401
– exercise of share options	4,900	49
– at 31 December 2007	4,844,994	48,450

During the year ended 31 December 2006, the Company allotted and issued 10,000,000, 5,000,000 and 1,000,000 shares of HK$0.01 each for cash at the exercise price of HK$0.610, HK$0.940 and HK$1.224 per share, respectively as a result of the exercise of share options.

During the year ended 31 December 2007, the Company allotted and issued 4,900,000 shares of HK$0.01 each for cash at the exercise price of HK$1.224 per share.

All the shares which were issued during the year rank pari passu with the existing shares in all respects.

29. SHARE OPTION SCHEMES

Pursuant to resolution of the Company passed on 28 May 2001, the Company adopted an executive share option scheme (the "2001 Share Option Scheme"). 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 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 after 3 months from the date on which the options are granted.

Pursuant to the resolution of the Company passed on 8 January 2007, 65,000,000 and 15,000,000 share options were granted to directors and employees of the Company, respectively, under the 2002 Share Option Scheme. Furthermore, pursuant to the resolution of the Company passed on 14 September 2007, 20,000,000 share options were granted to employees of the Company under the 2002 Share Option Scheme. All of the options are vested to the option holders after 3 months from the date on which the options are granted. The exercise period of the option is 5 years from the grant date.

The closing prices of the Company's shares immediately before 8 January 2007 and 14 September 2007, the date of grant of the options, were HK$3.990 and HK$4.460, respectively.

The fair value of share options granted during the year was calculated using the Binomial Model. The inputs into the model were as follows:

	Granted on 8 January 2007 to		**Granted on 14 September 2007 to**
	Directors	**Employees**	**Employees**
Share price at grant date	HK$4.010	HK$4.010	HK$4.480
Exercise price	HK$4.186	HK$4.186	HK$4.480
Expected volatility	38.6%	38.6%	41.0%
Risk-free rate	3.7%	3.7%	4.0%
Expected dividend yield	2.4%	2.4%	2.0%
Exercise multiple	2.0	1.5	1.5

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

The Binominal model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the independent professional valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions.

The fair value of the options granted to directors and employees of the Company on 8 January 2007 are HK$75,614,000 and HK$15,013,000, respectively. The fair value of the options granted to employees of the Company on 14 September 2007 is HK$25,089,000.

The number of shares in respect of which options had been granted and outstanding at 31 December 2007 under the 2002 Share Option Scheme was 174,600,000 shares (2006: 79,500,000 shares), representing 3.60% (2006: 1.64%) of the issued share capital of the Company at 31 December 2007.

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

Name or category of participant	Option Type	Number of share options: Outstanding at 1 January 2006	Exercised during the year	Outstanding at 31 December 2006	Granted during the year	Exercised during the year	Outstanding at 31 December 2007	Date of grant	Exercise price HK$	Exercise period
Directors										
Mr Li Hualin	2005	20,000,000	–	20,000,000	–	–	20,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	25,000,000	–	25,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Zhang Bowen	2007A	–	–	–	20,000,000	–	20,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Wang Mingcai	2005	25,000,000	–	25,000,000	–	–	25,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	10,000,000	–	10,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Cheng Cheng	2004B	20,000,000	–	20,000,000	–	–	20,000,000	25 Jun 2004	0.940	25 Sep 2004 to 24 Jun 2009
	2007A	–	–	–	10,000,000	–	10,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
Mr Lin Jingao	2001B	10,000,000	(10,000,000)	–	–	–	–	26 Apr 2001	0.610	26 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	(1,000,000)	2,500,000	–	(900,000)	1,600,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
		85,500,000	(11,000,000)	74,500,000	65,000,000	(900,000)	138,600,000			
Other employees	2004B	5,000,000	(5,000,000)	–	–	–	–	25 Jun 2004	0.940	25 Sep 2004 to 24 Jan 2009
	2005	5,000,000	–	5,000,000	–	(4,000,000)	1,000,000	27 Apr 2005	1.224	27 Jul 2005 to 26 Apr 2010
	2007A	–	–	–	15,000,000	–	15,000,000	8 Jan 2007	4.186	8 Apr 2007 to 7 Jan 2012
	2007B	–	–	–	20,000,000	–	20,000,000	14 Sep 2007	4.480	14 Dec 2007 to 13 Sep 2012
		10,000,000	(5,000,000)	5,000,000	35,000,000	(4,000,000)	36,000,000			
Total		95,500,000	(16,000,000)	79,500,000	100,000,000	(4,900,000)	174,600,000			

The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2006 are ranged from HK$3.250 to HK$4.680.

The closing prices of the Company's shares at the date on which the share options were exercised for the year ended 31 December 2007 are ranged from HK$3.620 to HK$5.640.

30. 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 adjustment of the acquiree's net assets to the fair value related to the previously held interest in that subsidiary under a business combination achieved by more than one acquisition transaction.

31. ACQUISITION OF A SUBSIDIARY

On 29 September 2006, the Group acquired 70% equity interest of CGBII 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.

	2006 Acquiree's carrying value and fair value *HK$'000*
Net assets acquired:	
Bank balances and cash	69
Exploration and evaluation assets	48,506
Other receivables	586
Other payables	(96)
Amounts due to minority shareholder of subsidiaries	(48,794)
	271
Net cash outflow arising on acquisition:	
Cash consideration paid	(271)
Bank balances and cash acquired	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.

32. 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 to 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 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 the consolidated income statement of HK$11,712,000 (2006: HK$7,169,000) represents contributions paid and payable to these schemes by the Group in respect of the current accounting period.

33. 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 bears 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. The first phase of the Xinjiang Contract ends on 30 August 2008 and all the oil and gas properties used for the first phase of the operation i.e. HK$117,031,000, will be fully amortised on the expiry date. The Group and PetroChina is in the process of applying the extension of the production period. According to the Xinjiang Contract, the jointly operating parties are permitted to apply for another production period of thirteen years. The directors of the Company anticipate that the extension of the production period will probably be granted before the end of the first production period phase. Up to the date of this report, the success of the application to extend the Xinjiang Contract is not yet confirmed. If the Group fails in its application for the extension, the oil properties relating to the future development of approximately HK$111,540,000 may be impaired and this would reduce the Group's profit for the year ending 31 December 2008.

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:

		2007	2006
		HK$'000	*HK$'000*
(a)	**Results for the year**		
	Income	959,284	1,006,500
	Expenses	(576,430)	(539,304)
(b)	**Assets and liabilities**		
	Oil and gas properties	228,571	267,271
	Current assets	395,434	306,819
	Current liabilities (excluding amount due to immediate holding company)	(112,515)	(41,226)
	Amount due to immediate holding company	(266,981)	(266,202)
	Non-current liabilities	–	(1,938)
	Net assets	244,509	264,724
(c)	**Capital commitments**		
	Contracted but not provided for	113,361	243,508

34. OIL PRODUCTION SHARING CONTRACT-LENG JIAPU CONTRACT

Pursuant to the Leng Jiapu Contract signed in 1997, 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 "LJP 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 LJP Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the LJP 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:

		2007	2006
		HK$'000	*HK$'000*
(a)	**Results for the year**		
	Income	1,561,534	1,717,792
	Expenses	(1,166,956)	(1,176,634)
(b)	**Assets and liabilities**		
	Oil and gas properties	1,752,682	1,602,752
	Current assets	1,012,350	1,097,336
	Current liabilities (excluding amount due to immediate company)	(169,635)	(236,907)
	Amount due to immediate holding company	(639,444)	(717,215)
	Non-current liabilities	(87,982)	(123,721)
	Net assets	1,867,971	1,622,245
(c)	**Capital commitments**		
	Contracted but not provided for	549,925	514,266

35. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for		
Development cost under the Xinjiang Contract	113,361	243,508
Development cost under the Leng Jiapu Contract	549,925	514,266
Development cost for Onshore Exploration Block No. L21/43 in Thailand *(note)*	132,379	106,107
	795,665	863,881
Authorised but not contracted for		
Development cost for Azerbaijan Kursangi and Kurabagli oil field	145,309	74,294
Development cost for Peru Talara oil field	46,333	82,252
Development cost for Thailand Sukhothai oil field	31,148	15,490
Development cost for Indonesia Bengara-II Block	–	144,831
	222,790	316,867

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.

36. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	2,875	2,636
In the second to fifth years inclusive	2,287	3,330
Later than five years	976	1,167
	6,138	7,133

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

37. RELATED PARTY TRANSACTIONS

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

Nature of transaction

	2007	2006
	HK$'000	*HK$'000*
Purchase of the Group's share of crude oil by the CNPC Group	2,506,092	2,834,927
Interest income received from jointly controlled entities	4,970	12,007
Products and services provided by the CNPC Group	939,368	949,878
Assistance fee paid to a fellow subsidiary – Beckbury International Limited	262	268
Assistance fee paid to a fellow subsidiary – Hafnium Limited	205	210
Training fee paid to a fellow subsidiary – Beckbury International Limited	110	–
Training fee paid to a fellow subsidiary – Hafnium Limited	205	199
Rental expenses paid to a fellow subsidiary	373	373
Interest expenses paid to a fellow subsidiary	–	1,861
Interest expenses paid to immediate holding company	76,983	74,978

The above transactions also constituted connected transactions in accordance with Chapter 14A of the Listing Rules.

The Group also has related party balances as at the balance sheet date shown in notes 16, 22, 25 and 26.

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.

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

	2007	2006
	HK$'000	*HK$'000*
Salaries and emoluments	8,685	7,780
Directors' fees	3,835	3,835
Retirement benefit cost	968	913
Share options	85,624	–
	99,112	12,528

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of other loans (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if appropriate.

39. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	4,771,374	3,264,669
Available-for-sale financial assets	126,467	61,881
Financial liabilities		
Amortised cost	1,537,436	1,296,240

b. 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 balances and cash and deposits, trade and other payables, amount due to ultimate holding company and minority shareholders of subsidiaries and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. 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. There has been no change to the Group's exposure to the risks mentioned above or the manner in which it manages and measures the risks.

Market risk

(i) Currency risk

The Group's exposure to currency risk is attributable to the bank balances and cash and deposits of the Group which are denominated in foreign currencies of HK$ (see note 23 for details). The functional currency of the relevant group entities is US$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure since HK$ is pegged to the US$ and majority transactions are conducted in functional currency of relevant group entities, management considers the Group's exposure to currency risk is minimal. However, management monitors the related foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(ii) Interest rate risk

The Group's exposure to fair value interest rate risk is mainly attributable to the fixed rate loans to jointly controlled entities and other borrowings. The fair value of fixed rate loans to jointly controlled entities and other borrowings is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value interest rate risk is insignificant as the fixed interest rate has no significant difference to the effective interest rate.

The Group is also exposed to cash flow interest rate risk which is mainly attributable to the variable rate bank balances and deposits and loan to a jointly controlled entity. The Group cash flow interest rate is mainly concentrated on the fluctuation of LIBOR and the saving interest rates set by the financial institutions.

The Group currently does not have an interest rate hedging policy. However, the management will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate financial instruments at the balance sheet date. For variable interest rate bank balances and deposits and loan to a jointly controlled entity, the analysis is prepared assuming the amounts of assets outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by HK$17,359,000 (2006: increase/decrease by HK$11,959,000).

(iii) Other price risk

The Group's equity investments at each balance sheet date exposed the Group to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks in respect of available-for-sale investments at the reporting date.

If the prices of the respective available-for-sale investments had been 10% higher/lower, the Group's equity as at 31 December 2007 would increase/decrease by HK$12,467,000 (the equity as at 31 December 2006 would increase/decrease by HK$6,188,000) as a result of the changes in fair value of available-for-sale investments.

A change of 10% in price of the respective investments does not affect the Group's profit for the year.

Credit risk

At 31 December 2007, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties, is arising from the carrying amount of the respective financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, 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 credit risk on trade receivables is concentrated in a few customers. Trade receivables of the Group's five largest customers 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, management considers that the risk is limited.

In order to minimise the credit risk on the loans to and amount due from jointly controlled entities, the management will design the overall development plan of the jointly controlled entities and consider the satisfied reward to the Group for the fund advanced to the jointly controlled entities. In addition, the Group reviews the recoverable amount of each individual balance at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts and follow-up action is taken to recover the overdue debts.

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

Liquidity risk management

The directors of the Company has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relied on the financial support of the immediate holding company.

The following table shows the details of the Group's expected maturity of the financial instruments, which are different from the actual contract dates.

	Weighted average effective interest rate	Repayable on demand	1-3 months	3 months to 1 year	2-5 years	> 5 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007								
Non-derivative financial liabilities								
Trade and other payables	N/A	367,144	277,944	9,345	–	–	654,433	654,433
Amount due to ultimate holding company	N/A	1,322	–	–	–	–	1,322	1,322
Amounts due to minority shareholders of subsidiaries	N/A	49,058	–	–	–	–	49,058	49,058
Other loans	8.00	–	38,596	38,596	615,170	728,827	1,421,189	832,623
		417,524	316,540	47,941	615,170	728,827	2,126,002	1,537,436
2006								
Non-derivative financial liabilities								
Trade and other payables	N/A	188,080	221,542	7,539	–	–	417,161	417,161
Amount due to ultimate holding company	N/A	1,229	–	–	–	–	1,229	1,229
Amounts due to minority shareholders of subsidiaries	N/A	49,718	–	–	–	–	49,718	49,718
Other loans	8.00	–	38,387	38,387	466,101	947,422	1,490,297	828,132
		239,027	259,929	45,926	466,101	947,422	1,958,405	1,296,240

c. Fair value of the financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the respective balance sheet dates.

40. FINANCIAL RISK MANAGEMENT

Apart from the financial risk relating to financial instruments disclosed in note 39, the Group's activities expose it to market risk relating to oil and gas 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.

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies at 31 December 2007 and 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	Baht 175,000,000 (fully paid) Baht 125,000,000 (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) Ltd.	British Virgin Islands	US$100	60%
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% *(note)*
SAPET Development Peru Inc	United States of America	100 ordinary shares no par value	50% *(note)*

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 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%
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%

Note: In accordance with the share purchase agreement dated 8 September 2001, the Company has the power to control the financial and operating policies of SAPET Development Corporation. As a result, SAPET Development Corporation is accounted for as a subsidiary of the Company.

Since SAPET Development Peru Inc. is wholly owned by SAPET Development Corporation, it is also accounted for as the subsidiary of the Company.

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 2007 or at any time during the year.

42. ASSOCIATE

At 31 December 2007 and 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, hold a 25.12% interest in Aktobe. The Group effectively holds 15.072% interest in Aktobe.

43. JOINTLY CONTROLLED ENTITIES

As at 31 December 2007 and 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 venture	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 venture	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 venture	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 venture	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

44. BALANCE SHEET INFORMATION OF THE COMPANY

	2007	**2006**
	HK$'000	*HK$'000*
Assets		
Property, plant and equipment	873	1,056
Investments in subsidiaries	156,035	156,035
Investments in jointly controlled entities	236,169	236,169
Loans to jointly controlled entities	44,102	45,246
Other receivables	7,840	520
Amounts due from subsidiaries	3,540,329	3,817,846
Amount due from jointly controlled entity	2,205	26,870
Bank balances and cash	2,714,599	1,236,270
	6,702,152	5,520,012
Liabilities		
Trade and other payables	8,154	487,620
Amounts due to subsidiaries	282	89,632
	8,436	577,252
Net assets	6,693,716	4,942,760
Capital and reserves		
Share capital	48,450	48,401
Reserves	6,645,266	4,894,359
	6,693,716	4,942,760

Five Year Financial Summary

	Year ended 31 December				
	2007	**2006**	**2005**	**2004**	**2003**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*		
Results					
Turnover	3,842,723	3,893,732	3,378,323	2,533,312	2,098,686
Profit before taxation	2,315,443	2,777,092	4,251,132	1,079,382	711,323
Income tax expense	(630,546)	(750,290)	(375,828)	(275,974)	(175,993)
Profit for the year	1,684,897	2,026,802	3,875,304	803,408	535,330
Profit attributable to					
Shareholders of the Company	1,367,302	1,714,513	3,806,635	768,034	516,403
Minority interests	317,595	312,289	68,669	35,374	18,927
	1,684,897	2,026,802	3,875,304	803,408	535,330
Earnings per share					
– Basic	HK28.23 cents	HK35.49 cents	HK79.54 cents	HK16.20 cents	HK10.74 cents
– Diluted	HK27.88 cents	HK35.05 cents	HK79.20 cents	HK16.01 cents	HK10.67 cents
Dividend per share	HK12 cents	HK10 cents	HK8 cents	HK3.5 cents	HK2 cents

	As at 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	*(Restated)*		
Movement of retained earnings					
Retained earnings b/f	9,445,910	8,118,124	2,577,460	1,904,107	1,557,768
Profit attributable to shareholders of the Company	1,367,302	1,714,513	3,806,635	768,034	516,403
Adjustment in connection with adoption of HKFRS 3 Business Combination	–	–	1,899,722	–	–
Dividends paid	(484,409)	(386,727)	(165,693)	(94,681)	(170,064)
Retained earnings c/f	10,328,803	9,445,910	8,118,124	2,577,460	1,904,107
Assets and liabilities					
Total assets	22,727,423	21,017,455	20,946,693	5,249,261	4,469,286
Total liabilities	(2,247,499)	(1,935,750)	(2,795,104)	(1,013,558)	(899,618)
Total equity	20,479,924	19,081,705	18,151,589	4,235,703	3,569,668

Reserve Quantities Information

PROVEN RESERVES (ESTIMATION)

Crude Oil

	PRC *(million barrels)*	**South America** *(million barrels)*	**Central Asia** *(million barrels)*	**South East Asia** *(million barrels)*	**Middle East** *(million barrels)*	**Total** *(million barrels)*
As at 1 January 2007	44.1	4.2	113.8	7.7	13.9	183.7
Revision	–	–	(6.8)	–	–	(6.8)
Production	(7.9)	(0.5)	(7.9)	(0.6)	(1.3)	(18.2)
As at 31 December 2007	36.2	3.7	99.1	7.1	12.6	158.7

Natural gas

	South America *(million cu.feet)*	**Central Asia** *(million cu.feet)*	**Total** *(million cu.feet)*
As at 1 January 2007	2,533.4	84,455.0	86,988.4
Revision	–	(5,127.0)	(5,127.0)
Production	(375.6)	(4,958.0)	(5,333.6)
As at 31 December 2007	2,157.8	74,370.0	76,527.8

Notes:

(a) Based on the Group's share of participated interest in the oil field through subsidiaries, associates and joint ventures.

(b) Participated interest belonging to minority interest is excluded.

(B) STATEMENT OF INDEBTEDNESS

The Company has entered into agreements in respect of the Shennan Oil Capital Injection, Xinjiang Xinjie Acquisitions and Huayou Capital Injection dated 19 December 2008, 9 January 2009 and 16 February 2009 respectively.

The results and the financial positions of Shennan Oil and its subsidiaries (the "Shennan Oil Group"), Xinjiang Xinjie and its subsidiaries (the "Xinjiang Xinjie Group") and the Huayou Group will be consolidated as the subsidiaries of the Group upon the respective completion of the transactions. Shennan Oil Capital Injection was completed on 29 December 2008 while Xinjiang Xinjie Acquisitions and Huayou Capital Injection are pending completion. Pursuant to the Listing Rules, for the purpose of ascertaining the indebtedness of the Group, the Group shall be construed as including company which will become a subsidiary of the Company by reason of an acquisition which has been agreed since 31 December 2007, being the date to which the latest audited financial statements of the Company have been made up. Accordingly, the indebtednesses of the Shennan Oil Group, the Xinjiang Xinjie Group and the Huayou Group as at 31 December 2008 have been taken into account in the Statement of Indebtedness. The Group (including the Shennan Oil Group), the Xinjiang Xinjie Group and the Huayou Group are collectively referred to as the "Aggregated Group".

As at the close of business on 31 December 2008, being the latest practicable date for the purpose of ascertaining the indebtedness of the Aggregated Group prior to the printing of this circular, the Aggregated Group had total outstanding borrowings of approximately HK$2,305 million, comprising bank loans of approximately HK$625 million which were secured by the pledge of the Aggregated Group's leasehold land and buildings, bank loans of approximately HK$351 million which were secured by the corporate guarantees given by the minority shareholders of the subsidiaries, amounts due to fellow subsidiaries of approximately HK$1,077 million and amounts due to minority shareholders of the subsidiaries of approximately HK$252 million.

As at the close of business on 31 December 2008, the Aggregated Group had a contingent liability of approximately HK$73 million in relation to the guarantees issued to the banks for granting loans to its minority shareholders.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the close of business on 31 December 2008, the Aggregated Group did not have other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

(C) WORKING CAPITAL STATEMENT

The Directors are of the opinion that, based on the present credit facilities and the internal resources available to the Group and in the absence of unforeseen circumstances, the Aggregated Group (including Shennan Oil and its subsidiaries, Xinjiang Xinjie and its subsidiaries and Huayou and its subsidiaries) will have sufficient working capital for its present requirement, that is for at least the next 12 months from the date of this circular.

(D) FINANCIAL AND TRADING PROSPECTS OF THE GROUP

FINANCIAL HIGHLIGHTS

During the year ended 31 December 2007, the Group recorded a turnover of approximately HK$3,842,723,000 (2006: approximately HK$3,893,732,000), decreased by 1.31% as compared with 2006. Profit attributable to shareholders of the Company amounted to approximately HK$1,367,302,000 (2006: approximately HK$1,714,513,000 (restated)), decreased by 20.25% as compared with 2006. As at 31 December 2007, bank balances and cash amounted to approximately HK$3,343,291,000 (2006: approximately HK$2,127,612,000). As at 31 December 2007, the Group's net asset value was approximately HK$20,479,924,000 (2006: approximately HK$19,081,705,000).

BUSINESS REVIEW

For the six months ended 30 June 2008, the unaudited turnover of the Group amounted to approximately HK$2,838,677,000 (corresponding period of 2007: approximately HK$1,728,559,000), representing an increase of approximately HK$1,110,118,000 or 64.22% as compared with the corresponding period of 2007. The Group's unaudited profit attributable to shareholders for the six months ended 30 June 2008 was approximately HK$1,284,201,000 (corresponding period of 2007: approximately HK$680,724,000), representing an increase of approximately HK$603,477,000 or 88.65%.

The shared sales volume of crude oil by the Group for the six months ended 30 June 2008 was approximately 8,160,000 barrels, representing a decrease of approximately 355,000 barrels or 4.17% compared with approximately 8,515,000 barrels for the same period of 2007. With the rise of the international crude oil price in the six months ended 30 June 2008 as compared with 2007, the weighted average realised price of crude oil per barrel of the Group was approximately US$84.54, increased by US$34.75 or 69.79% compared with US$49.79 per barrel for the same period of 2007.

Pursuant to the Group's accounting policy, exploration cost shall be treated as expenses if the discovery of commercial reserve is not confirmed within one year. During the six months ended 30 June 2008, since the newly explored oil fields have not yet commenced production, no contribution to the Group was recorded. The relevant exploration cost amounted to approximately HK$154,227,000 (corresponding period of 2007: approximately HK$67,353,000) was recorded, of which approximately HK$45,024,000 (corresponding period of 2007: approximately HK$51,580,000) was accounted for cost of sales and approximately HK$110,995,000 was included under impairment losses on loan to a jointly controlled entity (corresponding period of 2007: approximately HK$15,773,000).

BUSINESS PROSPECTS

Shareholding Restructuring

On 18 December 2008, PetroChina became the majority shareholders of the Group. Following the completion of the shareholding restructuring, the Group will continue to engage in its current oil and gas exploration and development business, and will exploit the 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.

The Directors 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.

With a strong financial position and prudent approach, the Group aims to expand into an international petroleum corporation. The Group will accelerate on the exploration and development of existing oil projects, increase production volume, strengthen the management, costs control, increase efficiency and stabilise income.

Shennan Oil Capital Injection

On 19 December 2008, the Company entered into a capital injection agreement with Shennan Oil, Shenzhen Petroleum and 海南福山油田勘探開發有限責任公司 (Hainan Fushan Oilfield Exploration and Development Limited Liability Company*) (all being wholly-owned subsidiaries of CNPC as at the date of the agreement), pursuant to which the Company has conditionally agreed to subscribe for capital in Shennan Oil of RMB52,000,000 in consideration of RMB95,091,220 (equivalent to approximately HK$107,653,000) in cash. Shennan Oil is principally engaged in the supply of compressed natural gas as well as construction and operation of compressed natural gas stations in the PRC. The capital injection constituted a connected transaction exempted from the independent shareholders' approval requirement under the Listing Rules. The capital injection has been paid out of the Company's internal resources. The Shennan Oil Capital Injection was completed and Shennan Oil is owned as to 50.98% by, and is a subsidiary of, the Company. The remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of Shennan Oil Capital Injection.

Xinjiang Xinjie Acquisitions

On 9 January 2009, the Company entered into an agreement with each of PetroChina, Lead Source Limited, Xinjiang Tongyu Co., Ltd. and Xinjiang Tongyuan Co., Ltd. (collectively, the "Existing Shareholders of Xinjiang Xinjie"), pursuant to which the Company has conditionally agreed to purchase and the Existing Shareholders of Xinjiang Xinjie have conditionally agreed to sell to the Company their respective shareholding interests in Xinjiang Xinjie at a total consideration of RMB328,057,000 (equivalent to approximately HK$371,787,000). Xinjiang Xinjie, its subsidiaries and associates are principally engaged in the city gas related businesses, operation of natural gas stations, transmission and storage of refined products, the sale and transmission of natural gas, as well as the development of the technology of natural gas utilisation in the PRC. Upon completion of Xinjiang Xinjie Acquisitions, the Company expects that Xinjiang Xinjie will further develop its natural gas-related businesses. Xinjiang Xinjie, its subsidiaries and associates provide natural gas for domestic, industrial and vehicular uses. They operate around 40 gas stations in the PRC, both in Xinjiang and other parts of the PRC. The acquisitions constituted a connected transaction and have been approved by the independent shareholders under the Listing Rules. The consideration will be paid out of the Company's internal resources. Upon completion of the Xinjiang Xinjie Acquisitions, Xinjiang Xinjie will be owned as to 97.26% by, and will become a subsidiary of, the Company. The remuneration payable to and benefits in kind receivable by the Directors will not be varied in consequence of Xinjiang Xinjie Acquisitions.

Looking Forward

Pursuant to the shareholding restructuring, future potential acquisitions may be made to expand the Group's city gas, vehicle fuel gas and related businesses. Despite the recent financial turmoil, the Directors believe that such expansion will put the Group in an advantageous position in serving the customers and enhancing revenue and increasing return to shareholders.

ANDA
CPA Limited
安達會計師事務所有限公司

9 March 2009

The Board of Directors
CNPC (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of China Natural Gas Co., Ltd. (華油天然氣股份有限公司) ("Huayou") and its subsidiaries (hereinafter collectively referred to as the "Huayou Group") for each of the three years ended 31 December 2008 (the "Relevant Periods") for inclusion in the circular dated 9 March 2009 issued by CNPC (Hong Kong) Limited (the "Company") in connection with the proposed injection to subscribe for 51.01% of the enlarged equity interest in Huayou (the "Circular").

Huayou was incorporated on 28 August 1994 in the People's Republic of China (the "PRC") with limited liability and engages in the production and distribution of natural gas. As at 31 December 2008, Huayou has the following subsidiaries:

Name of subsidiaries	Place and date of establishment	Paid up share/ registered capital	Attributable equity interest of the Huayou Group	Principal activities
鄂爾多斯市華氣新聖燃氣技術有限公司	the PRC 3 June 2004	RMB5,000,000	95%	Distribution of natural gas
鄂爾多斯市華氣達昌燃氣有限責任公司	the PRC 16 June 2005	RMB12,200,000	60%	Distribution of natural gas
包頭華氣新能源開發有限責任公司	the PRC 20 December 2004	RMB10,000,000	80%	Distribution of natural gas
濟南華氣天然氣利用有限公司	the PRC 21 June 2006	RMB15,200,000	100%	Distribution of natural gas
淄博華油天然氣利用有限公司	the PRC 26 October 2004	RMB10,000,000	90%	Distribution of natural gas
泰安中油華氣天然氣利用有限公司	the PRC 8 September 2004	RMB30,000,000	51%	Distribution of natural gas

Name of subsidiaries	Place and date of establishment	Paid up share/ registered capital	Attributable equity interest of the Huayou Group	Principal activities
河北華油天然氣有限責任公司	the PRC 31 October 2006	RMB10,200,000	51%	Distribution of natural gas
涇陽華氣安然壓縮天然氣有限公司	the PRC 18 May 2005	RMB10,000,000	60%	Distribution of natural gas
成都公交壓縮天然氣股份有限公司	the PRC 6 September 1998	RMB30,000,000	62%	Distribution of natural gas
雙流華油天然氣有限責任公司	the PRC 6 April 1999	RMB2,808,120	71%	Distribution of natural gas
成都華油茂源天然氣開發有限公司	the PRC 12 October 1999	RMB16,800,000	51%	Production and distribution of natural gas
大邑華油能源壓縮天然氣有限責任公司	the PRC 14 August 2001	RMB1,000,000	40%#	Distribution of natural gas
內江華氣公交壓縮天然氣有限責任公司	the PRC 28 June 2007	RMB2,000,000	65%	Distribution of natural gas

All the companies of the Huayou Group have adopted 31 December as the financial year end date.

\# Huayou has the controlling power to govern the financial and operating policies of 大邑華油能源壓縮天然氣有限責任公司. Therefore, the results and financial positions of 大邑華油能源壓縮天然氣有限責任公司 for the three years ended 31 December 2008 were consolidated to the Huayou Group.

The statutory financial statements of the following companies have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by the following certified public accountants registered in the PRC.

Name of subsidiaries	Financial year/period	Name of auditors
華油天然氣股份有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007 and 2008	天健光華(北京)會計師事務所有限公司*
鄂爾多斯市華氣新聖燃氣技術有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
鄂爾多斯市華氣達昌燃氣有限責任公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
包頭華氣新能源開發有限責任公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
淄博華油天然氣利用有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
泰安中油華氣天然氣利用有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
涇陽華氣安然壓縮天然氣有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
成都公交壓縮天然氣股份有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
雙流華油天然氣有限責任公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*

Name of subsidiaries	Financial year/period	Name of auditors
成都華油茂源天然氣開發有限公司	Year ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
大邑華油能源壓縮天然氣有限責任公司	Years ended 31 December 2006	廈門天健華天有限責任會計師事務所
	Years ended 31 December 2007	天健光華(北京)會計師事務所有限公司*
內江華氣公交壓縮天然氣有限責任公司	Period ended 31 December 2007	天健光華(北京)會計師事務所有限公司*

* formerly known as 天健華證中洲(北京)會計師事務所有限公司

For the purpose of this report, the directors of Huayou have prepared the consolidated financial statements of the Huayou Group for the Relevant Periods (the "HKFRS Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

We have performed our independent audit on the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have examined the HKFRS Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information has been prepared from the HKFRS Financial Statements in accordance with HKFRSs. No adjustments were considered necessary for the purpose of preparing our report for inclusion in the Circular.

The directors of Huayou are responsible for the preparation of the HKFRS Financial Statements. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Huayou and of the Huayou Group as at 31 December 2006, 2007 and 2008 and of the Huayou Group's results and cash flows for the Relevant Periods.

CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December		
	Notes	**2008**	**2007**	**2006**
		RMB	*RMB*	*RMB*
Turnover	5	512,132,628	353,531,348	230,858,899
Cost of sales		(360,191,778)	(250,956,983)	(168,561,060)
Gross profit		151,940,850	102,574,365	62,297,839
Other income	6	8,539,886	7,046,623	5,357,276
Selling expenses		(11,911,333)	(11,935,214)	(4,876,986)
Administrative expenses		(33,144,926)	(29,175,078)	(22,539,379)
Profit from operations		115,424,477	68,510,696	40,238,750
Finance cost	8	(12,924,920)	(8,892,110)	(4,673,618)
Share of profits of associates		1,880,132	921,886	421,055
Profit before tax		104,379,689	60,540,472	35,986,187
Income tax expense	9	(15,241,846)	(10,698,415)	(6,025,792)
Profit for the year	10	89,137,843	49,842,057	29,960,395
Attributable to:				
Equity holders of Huayou	13	71,968,603	40,495,717	23,556,494
Minority interests		17,169,240	9,346,340	6,403,901
		89,137,843	49,842,057	29,960,395
Dividends	11	–	8,500,000	6,000,000

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 December 2008 RMB	2007 RMB	2006 RMB
Non-current assets				
Property, plant and equipment	*14*	512,542,714	446,984,074	331,819,252
Prepaid lease payments	*15*	26,532,918	23,384,883	21,627,919
Goodwill	*16*	2,224,779	2,224,779	2,224,779
Investments in associates	*18*	29,528,832	29,110,495	28,997,275
Available-for-sale financial assets	*19*	6,618,518	2,500,000	3,434,692
Other assets		5,979,534	4,244,178	5,609,083
		583,427,295	508,448,409	393,713,000
Current assets				
Inventories	*20*	2,194,836	1,306,182	1,522,787
Prepayments, deposits and other receivables		41,326,955	37,667,868	31,090,646
Trade receivables	*21*	13,508,815	15,154,894	12,080,086
Prepaid lease payments	*15*	722,947	722,947	646,296
Bank and cash balances		119,099,185	68,100,179	46,836,585
		176,852,738	122,952,070	92,176,400
Current liabilities				
Borrowings	*22*	53,500,000	144,000,000	65,000,000
Trade payables	*23*	35,790,548	31,767,320	23,897,607
Accruals and other payables		34,457,061	27,577,436	23,639,813
Loan from immediate holding company	*24*	146,240,000	40,000,000	40,383,374
Current tax liabilities		1,589,556	3,078,334	2,103,698
		271,577,165	246,423,090	155,024,492
Net current liabilities		(94,724,427)	(123,471,020)	(62,848,092)
Total assets less current liabilities		488,702,868	384,977,389	330,864,908
Non-current liabilities				
Deferred taxation	*25*	6,018,873	3,147,196	1,740,424
NET ASSETS		482,683,995	381,830,193	329,124,484
Capital and reserves				
Share capital	*26*	170,000,000	170,000,000	170,000,000
Reserves	*27*	197,407,229	125,438,626	93,442,909
Equity attributable to equity holders of Huayou		367,407,229	295,438,626	263,442,909
Minority interests		115,276,766	86,391,567	65,681,575
TOTAL EQUITY		482,683,995	381,830,193	329,124,484

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of Huayou							
	Share capital	**Share premium account**	**Capital reserve**	**Statutory surplus reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January 2006	100,000,000	15,955,224	1,586,931	3,074,251	13,270,009	133,886,415	72,118,541	206,004,956
Profit for the year	–	–	–	–	23,556,494	23,556,494	6,403,901	29,960,395
Total recognised income and expense for the year	–	–	–	–	23,556,494	23,556,494	6,403,901	29,960,395
Transfer	–	–	–	2,510,280	(2,510,280)	–	–	–
Dividend paid (Note 11)	–	–	–	–	(6,000,000)	(6,000,000)	(3,551,562)	(9,551,562)
Capital reduction	–	–	–	–	–	–	(12,958,735)	(12,958,735)
Capital contribution	70,000,000	42,000,000	–	–	–	112,000,000	3,669,430	115,669,430
At 31 December 2006	170,000,000	57,955,224	1,586,931	5,584,531	28,316,223	263,442,909	65,681,575	329,124,484
Profit for the year	–	–	–	–	40,495,717	40,495,717	9,346,340	49,842,057
Total recognised income and expense for the year	–	–	–	–	40,495,717	40,495,717	9,346,340	49,842,057
Transfer	–	–	–	3,430,454	(3,430,454)	–	–	–
Dividend paid (Note 11)	–	–	–	–	(8,500,000)	(8,500,000)	(3,559,707)	(12,059,707)
Capital contribution by minority	–	–	–	–	–	–	14,923,359	14,923,359
At 31 December 2007	170,000,000	57,955,224	1,586,931	9,014,985	56,881,486	295,438,626	86,391,567	381,830,193
Profit for the year	–	–	–	–	71,968,603	71,968,603	17,169,240	89,137,843
Total recognised income and expense for the year	–	–	–	–	71,968,603	71,968,603	17,169,240	89,137,843
Transfer	–	–	–	5,785,502	(5,785,502)	–	–	–
Dividend paid	–	–	–	–	–	–	(6,118,962)	(6,118,962)
Capital contribution by minority	–	–	–	–	–	–	17,834,921	17,834,921
At 31 December 2008	170,000,000	57,955,224	1,586,931	14,800,487	123,064,587	367,407,229	115,276,766	482,683,995

CONSOLIDATED CASH FLOW STATEMENTS

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Cash flows from operating activities			
Profit before tax	104,379,689	60,540,472	35,986,187
Adjustments for:			
Depreciation	47,736,918	34,941,859	22,924,780
Loss on disposal of property, plant and equipment	519,171	219,614	1,851,387
Amortisation of prepaid lease payments	722,947	1,002,474	639,652
Share of profits of associates	(1,880,132)	(921,886)	(421,055)
Interest income	(1,450,986)	(1,220,668)	(1,848,654)
Finance cost	12,924,920	8,892,110	4,673,618
Operating profit before working capital changes	162,952,527	103,453,975	63,805,915
Change in other assets	(1,735,356)	1,364,905	(427,847)
Change in inventories	(888,654)	216,605	7,625,535
Change in prepayments, deposits and other receivables	(3,659,087)	(6,577,222)	(7,480,553)
Change in trade receivables	1,646,079	(3,074,808)	(4,224,662)
Change in trade payables	4,023,228	7,869,713	(319,793)
Change in accruals and other payables	6,879,625	3,937,623	36,873,698
Cash generated from operations	169,218,362	107,190,791	95,852,293
Tax paid	(13,858,947)	(8,317,007)	(4,648,385)
Net cash generated from operating activities	155,359,415	98,873,784	91,203,908
Cash flows from investing activities			
Interest received	1,450,986	1,220,668	1,848,654
Investment in available-for-sale financial assets	(4,118,518)	934,692	1,315,308
Proceeds on disposal of property, plant and equipment	6,378,243	15,778	–
Purchase of property, plant and equipment	(117,904,823)	(146,792,821)	(162,577,150)
Dividend from associates	1,461,795	808,666	–
Investment in associates	–	–	(2,823,218)
Prepaid lease payments	(3,870,982)	(2,836,089)	(73,110)
Net cash used in investing activities	(116,603,299)	(146,649,106)	(162,309,516)

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Cash flows from financing activities			
Interest paid	(15,213,069)	(12,441,362)	(4,673,618)
Dividend paid	–	(8,500,000)	(6,000,000)
Loan from/(repayment to) immediate holding company	106,240,000	(383,374)	8,283,961
Dividend paid to minority	(6,118,962)	(3,559,707)	(3,551,562)
Repayments of borrowings	(144,000,000)	(65,000,000)	–
New bank loans raised	53,500,000	144,000,000	65,000,000
Capital contribution by minority	17,834,921	14,923,359	3,669,430
Net cash generated from financing activities	12,242,890	69,038,916	62,728,211
Net increase/(decrease) in cash and cash equivalents	50,999,006	21,263,594	(8,377,397)
Cash and cash equivalents at beginning of year	68,100,179	46,836,585	55,213,982
Cash and cash equivalents at end of year	119,099,185	68,100,179	46,836,585
Analysis of cash and cash equivalents			
Bank and cash balances	119,099,185	68,100,179	46,836,585

BALANCE SHEETS

	Notes	As at 31 December 2008 RMB	2007 RMB	2006 RMB
Non-current assets				
Property, plant and equipment	*14*	272,153,946	214,158,611	125,550,387
Prepaid lease payments	*15*	11,015,290	7,572,173	10,873,446
Investments in subsidiaries	*17*	142,452,236	122,052,236	96,472,117
Investments in associates	*18*	26,468,101	25,850,900	24,709,180
Available-for-sale financial assets	*19*	2,500,000	2,500,000	3,434,692
Other assets		581,509	432,858	34,417
		455,171,082	372,566,778	261,074,239
Current assets				
Inventories	*20*	455,693	455,693	455,693
Prepayments, deposits and other receivables		17,670,743	14,118,743	14,781,480
Trade receivables	*21*	6,462,963	6,170,776	1,196,949
Due from subsidiaries	*17*	50,175,072	90,759,647	61,644,661
Prepaid lease payments	*15*	226,781	212,679	212,679
Bank and cash balances		21,948,928	9,464,952	10,753,079
		96,940,180	121,182,490	89,044,541
Current liabilities				
Borrowings	*22*	42,000,000	130,000,000	50,000,000
Trade payables	*23*	23,746,243	16,672,845	5,085,820
Accruals and other payables		6,445,651	4,530,270	8,214,739
Due to subsidiaries	*17*	9,977,196	33,156,516	–
Loan from immediate holding company	*24*	146,240,000	40,000,000	40,383,374
Current tax liabilities		32,312	1,000,000	1,114,975
		228,441,402	225,359,631	104,798,908
Net current liabilities		(131,501,222)	(104,177,141)	(15,754,367)
Total assets less current liabilities		323,669,860	268,389,637	245,319,872
Non-current liabilities				
Deferred taxation	*25*	3,357,179	1,302,473	620,919
NET ASSETS		320,312,681	267,087,164	244,698,953
Capital and reserves				
Share capital	*26*	170,000,000	170,000,000	170,000,000
Reserves	*27*	150,312,681	97,087,164	74,698,953
TOTAL EQUITY		320,312,681	267,087,164	244,698,953

NOTES TO FINANCIAL INFORMATION

1. GENERAL INFORMATION

Huayou was incorporated in the PRC on 28 August 1994 as a limited liability company. It is a subsidiary of 中國石油天然氣集團公司, a company also incorporated in the PRC. The directors consider that 深圳石油實業有限公司, a company incorporated in the PRC, to be the company's ultimate holding company at 31 December 2008. The address of its registered office and principal place of business is 四川省成都市龍泉驛區龍泉鎮龍柏路1-1-2號.

The principal activities of Huayou and the Huayou Group are the production and distribution of natural gas.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. In addition, the Financial Information includes applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial information have been prepared under the historical cost convention.

For the purpose of preparing and presenting Financial Information of the Relevant Periods, the Huayou Group has early adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2008.

The Huayou Group has not applied the new HKFRSs that have been issued but are not yet effective. The Huayou Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 3.

The significant accounting policies applied in the preparation of the Financial Information are set out below.

Consolidation

The Financial Information includes the financial statements of Huayou and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Huayou Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Huayou Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Huayou Group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised profits on transactions between the Huayou Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Huayou Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of Huayou. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Huayou Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Huayou Group until the minority's share of losses previously absorbed by the Huayou Group has been recovered.

Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Huayou Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Huayou Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Huayou Group ' s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary 's identifiable assets, liabilities and contingent liabilities at the acquisition date.

Associates

Associates are entities over which the Huayou Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Huayou Group has significant influence.

Investment in an associate is accounted for in the Financial Information by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Huayou Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Huayou Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

The Huayou Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Huayou Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Huayou Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Huayou Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Huayou Group and its associates are eliminated to the extent of the Huayou Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Huayou Group.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Huayou Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi, which is the functional and presentation currency of the Huayou Group's entities.

b) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Property, plant and equipment

Gas properties are stated at cost less subsequent accumulated depletion, depreciation and amortisation and any accumulated impairment losses. The successful efforts method of accounting is used for gas properties. Under this method, all costs for development wells, support equipment and facilities, and acquired proven mineral interests in gas properties are capitalised. Proven gas reserves are the estimated quantity of natural gas 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 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 gas properties takes into account the expenditure incurred to date, together with projected future development expenditure and the volume of gas produced in the current year. Depreciation of other property, plant and equipment (capitalised in gas properties) is provided on a straight-line basis at annual rates of between 16.67% and 20%.

All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Huayou Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the period in which they are incurred.

Depreciation of other property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	Over the lease terms or 25 years, whichever is shorter
Tools, equipment and others	3 to 14 years
Transportation facilities	8 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress includes 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 property, plant and equipment, on the same basis as other property, plant and equipment, commences when the property, plant and equipment are ready for their intended use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Huayou Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Huayou Group transfers substantially all the risks and rewards of ownership of the assets; or the Huayou Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the 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 the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

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 is recognised in the consolidated income statement.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised directly in equity, until the investments are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are recognised in the income statement. Impairment losses recognised in the income statement for equity investments classified as available-for-sale financial assets are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in the income statement if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Huayou Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the consolidated income statement.

Impairment losses are reversed in subsequent periods and recognised in the consolidated income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Huayou Group's cash management are also included as a component of cash and cash equivalents.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Huayou Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Huayou Group and the amount of revenue can be measured reliably.

Revenues from the sales of natural gas are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits

The Huayou Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Huayou Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the consolidated income statement represents contributions payable by the Huayou Group to the funds.

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.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax 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 items that are never taxable or deductible. The Huayou Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other 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 investments in subsidiaries except where the Huayou 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 profits 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 is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the consolidated 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Huayou Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A party is related to the Huayou Group if:

a) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Huayou Group; has an interest in the Huayou Group that gives it significant influence over the Huayou Group; or has joint control over the Huayou Group;

b) the party is an associate;

c) the party is a joint venture;

d) the party is a member of the key management personnel of Huayou or its parent;

e) the party is a close member of the family of any individual referred to in (a) or (d);

f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g) the party is a post-employment benefit plan for the benefit of employees of the Huayou Group, or of any entity that is a related party of the Huayou Group.

Segment reporting

A segment is a distinguishable component of the Huayou Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Huayou Group's internal financial reporting, the Huayou Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid lease payments, goodwill, investments in associates, available-for-sales financial assets, other assets, inventories, prepayments, deposits and other receivables, trade receivables and bank and cash balances. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between the Huayou Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Impairment of assets

At each balance sheet date, the Huayou Group reviews the carrying amounts of its tangible and intangible assets other than goodwill, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Huayou Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit 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 (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Huayou Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Huayou Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Financial Information. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the Financial Information when material.

3. KEY ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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,

a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Huayou Group assesses annually the residual values and the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

b) Allowance for bad and doubtful debts

The Huayou Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Huayou Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customers collection issues that have been identified. Credit losses have historically been within the Huayou Group's expectations and the Huayou Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

c) Allowance for inventories

The management of the Huayou Group reviews an aging analysis at each balance sheet date, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realizable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Huayou Group carries out an inventory review on a product-byproduct basis at each balance sheet date and makes allowances for obsolete items.

d) Estimation of natural gas reserves

Gas reserves are key elements in the Huayou Group's investment decision-making process. They are also an important element in depletion, depreciation and amortisation calculation and in testing for impairment. Changes in proven natural gas reserves will affect unit-of-production depreciation charges to the consolidated 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 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 Huayou Group's estimates of proven reserves, may affect the amount of depletion, depreciation and amortisation recorded in the Huayou Group's financial statements for property, plant and equipment related to gas production activities. A reduction in proven reserves will increase depletion, depreciation and amortisation charges (assuming constant production) of gas properties and reduce profit.

4. FINANCIAL RISK MANAGEMENT

The Huayou Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Huayou Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Huayou Group's financial performance.

a) Foreign currency risk

The Huayou Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Huayou Group entities. The Huayou Group currently does not have a foreign currency hedging policy in respect of foreign currency assets and liabilities. The Huayou Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

b) Credit risk

The Huayou Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2008 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Huayou Group ' s credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Huayou Group's credit risk is significantly reduced.

The Huayou Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

c) Liquidity risk

The Huayou Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. All financial liabilities of the Huayou Group are matured within 1 year.

d) Interest rate risk

The loan from immediate holding company of the Huayou Group bears interest at fixed interest rate and therefore is subject to fair value interest rate risk. The Huayou Group's bank borrowings bear interests at variable rates varied with the then prevailing market condition. If interest rates during the year had been 1% lower/higher with all other variables held constant, the consolidated profit after tax for the year would have been RMB401,250 (2007: RMB964,800 and 2006: RMB428,800) higher/lower, arising mainly as a result of lower/higher interest expense on the bank borrowings.

e) Fair values

The carrying amounts of the Huayou Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

5. TURNOVER

The Huayou Group's turnover is as follows:

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Sales of natural gas	512,132,628	353,531,348	230,858,899

6. OTHER INCOME

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Interest income	1,450,986	1,220,668	1,848,654
Rental of equipment	935,480	–	–
Transportation income	–	2,821,155	1,985,287
Sundry income	6,153,420	3,004,800	1,523,335
	8,539,886	7,046,623	5,357,276

7. SEGMENT INFORMATION

Primary reporting format – business segments

	Production and sales of gas			Distribution of gas			Elimination			Total		
	Year ended 31 December			Year ended 31 December			Year ended 31 December			Year ended 31 December		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
REVENUE												
External revenue	96,991,618	68,581,926	65,616,227	415,141,010	284,949,422	165,242,672	–	–	–	512,132,628	353,531,348	230,858,899
Total revenue	96,991,618	68,581,926	65,616,227	415,141,010	284,949,422	165,242,672	–	–	–	512,132,628	353,531,348	230,858,899
RESULTS												
Segment results	63,937,316	46,824,642	19,761,731	42,947,275	14,639,431	15,119,743	–	–	–	106,884,591	61,464,073	34,881,474
Other income										8,539,886	7,046,623	5,357,276
Profits from operations										115,424,477	68,510,696	40,238,750
Finance cost										(12,924,920)	(8,892,110)	(4,673,618)
Share of profits of associates	–	–	–	1,880,132	921,886	421,055	–	–	–	1,880,132	921,886	421,055
Profit before tax										104,379,689	60,540,472	35,986,187
ASSETS												
Segment assets	289,060,076	258,799,138	282,648,030	512,710,797	359,236,887	229,399,349	(71,019,672)	(15,746,041)	(55,155,254)	730,751,201	602,289,984	456,892,125
Investments in associates	–	–	–	29,528,832	29,110,495	28,997,275	–	–	–	29,528,832	29,110,495	28,997,275
Total assets										760,280,033	631,400,479	485,889,400
LIABILITIES												
Segment liabilities	51,647,442	79,519,855	132,251,536	289,359,839	179,570,942	75,824,512	(71,019,672)	(15,746,041)	(55,155,254)	269,987,609	243,344,756	152,920,794
Current tax liabilities										1,589,556	3,078,334	2,103,698
Deferred taxation										6,018,873	3,147,196	1,740,424
Total liabilities										277,596,038	249,570,286	156,764,916
OTHER SEGMENT INFORMATION												
Capital expenditure												
Allocated amounts	80,645,687	101,991,457	76,932,979	39,547,285	48,350,616	85,644,171	–	–	–	120,192,972	150,342,073	162,577,150
										120,192,972	150,342,073	162,577,150
Depreciation and amortisation												
Allocated amounts	21,356,330	18,209,345	7,924,771	27,103,535	17,734,988	15,639,661	–	–	–	48,459,865	35,944,333	23,564,432
										48,459,865	35,944,333	23,564,432
Other non-cash expenses other than depreciation and amortisation	–	–	–	519,171	219,614	1,851,387	–	–	–	519,171	219,614	1,851,387

Secondary reporting format – geographical segments

All of the Huayou Group's revenue and assets are derived from customers and operations based in the PRC and accordingly, no further analysis of the Huayou Group's geographical segments is disclosed.

8. FINANCE COST

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Interest on bank loans	5,101,211	9,245,640	2,747,536
Interest on other loans wholly repayable within five years	10,111,858	3,195,722	1,926,082
Total borrowing costs	15,213,069	12,441,362	4,673,618
Amount capitalised	(2,288,149)	(3,549,252)	–
	12,924,920	8,892,110	4,673,618

Borrowing costs on funds borrowed generally are capitalised at a rate of 8.0% per annum (2007: 8.0%).

9. INCOME TAX EXPENSE

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
The PRC current tax			
Provision for the year	12,370,169	9,291,643	5,460,800
Deferred tax	2,871,677	1,406,772	564,992
	15,241,846	10,698,415	6,025,792

Tax charge on profits assessable in the PRC have been calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the profit before tax is as follows:

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Profit before tax	104,379,689	60,540,472	35,986,187
Tax at the domestic income tax rate of 25% (2006 and 2007: 33%)	26,094,922	19,978,356	11,875,442
Tax effect of expenses that are not deductible and revenue not taxable	1,070,725	131,719	2,403,011
Effect of income tax at preferential rate	(12,376,909)	(11,391,170)	(8,252,661)
Tax effect of current year tax loss not recognised	453,108	1,979,510	–
Income tax expenses	15,241,846	10,698,415	6,025,792

10. PROFIT FOR THE YEAR

The Huayou Group's profit for the year is stated after charging the following:

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Depreciation	47,736,918	34,941,859	22,924,780
Directors' emoluments			
– As directors	–	–	–
– For management	–	–	–
	–	–	–
Operating lease charges of land and buildings			
Auditor's remuneration	390,000	220,000	173,000
Cost of inventories sold	241,067,727	166,196,549	103,396,604
Loss on written-off of property, plant and equipment	519,171	219,614	1,851,387
Staff costs including directors' emoluments			
Salaries, bonus and allowances	22,865,183	16,926,822	6,191,751
Retirement benefits scheme contributions	1,892,873	273,041	–
	24,758,056	17,199,863	6,191,751

11. DIVIDEND PAID

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Final	–	8,500,000	6,000,000
Rate of dividend per share	–	0.05	0.06

12. RETIREMENT BENEFIT SCHEMES

The employees of the Huayou Group are members of a central pension scheme operated by the local municipal government. Huayou Group is required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Huayou Group. The only obligation of the Huayou Group with respect to the central pension scheme is to meet the required contributions under the scheme.

13. PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF HUAYOU

The profit for the year attributable to equity holders of Huayou included a profit of RMB53,225,517 (2007 and 2006: RMB30,888,211 and RMB 15,261,997 respectively) which has been dealt with in the financial information of Huayou.

14. PROPERTY. PLANT AND EQUIPMENT

Huayou Group	Gas properties RMB	Buildings RMB	Tools, equipments and others RMB	Transportation facilities RMB	Construction in progress RMB	Total RMB
Cost						
At 1 January 2006	85,376,519	34,775,163	83,250,654	16,917,215	18,298,157	238,617,708
Additions	14,947,009	–	48,011,672	31,899,787	67,718,682	162,577,150
Disposals	–	(240,690)	(2,325,358)	(1,294,475)	–	(3,860,523)
Transfer	41,389,307	17,822,656	–	–	(59,211,963)	–
At 31 December 2006	141,712,835	52,357,129	128,936,968	47,522,527	26,804,876	397,334,335
Additions	–	49,951	2,996,689	5,362,505	141,932,928	150,342,073
Disposals	–	(94,235)	(69,342)	(175,231)	–	(338,808)
Transfer	80,169,927	9,462,434	29,788,111	1,914,379	(121,334,851)	–
At 31 December 2007	221,882,762	61,775,279	161,652,426	54,624,180	47,402,953	547,337,600
Additions	–	–	2,939,795	13,114,308	104,138,869	120,192,972
Disposals	–	(3,322,467)	(3,432,424)	(2,528,395)	–	(9,283,286)
Transfer	92,474,953	12,846,039	30,042,645	–	(135,363,637)	–
At 31 December 2008	314,357,715	71,298,851	191,202,442	65,210,093	16,178,185	658,247,286
Depletion, depreciation and amortisation and impairment						
At 1 January 2006	21,174,404	2,353,894	19,106,441	1,964,700	–	44,599,439
Charge for the year	7,924,771	1,982,091	9,495,777	3,522,141	–	22,924,780
Written back on disposals	–	(24,191)	(1,333,734)	(651,211)	–	(2,009,136)
At 31 December 2006	29,099,175	4,311,794	27,268,484	4,835,630	–	65,515,083
Charge for the year	18,209,345	2,531,021	9,596,972	4,604,521	–	34,941,859
Transfer	–	(59,737)	(23,052)	82,789	–	–
Written back on disposals	–	(15,029)	(38,198)	(50,189)	–	(103,416)
At 31 December 2007	47,308,520	6,768,049	36,804,206	9,472,751	–	100,353,526
Charge for the year	21,356,330	2,711,102	18,024,515	5,644,971	–	47,736,918
Written back on disposals	–	(1,084,760)	(917,902)	(383,210)	–	(2,385,872)
At 31 December 2008	68,664,850	8,394,391	53,910,819	14,734,512	–	145,704,572
Carrying amounts						
At 31 December 2008	245,692,865	62,904,460	137,291,623	50,475,581	16,178,185	512,542,714
At 31 December 2007	174,574,242	55,007,230	124,848,220	45,151,429	47,402,953	446,984,074
At 31 December 2006	112,613,660	48,045,335	101,668,484	42,686,897	26,804,876	331,819,252

As at 31 December 2008, the carrying amount of property, plant and equipment pledged as security for the Huayou Group's bank loans amounted to RMB3,164,865 (2007 and 2006: RMB3,121,427 and RMB3,888,731 respectively).

Huayou	Gas properties RMB	Buildings RMB	Plant and machinery RMB	Transportation facilities RMB	Construction in progress RMB	Total RMB
Cost						
At 1 January 2006	31,510,718	19,843,566	16,993,729	2,468,469	18,298,161	89,114,643
Additions	–	–	3,536,638	549,822	59,373,290	63,459,750
Disposals	–	(47,707)	(693,918)	(341,742)	–	(1,083,367)
Transfer	55,506,138	283,982	35,634	–	(55,825,754)	–
At 31 December 2006	87,016,856	20,079,841	19,872,083	2,676,549	21,845,697	151,491,026
Additions	–	–	56,615	–	110,352,325	110,408,940
Disposals	–	(691,436)	(4,413,173)	–	–	(5,104,609)
Transfer	76,903,273	2,653,827	25,270,680	(549,822)	(104,277,958)	–
At 31 December 2007	163,920,129	22,042,232	40,786,205	2,126,727	27,920,064	256,795,357
Additions	–	–	1,601,820	–	79,886,739	81,488,559
Disposals	–	(973,955)	–	–	–	(973,955)
Transfer	90,083,440	4,494,711	4,563,367	–	(99,141,518)	–
At 31 December 2008	254,003,569	25,562,988	46,951,392	2,126,727	8,665,285	337,309,961
Depletion, depreciation and amortisation and impairment						
At 1 January 2006	6,433,154	1,460,410	8,650,415	1,183,054	–	17,727,033
Charge for the year	6,521,671	636,527	1,640,837	245,728	–	9,044,763
Written back on disposals	–	(6,556)	(611,932)	(212,669)	–	(831,157)
At 31 December 2006	12,954,825	2,090,381	9,679,320	1,216,113	–	25,940,639
Charge for the year	15,973,131	1,294,346	2,613,279	187,069	–	20,067,825
Written back on disposals	–	(281,446)	(3,090,272)	–	–	(3,371,718)
Transfer	–	20,387	(21,013)	626	–	–
At 31 December 2007	28,927,956	3,123,668	9,181,314	1,403,808	–	42,636,746
Charge for the year	19,562,224	693,131	2,992,120	245,749	–	23,493,224
Written back on disposals	–	(973,955)	–	–	–	(973,955)
At 31 December 2008	48,490,180	2,842,844	12,173,434	1,649,557	–	65,156,015
Carrying amounts						
At 31 December 2008	205,513,389	22,720,144	34,777,958	477,170	8,665,285	272,153,946
At 31 December 2007	134,992,173	18,918,564	31,604,891	722,919	27,920,064	214,158,611
At 31 December 2006	74,062,031	17,989,460	10,192,763	1,460,436	21,845,697	125,550,387

15. PREPAID LEASE PAYMENTS

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
Leasehold land in the PRC			
Medium-term lease	27,255,865	24,107,830	22,274,215
Analysed for reporting purpose as:			
Non-current asset	26,532,918	23,384,883	21,627,919
Current asset	722,947	722,947	646,296
	27,255,865	24,107,830	22,274,215

As at 31 December 2008, the carrying amount of prepaid lease payment pledged as security for the Huayou Group's bank loans amounted to RMB4,172,371 (2007 and 2006: Nil).

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou			
Leasehold land in the PRC			
Medium-term lease	11,242,071	7,784,852	11,086,125
Analysed for reporting purpose as:			
Non-current asset	11,015,290	7,572,173	10,873,446
Current asset	226,781	212,679	212,679
	11,242,071	7,784,852	11,086,125

16. GOODWILL

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
Carrying amount	2,224,779	2,224,779	2,224,779

17. INTEREST IN SUBSIDIARIES

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou			
Unlisted investments, at cost	142,452,236	122,052,236	96,472,117

The amounts due from/to subsidiaries are unsecured, at the fixed interests rate of 8% per annum and have no fixed terms of repayment.

18. INVESTMENTS IN ASSOCIATES

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou Group			
Share of net assets	29,528,832	29,110,495	28,997,275
Huayou			
Unlisted investments, at cost	26,468,101	25,850,900	24,709,180

Details of the Huayou Group's associates are as follows:

Name	Place of incorporation/ registration and operation	Issued and paid-up capital *RMB*	Percentage of ownership interest/ voting power/profit sharing Direct	Indirect	Principal activities
陝西安然能源科技有限公司	the PRC	47,778,137	41%	–	Exploration and production of natural gas
海口大眾天然氣開發利用有限公司*	the PRC	30,000,000	11%	–	Distribution of natural gas
成都公交天運裝縮天然氣有限公司	the PRC	6,000,000	–	35%	Distribution of natural gas

* Huayou has the significant influence to participate the financial and operating policies of 海口大眾天然氣開發利用有限公司. Therefore, the equity method is adopted by the Huayou Group.

Summarised financial information in respect of the Huayou Group's associate are set out below:

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Total assets	106,658,651	110,169,090	117,121,901
Total liabilities	(10,729,989)	(17,489,020)	(23,612,575)
Net assets	95,928,662	92,680,070	93,509,326

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Revenue	105,727,760	89,175,543	82,039,184
Profit for the year	5,864,682	5,309,767	6,585,403

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
Unlisted equity securities, at cost	6,618,518	2,500,000	3,434,692
Huayou			
Unlisted equity securities, at cost	2,500,000	2,500,000	3,434,692

Unlisted equity securities were carried at cost as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

20. INVENTORIES

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
Raw materials and consumable stores	2,194,836	1,306,182	1,522,787
Huayou			
Raw materials and consumable stores	455,693	455,693	455,693

21. TRADE RECEIVABLES

The Huayou Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Huayou Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of trade receivables, based on the invoice date, is as follows:

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
30 days or less	11,477,301	10,641,276	9,372,837
31 days to 60 days	84,889	2,625,719	1,084,446
61 days to 180 days	1,374,281	1,029,137	1,024,634
Over 180 days	572,344	858,762	598,169
	13,508,815	15,154,894	12,080,086
Huayou			
30 days or less	5,491,035	4,142,415	928,702
31 days to 60 days	40,613	800,343	107,452
61 days to 180 days	657,491	647,695	101,525
Over 180 days	273,824	580,323	59,270
	6,462,963	6,170,776	1,196,949

22. BORROWINGS

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou Group			
Borrowings repayable within one year:			
Bank Ioans – secured	53,500,000	144,000,000	64,000,000
Other borrowings – unsecured, non-interest bearing	–	–	1,000,000
	53,500,000	144,000,000	65,000,000

As at 31 December 2008, Huayou Group's bank loans of RMB42,000,000 (2007 and 2006: RMB130,000,000 and RMB50,000,000 respectively) are secured by the guarantee given by the immediate holding company.

All of the Huayou Group's borrowings are denominated in RMB.

The average interest rates at 31 December were as follows:

	As at 31 December		
	2008	**2007**	**2006**
Bank loans	7.9%	6.5%	5.6%

All bank loans are arranged at floating rates, thus exposing Huayou Group to cash flow interest rate risk.

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou			
Borrowings repayable within one year:			
Bank loans – secured	42,000,000	130,000,000	50,000,000

As at 31 December 2008, Huayou Group's bank loans of RMB42,000,000 (2007 and 2006: RMB130,000,000 and RMB50,000,000 respectively) are secured by the guarantee given by the immediate holding company.

All of the Huayou Group's borrowings are denominated in RMB.

The average interest rates at 31 December were as follows:

	As at 31 December		
	2008	**2007**	**2006**
Bank loans	7.5%	6.5%	5.6%

All bank loans are arranged at floating rates, thus exposing Huayou to cash flow interest rate risk.

23. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	As at 31 December		
	2008	2007	2006
	RMB	*RMB*	*RMB*
Huayou Group			
30 days or less	20,168,387	11,527,793	8,672,015
31 days to 60 days	2,983,608	2,792,193	2,100,483
61 days to 180 days	5,638,306	7,748,292	5,828,809
Over 180 days	7,000,247	9,699,042	7,296,300
	35,790,548	31,767,320	23,897,607
Huayou			
30 days or less	13,272,706	8,854,771	2,701,025
31 days to 60 days	2,898,608	2,460,269	750,471
61 days to 180 days	5,395,310	5,357,805	1,634,324
Over 180 days	2,179,619	–	–
	23,746,243	16,672,845	5,085,820

24. LOAN FROM IMMEDIATE HOLDING COMPANY

The advance is unsecured and has no fixed repayment terms.

	As at 31 December		
	2008	2007	2006
Average interest rates at 31 December	8.0%	8.0%	8.0%

The loan from immediate holding company is denominated in RMB.

25. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Huayou Group.

	Accelerated tax depreciation
	RMB
Huayou Group	
At 1 January 2006	1,175,432
Charge to income statement for the year	564,992
At 31 December 2006	1,740,424
Charge to income statement for the year	1,406,772
At 31 December 2007	3,147,196
Charge to income statement for the year	2,871,677
At 31 December 2008	6,018,873

	Accelerated tax depreciation
	RMB
Huayou	
At 1 January 2006	612,819
Charge to income statement for the year	8,100
At 31 December 2006	620,919
Charge to income statement for the year	681,554
At 31 December 2007	1,302,473
Charge to income statement for the year	2,054,706
At 31 December 2008	3,357,179

26. SHARE CAPITAL

The Huayou Group's objectives when managing capital are to safeguard the Huayou Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Huayou Group sets the amount of capital in proportion to risk. The Huayou Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Huayou Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou Group and Huayou			
Issued and fully paid:			
170,000,000 ordinary shares of RMB1.00 each	170,000,000	170,000,000	170,000,000

27. RESERVES

a) Huayou Group

The amounts of the Huayou Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

b) Huayou

	Note	**Share premium account** *RMB*	**Capital reserve** *RMB*	**Statutory surplus reserve** *RMB*	**Retained profits** *RMB*	**Total** *RMB*
At 1 January 2006		15,955,224	1,379,475	1,225,324	4,876,933	23,436,956
Profit for the year	*13*	–	–	–	15,261,997	15,261,997
Dividend paid		–	–	–	(6,000,000)	(6,000,000)
Transfer		–	–	2,194,708	(2,194,708)	–
Capital contribution		42,000,000	–	–	–	42,000,000
At 31 December 2006		57,955,224	1,379,475	3,420,032	11,944,222	74,698,953
Profit for the year	*13*		–	–	30,888,211	30,888,211
Dividend paid		–	–	–	(8,500,000)	(8,500,000)
Transfer		–	–	3,088,822	(3,088,822)	–
At 31 December 2007		57,955,224	1,379,475	6,508,854	31,243,611	97,087,164
Profit for the year	*13*	–	–	–	53,225,517	53,225,517
Transfer		–	–	5,322,551	(5,322,551)	–
At 31 December 2008		57,955,224	1,379,475	11,831,405	79,146,577	150,312,681

c) Nature and purpose of reserves

(i) Share premium account

Share premium account represents the excess of fund received over the par value upon the issue of shares of Huayou. According to the relevant regulations in the PRC, the amount of this reserve is not available for distribution.

(ii) Statutory surplus reserve

The Huayou Group is required to transfer 10% of its profit after tax (after offsetting prior years losses) calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the Directors' recommendation. Such reserve may be used to reduce any losses incurred by the Huayou Group or be capitalised as paid-up capital of the Huayou Group.

(iii) Capital reserve

Capital reserve represents the fund received from the relevant PRC authorities as the government grant upon the establishment of Huayou's subsidiaries. According to the relevant regulations in the PRC, the amount of this reserve is not available for distribution.

28. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2006, other payables of RMB 112,000,000 was transferred to share capital of RMB70,000,000 and share premium of RMB42,000,000. In addition, capital reserve of RMB12,958,735 contributed by minority interests of a subsidiary was transferred to other payables pursuant to the board resolution of the subsidiary.

29. LEASE COMMITMENTS

At 31 December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou Group and Huayou			
Future aggregate minimum lease payments under operating leases in respect of land and buildings			
– within one year	1,275,000	1,305,000	–
– in the second to fifth year inclusive	5,100,000	4,620,000	–
– in more than five years	17,322,500	16,617,500	–
	23,697,500	22,542,500	–

Operating lease payments represent rentals payable by the Huayou Group for certain of its gas stations. Leases are negotiated for an average term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

30. OTHER COMMITMENTS

There was no material other commitments as at the balance sheet date.

31. RELATED PARTY TRANSACTIONS

The Huayou Group had the following transactions with its related parties during the years:

	Year ended 31 December		
	2008	**2007**	**2006**
	RMB	*RMB*	*RMB*
Huayou Group			
Interest paid to immediate holding company	10,111,858	3,195,722	901,944
Purchase from fellow subsidiaries	241,956,381	165,979,944	95,771,069

32. EVENTS AFTER THE BALANCE SHEET DATE

There was no material events after the balance sheet date.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Huayou or any of its subsidiaries in respect of any period subsequent to 31 December 2008.

ANDA CPA Limited
Certified Public Accountants

Sze Lin Tang
Practising Certificate Number P03614
Hong Kong, 9 March 2009

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP

The accompanying unaudited pro forma statement of assets and liabilities of the Group (the "Statement") has been prepared to illustrate the effect of the Huayou Capital Injection, assuming the transaction had been completed as at 30 June 2008, might have affected the financial position of the Group.

The Statement is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2008 as extracted from the interim report of the Group for the six months ended 30 June 2008 and the audited consolidated balance sheet of China Natural Gas Co., Limited as at 31 December 2008 as extracted from the Accountants' Report set out in Appendix IV to the circular after making certain proforma adjustments resulting from the Huayou Capital Injection.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Group that would have been attained had the Huayou Capital Injection actually occurred on 30 June 2008. Furthermore, the Statement does not purport to predict the Group's future financial position.

The Statement should be read in conjunction with the financial information of the Group as set out in Appendix III to the circular, the financial information of China Natural Gas Co., Limited as set out in Appendix IV to the circular and other financial information included elsewhere in the circular.

For the purpose of presenting the Statement, the audited consolidated balance sheet of China Natural Gas Co., Limited as at 31 December 2008 is translated at the exchange rate of RMB1 = HK$1.1343.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP

AS AT 30 JUNE 2008

	The Group	The Huayou Group	Total	Adjustments	Notes	Adjusted Balance
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-Current Assets						
Property, plant and equipment	3,069,305	581,377	3,650,682	–		3,650,682
Prepaid lease payments	3,488	30,096	33,584	–		33,584
Goodwill	–	2,524	2,524	–		2,524
Interests in jointly controlled entities	921,681	–	921,681	–		921,681
Loans to jointly controlled entities	46,009	–	46,009	–		46,009
Interests in associates	13,219,317	33,495	13,252,812	–		13,252,812
Available-for-sale investments	74,087	7,507	81,594	–		81,594
Other non-current assets	2,162	6,783	8,945	–		8,945
Deferred taxation assets	63,123	–	63,123	–		63,123
	17,399,172	661,782	18,060,954	–		18,060,954
Current Assets						
Inventories	38,587	2,490	41,077	–		41,077
Trade and other receivables	439,987	62,200	502,187	–		502,187
Prepaid lease payments	–	820	820	–		820
Dividend receivable from an associate	1,590,856	–	1,590,856	–		1,590,856
Bank deposits with original maturity more than three months	5,840	–	5,840	–		5,840
Bank balances and cash	4,898,813	135,094	5,033,907	–		5,033,907
	6,974,083	200,604	7,174,687	–		7,174,687

	The Group	The Huayou Group	Total	Adjustments	Notes	Adjusted Balance
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Current liabilities						
Trade and other payables	851,320	79,682	931,002	–		931,002
Bank loans	–	60,685	60,685	–		60,685
Dividend payable	–	–	–	–		–
Loan from immediate holding company	–	165,880	165,880	(165,880)	*(1)*	–
Amount due to ultimate holding company	1,409	–	1,409	–		1,409
Amounts due to minority shareholders of subsidiaries	49,058	–	49,058	165,880	*(1)*	214,938
Taxation payable	282,752	1,803	284,555	–		284,555
	1,184,539	308,050	1,492,589	–		1,492,589
Net current assets/(liabilities)	5,789,544	(107,446)	5,682,098	–		5,682,098
Non-current liabilities						
Other loan-amount due over one year	832,623	–	832,623	–		832,623
Deferred taxation liabilities	568,872	6,827	575,699	–		575,699
	1,401,495	6,827	1,408,322	–		1,408,322
NET ASSETS	21,787,221	547,509	22,334,730	–		22,334,730

Notes:

1. To reclassify loan from immediate holding company to amounts due to minority shareholders of subsidiaries upon completion of the Huayou Capital Injection.

2. The excess of approximately HK$37,472,000 arising from the Company's share of the Huayou Group's net fair value of the identifiable assets, liabilities and contingent liabilities amounted approximately HK$531,068,000 over the cost of capital injection of approximately HK$493,596,000 will be recognised in the consolidated income statement of the Enlarged Group.

(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP

The following is the text of an accountants' report on the unaudited pro forma statement of assets and liabilities on the Enlarged Group from ANDA CPA Limited, which has been prepared for the purpose of inclusion in this circular.

ANDA
CPA Limited
安達會計師事務所有限公司

9 March 2009

The Board of Directors
CNPC (Hong Kong) Limited
Room 3907-3910, 39th Floor
118 Connaught Road West
Hong Kong

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the "Statement") of CNPC (Hong Kong) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed injection to subscribe for 51.01% of the enlarged equity interests in China Natural Gas Co., Limited might have affected the assets and liabilities of the Group presented, for inclusion in Appendix V to the circular of the Company dated 9 March 2009 (the "Circular"). The basis of preparation of the Statement is set out on page 227 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Statement with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Statement is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2008 or at any future date.

Opinion

In our opinion:

(a) the Statement has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes the particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director and chief executive of the Company is taken or deemed to have under such provisions of the SFO); or (b) were required to be entered into the register maintained by the Company, pursuant to section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules are set out below.

2.1 Ordinary Shares of HK$0.01 Each of the Company

Name	Number of Shares	Capacity and Nature of Interests	Percentage of Issued Shares
Li Kwok Sing Aubrey(1)	1,000,000	Beneficial owner	0.02%

Notes:

(1) The interests held by Mr. Li Kwok Sing Aubrey represent long position in the Shares of the Company.

2.2 Share Options

Shares options were granted to the Directors and chief executive of the Company under the executive share option scheme approved by the Board on 3 June 2002, details of which are set out below:

Name	Date of Grant	Exercise Period	Exercise Price	Outstanding at 01/01/08	Number of Share Options		Outstanding at the Latest Practicable Date
					Granted	Exercised	
			HK$				
Lau Wah Sum	08/01/04	08/04/04 – 07/01/09	1.362	3,500,000	–	3,500,000	–
Li Kwok Sing Aubrey	08/01/04	08/04/04 – 07/01/09	1.362	3,500,000	–	3,500,000	–
Cheng Cheng	25/06/04	25/09/04 – 24/06/09	0.940	20,000,000	–	4,360,000	15,640,000
	08/01/07	08/04/07 – 07/01/12	4.186	10,000,000	–	–	10,000,000
	26/05/08	26/08/08 – 25/05/13	4.240	–	1,500,000	–	1,500,000
Li Hualin	27/04/05	27/07/05 – 26/04/10	1.224	20,000,000	–	–	20,000,000
	08/01/07	08/04/07 – 07/01/12	4.186	25,000,000	–	–	25,000,000
	26/05/08	26/08/08 – 25/05/13	4.240	–	3,200,000	–	3,200,000
Liu Xiao Feng	27/04/05	27/07/05 – 26/04/10	1.224	1,600,000	–	–	1,600,000
Zhang Bowen	08/01/07	08/04/07 – 07/01/12	4.186	20,000,000	–	–	20,000,000
	26/05/08	26/08/08 – 25/05/13	4.240	–	2,400,000	–	2,400,000
				103,600,000	7,100,000	11,360,000	99,340,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or the chief executive of the Company is taken or deemed to have under such provisions of the SFO); or (b) were required to be entered into the register maintained by the Company, pursuant to section 352 of the SFO; or (c) were required to be notified to the Company or the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers contained in the Listing Rules, and none of the Directors, nor their spouse or children under the age of 18, had any right to subscribe for securities of the Company, or had exercised any such right since 31 December 2007 (being the date of the Company's latest published audited accounts).

2.3 Competing Business

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

2.4 Additional Disclosure of Interest

There was no contract or arrangement subsisting as at the Latest Practicable Date, in which any of the Directors was materially interested and which was significant in relation to the businesses of the Group.

Save as disclosed herein, none of the Directors, directly or indirectly, has had any interest in any assets which had since 31 December 2007 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Name	Number of Shares Direct Interest	Number of Shares Indirect Interest	Percentage of the total number of Shares in issue
Sun World Limited[(1)]	2,513,917,342(L)	–	56.61%
PetroChina Hong Kong (BVI) Ltd.[(1)]	–	2,513,917,342(L)	56.61%
PetroChina Hong Kong Ltd.[(1)]	–	2,513,917,342(L)	56.61%
PetroChina Company Limited ("PetroChina")[(1)]	–	2,513,917,342(L)	56.61%
CNPC Finance (HK) Ltd.[(2)]	8,500,000 (L)	–	0.19%
China Petroleum Finance Company Ltd.[(2)]	–	8,500,000 (L)	0.19%
China National Petroleum Corporation ("CNPC")[(1)(2)]	–	2,522,417,342(L)	56.80%

Notes:

(1) Sun World Limited is a wholly-owned subsidiary of PetroChina Hong Kong (BVI) Ltd., which in turn is wholly owned by PetroChina Hong Kong Ltd. PetroChina Hong Kong Ltd. is wholly owned by PetroChina, which is in turn owned as to 86.29% by CNPC. Accordingly, CNPC is deemed to have interest in the 2,513,917,342 Shares held by Sun World Limited. Mr. Li Hualin, the chairman of the Company and Mr. Zhang Bowen, the chief executive officer of the Company are also directors of Sun World Limited, which is substantial shareholder of the Company (within the meaning of Part XV of the SFO).

(2) CNPC Finance (HK) Ltd. is a wholly-owned subsidiary of China Petroleum Finance Company Ltd., which is in turn owned as to 98.97% by CNPC. Accordingly, CNPC is deemed to have interest in the 8,500,000 Shares held by CNPC Finance (HK) Ltd.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

4. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors or proposed directors has any existing service contract or proposed service contract with the Company or any of its subsidiaries which was not terminable by the Company within one year without payment of consideration.

5. MATERIAL ADVERSE CHANGE

There has been a significant decrease in the price of crude oil in the international market. With reference to the Brent crude oil price, the crude oil price has been sliding from US$146 per barrel in July 2008 to the recent trench of around US$30 to US$50 per barrel. As the Company is engaged in, among other things, exploration and production of crude oil, the financial results of the Group would be adversely affected should the price of crude oil remain at such level or be further reduced.

Save as the aforementioned, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007 (being the date to which the latest published audited financial statements of the Company have been made up) and up to the Latest Practicable Date.

6. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

Name	Qualification
Guangdong Securities	a licensed corporation for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Kaiwen Law Firm	PRC Lawyers
BMI Appraisals Limited	Independent Professional Valuer
ANDA CPA Limited	Certified Public Accountants
China United Assets Appraisal Co., Ltd.	China Certified Public Assets Valuer

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/ or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, the experts referred to above were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of the experts referred to above, directly or indirectly, has had any interest in any assets which had since 31 December 2007 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (other than contracts entered into in the ordinary course of business) which have been entered into by members of the Group within two years prior to the date of this circular and up to the Latest Practicable Date:

(i) the capital injection agreement dated 19 December 2008 among the Company, Shennan Oil, Shenzhen Petroleum and Hainan Fushan Oilfield Exploration and Development Limited Liability Company, pursuant to which the Company has conditionally agreed to subscribe for capital in Shennan Oil of RMB52,000,000 in consideration of RMB95,091,220, representing 50.98% of the shareholding interests of Shennan Oil upon completion;

(ii) the acquisition agreement dated 9 January 2009 between the Company and PetroChina, pursuant to which the Company has conditionally agreed to purchase, and PetroChina has conditionally agreed to sell 89,525,100 shares, representing 44.76% interest in Xinjiang Xinjie at a consideration of RMB150,975,100;

(iii) the acquisition agreement dated 9 January 2009 between the Company and Lead Source Limited, pursuant to which the Company has conditionally agreed to purchase, and Lead Source Limited has conditionally agreed to sell 87,685,000 shares, representing 43.84% interest in Xinjiang Xinjie at a consideration of RMB147,871,900;

(iv) the acquisition agreement dated 9 January 2009 between the Company and Xinjiang Tongyu Co., Ltd., pursuant to which the Company has conditionally agreed to purchase, and Xinjiang Tongyu Co., Ltd. has conditionally agreed to sell, 8,660,500 shares, representing 4.33% interest in Xinjiang Xinjie at a consideration of RMB14,605,000;

(v) the acquisition agreement dated 9 January 2009 between the Company and Xinjiang Tongyuan Co., Ltd., the Company has conditionally agreed to purchase, and Xinjiang Tongyuan Co., Ltd. has conditionally agreed to sell, 8,660,500 shares, representing 4.33% interest in Xinjiang Xinjie at a consideration of RMB14,605,000; and

(vi) the capital injection agreement dated 16 February 2009 among the Company, Huayou, Shenzhen Petroleum, China Huayou Group, Zhejiang Jindi, Hengchanglong and Xihu Golf, pursuant to which the Company has conditionally agreed to subscribe for 177,000,000 shares of Huayou in consideration of RMB435,154,500, representing 51.01% of the shareholding interests of Huayou upon completion.

8. LITIGATION

None of the members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

9. MISCELLANEOUS

(i) The registered office of the Company is Clarendon House, Church Street, Hamilton HM11, Bermuda.

(ii) The principal office of the Company in Hong Kong is at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong.

(iii) The share registrar of the Company in Hong Kong is Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.

(iv) The secretary of the Company is Mr. Lau Hak Woon, member of Hong Kong Institute of Certified Public Accountants in Hong Kong, fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada.

(v) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the office of the Company at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong from the date of this circular up to and including 23 March 2009:

(i) the memorandum and articles of association of the Company;

(ii) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(iii) the annual reports of the Company for the two financial years ended 31 December 2007 and the interim report of the Company for the six months ended 30 June 2008;

(iv) the "Letter from the Independent Board Committee" as set out in this circular;

(v) the "Letter from Guangdong Securities" as set out in this circular;

(vi) the property valuation report of Huayou prepared by BMI Appraisals Limited as set out in Appendix I to this circular;

(vii) the legal opinion prepared by Kaiwen Law Firm in respect of the property interests of Huayou Group in the PRC;

(viii) the assets valuation report of Huayou prepared by China United Assets Appraisal Co., Ltd. as set out in Appendix II to this circular;

(ix) the Accountants' Report of Huayou for the three years ended 31 December 2008 from ANDA CPA Limited as out in Appendix IV to this circular;

(x) the Accountants' Report from ANDA CPA Limited in respect of the unaudited pro forma statement of assets and liabilities on the Enlarged Group as set out in Appendix V to this circular;

(xi) the written consents of each of the experts referred to under the section headed "Qualification and Consent of Experts" in this appendix;

(xii) the circular of the Company dated 22 January 2009 in respect of Xinjiang Xinjie Acquisitions;

(xiii) the Xinjiang Contract;

(xiv) the Liaohe Contract;

(xv) the Master Agreement;

(xvi) form of the Second Supplemental Agreement; and

(xvii) this circular.

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

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Special General Meeting of CNPC (Hong Kong) Limited (the "Company") will be convened at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88, Queensway, Hong Kong on 24 March 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolutions of the Company:–

1. "**THAT**:

   (i) the transactions contemplated under the Huayou Capital Injection Agreement (as defined in the circular of the Company dated 9 March 2009 (the "Circular")) (a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purposes) be and are hereby generally and unconditionally approved; and

   (ii) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/ are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to the Huayou Capital Injection."

2. "**THAT**:

   (i) the continuing connected transactions between the Group and the CNPC Group regarding (a) the provision of products and services by the CNPC Group to the Group under the PSAs, the Master Agreement and for the avoidance of doubt including those under the Second Supplemental Agreement but excluding the Oil and Gas Products; (b) purchase of the Group's share of crude oil by the CNPC Group; and (c) purchase of the Oil and Gas Products by the Group, as set out in the "Letter from the Board" in the Circular be and are hereby generally and unconditionally approved;

   (ii) the proposed annual caps in respect of the continuing connected transactions mentioned in Resolution 2(i) above for each of the three financial years ending 31 December 2011 as set out in the "Letter from the Board" in the Circular be and are hereby generally and unconditionally approved; and

* *For identification purpose only*

(iii) any one director (if execution under the common seal of the Company is required, any two directors) of the Company be and is/ are hereby authorised for and on behalf of the Company to sign, and where required, to affix the common seal of the Company to any documents, instruments or agreements, and to do any acts and things deemed by him to be necessary or expedient in order to give effect to the Continuing Connected Transactions."

By Order of the Board
Lau Hak Woon
Company Secretary

Hong Kong, 9 March 2009

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/ her stead. A proxy need not be a member of the Company. **Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or any adjourned meeting should he so wish.**

2. To be valid, the form of proxy, together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's principal office at Rooms 3907 – 3910, 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. The form of proxy must be completed strictly in accordance with the instructions set out therein.

3. CNPC and its associates will abstain from voting in respect of Resolutions Nos. 1 and 2.

4. Unless otherwise defined, terms use in this notice including the resolutions shall have the same meanings as those defined in the Circular.

* *For identification purpose only*