

PRC LAWS AND REGULATIONS*PRC Legal System*

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of the Special Administrative Regions and international treaties entered into by China. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings in addition to its power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations which they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC (中華人民共和國人民法院組織法), the judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels: the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other

special divisions, such as the intellectual property division. The higher level people's courts supervise the lower levels. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance at the same level and at the next higher level are binding. Judgments or orders of the first instance of the Supreme People's Court are also binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgment which has taken effect in the court over which he presides, the case may be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "Civil Procedure Law"), which was adopted on April 9, 1991, prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The parties to a contract may by express agreement select a jurisdiction provided that it is the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgment which the court has ordered to enforce within the stipulated time, the court will, upon application of another party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC who does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced according to PRC enforcement procedures by the people's court in accordance with the principle of reciprocity if the PRC has entered into or acceded to an international treaty with the relevant foreign country which provides for such recognition and enforcement unless the people's court finds that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or security, or for reasons of social and public interest.

The PRC Company Law, Overseas Listing Special Regulations and Mandatory Provisions

As a joint stock limited liability company incorporated in the PRC and seeking a listing on the Stock Exchange, we are subject to the following three laws in China:

- The PRC Company Law, which was promulgated by the Standing Committee of the NPC on December 29, 1993 and took effect on July 1, 1994, and was amended on December 25, 1999;
- The Overseas Listing Special Regulations (國務院關於股份有限公司境外募集股份及上市的特別規定), which were passed by the State Council on August 4, 1994 pursuant to Articles 85 and 155 of the PRC Company Law; and
- The Mandatory Provisions, which were jointly promulgated by the former Securities Committee and the former State Restructuring Commission on August 27, 1994, and which we, as a joint stock limited liability company seeking an overseas listing, must incorporate into our Articles of Association.

Set out below is a summary of the provisions of the PRC Company Law, the Overseas Listing Special Regulations and the Mandatory Provisions applicable to us.

Incorporation. A company may be incorporated by a minimum of five promoters, but at least half of the promoters must reside within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors. These companies if incorporated by public subscription may have less than five subscribers and can issue new shares once incorporated. We are incorporated under the PRC Company Law as a joint stock limited liability company. This means that we are a legal entity and that our registered capital is divided into Shares of equal par value. The liability of our Shareholders is limited to the amount of Shares held by them and we are liable to our creditors for an amount equal to the total value of our assets.

Under the PRC Company Law, we may invest in other limited liability companies in the PRC. Unless approved the State Council, the amount of our aggregate investment in other limited liability companies may not exceed 50% of our net assets.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the voting rights in the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with at least half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration had been given by the relevant administration for industry and commerce and a business license has been issued. Companies established by the public subscription method shall file a report on the offer of shares with the securities administration department of the State Council for record.

A company's promoters shall individually and collectively be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issue and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to issue and trading of shares in the PRC and their related activities), if a company is established by means of subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the Prospectus and to ensure that the Prospectus does not contain any misleading statement or omit any material information.

Establishment Procedures. After receiving the approval from the State Economic and Trade Commission, our Board of Directors submitted an application, which included the approval certificate, our Articles of Association, a capital verification report and other necessary documents, to the State Administration of Industry and Commerce. The State Administration of Industry and Commerce issued our business license on September 26, 2002.

Registered Capital. Our registered capital is equal to the amount of our paid up capital as recorded at the Administration of Industry and Commerce. The minimum registered capital of a joint stock limited liability company is Rmb 10,000,000. As a company authorized by CSRC to list our Shares on the Stock Exchange, we are required to have a registered capital of not less than Rmb 50,000,000.

Allotment and Issue of Shares. All issues of our Shares are based on the principles of transparency, equality and fairness. The same class of shares must carry equal rights. For each issue of our Shares, the terms of allotment for individual shares, including the subscription price, must be identical to other Shares in the same class. We may issue Shares at par value or at a premium, but we may not issue Shares below the par value.

We must obtain the approval of CSRC to offer our Shares to the overseas public. Under the Special Regulations, upon approval of the Securities Commission, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

Registered or Bearer Shares. The promoters may make capital contribution in cash, or in kind or by way of injection of assets, industrial property rights, non-patented technology or land use rights based on their appraised value. The amount of investment made in the form of industrial property rights and non-patented technology may not exceed 20% of the registered capital of the company. Shares that we issue to foreign investors and that are listed overseas must be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Shares that are purchased by investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are known as "overseas listed foreign shares." Within the PRC, all Shares that we issue to a promoter, State-designated investment institution or legal person must be in registered form and may not be held in the names of nominees. Shares that we issue to the public in China, however, may be in either registered or bearer form.

We are required to maintain a register of Shareholders for all Shares issued in registered form. Information such as our Shareholders' particulars, number of Shares held by each Shareholder and the dates on which the Shareholders became holders of the relevant Shares are required to be entered into the register.

We are also required to record the amount of bearer shares issued, the number designated to each bearer share and the date of issue of each bearer share.

Increase of share capital. We may increase our share capital by issuing new Shares only if we satisfy the following conditions:

- the immediately preceding issue of our Shares was subscribed for in full and at least one year has elapsed since the date of the immediately preceding Share issue, unless we increase our share capital by way of an issue of overseas listed foreign shares, in which case the time period may be less than 12 months;
- we have made a profit in each of the three financial years preceding the public offer of shares and are in a position to distribute dividends to our Shareholders;
- our financial and accounting statements for the three preceding financial years do not contain any false information; and
- our expected dividend yield is in excess of the interest rate of bank deposits for the same period.

We must obtain our Shareholders' approval to issue new Shares. After the Shareholders have approved a new issue, our Board of Directors must obtain the approval of the authorized department of the State Council or the provincial people's government. If we issue Shares by way of a public offering, we must also obtain the approval of the relevant securities administration authority. After we complete a subscription of new Shares, we must register the increase in registered capital with the Administration of Industry and Commerce and issue a public notice.

Reduction of Share Capital. Subject to minimum registered capital requirements, we may reduce our registered capital in accordance with the following procedures:

- we must prepare a current balance sheet and financial statement;
- our Shareholders must approve the reduction of registered capital in a general meeting;
- we must inform our creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- our creditors may within the statutory prescribed time limit require us to pay our debts or provide guarantees covering the debts; and
- we must register the reduction in registered capital with the Administration of Industry and Commerce.

Repurchase of Shares. We may only repurchase our Shares to reduce our registered share capital or to merge with another company which holds our Shares or for any other purpose permitted by law and relevant administrative regulations. The Mandatory Provisions stipulate that we must act in accordance with our Articles of Association and that we must obtain necessary approvals from any relevant supervisory authorities. We may repurchase our Shares by way of a general offer to our Shareholders or purchase our Shares on a stock exchange or by way of an off market contract.

After a repurchase of our Shares, we are required to cancel the portion of our Shares that have been repurchased, change our registration particulars and issue a public notice within 10 days.

Transfer of Shares. Our Shares may be transferred in accordance with any applicable laws and regulations, such as the PRC Company Law, the PRC Securities Laws and the Overseas Listing Special Regulations.

The Shares that we issued to CNOOC upon our incorporation may not be transferred for a three year period. Any Shares that are held by our Directors, Supervisors or manager may not be transferred during their respective terms of office.

The PRC Company Law does not limit the shareholding percentage of an individual Shareholder.

Transfers of Shares may not be entered in the register of Shareholders within 30 days before the date of a Shareholders' general meeting or within five days before the record date set for the purpose of distribution of dividends.

Shareholders. Under the PRC Company Law and the Mandatory Provisions, our Shareholders are entitled to the following rights:

- attend and vote in person or to appoint a proxy to attend and vote on his or her behalf at a general meeting;
- inspect our Articles of Association, minutes of Shareholders' meetings and financial reports and to put forward proposals and to ask questions relating to our operation;
- transfer our Shares on the Stock Exchange in accordance with any applicable laws and our Articles of Association;
- receive dividends in respect of the number of shares held if and when declared by our Board of Directors in accordance with our Articles of Association;
- receive a proportionate amount of our surplus assets if we are wound up;
- initiate legal proceedings in the people's court if a resolution passed at a Shareholders' meeting or Board of Directors' meeting infringes applicable law or administrative or the legitimate interests of our Shareholders;
- to receive surplus assets upon our termination in proportion to his or her shareholding; and
- any other shareholders' rights specified in our Articles of Association.

The obligations of a Shareholder include the obligation to abide by our Articles of Association, to pay the subscription monies in respect of the Shares subscribed for, to be liable for our debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the Shares taken up by him and any of the Shareholders' obligation specified in our Articles of Association.

Shareholders' General Meetings. Our Shareholders' may exercise the following powers in a Shareholders' general meeting:

- determine our business policies and investment plans;

- elect or remove our Directors and Supervisors and fix the remuneration of our Directors and Supervisors;
- consider and approve the reports of our Board of Directors and our supervisory committee;
- consider and approve our annual financial budget and accounting plans;
- consider and approve our profit distribution plan and plans for recovery of losses;
- approve an increase or reduction in our share capital;
- approve an issue of bonds;
- approve a merger, division, dissolution or liquidation; and
- approve amendments to our Articles of Association.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. An annual general meeting must be held once every year. Our Board of Directors is required to convene an extraordinary Shareholders' general meeting within two months after the occurrence of any of the following circumstances:

- the number of Directors on our Board of Directors is less than two-thirds of the number required under the PRC Company Law or our Articles of Association;
- our accumulated losses amount to one-third of our paid up capital;
- upon a request by holders of not less than 10% of our Shares; or
- the Board of Directors or the supervisory committee considers such a meeting necessary.

A Shareholders' general meeting is convened by the Board of Directors and presided over by the chairman of the Board of Directors. Under the Overseas Listing Special Regulations and the Mandatory Provisions, we are required to give 45 days' notice of a Shareholders' general meeting and this notice must specify the matters to be considered and the date and place of the meeting. If we have bearer Shares in issue, we must make a public announcement of the Shareholders' general meeting at least 45 days prior to the meeting being held. Under the Overseas Listing Special Regulations and the Mandatory Provisions, Shareholders who plan to attend a Shareholders' general meeting are required to provide us with a written confirmation of their intention 20 days prior to the meeting.

Under the Overseas Listing Special Regulations, Shareholders holding 5% or more of our total voting Shares are entitled to submit written resolutions to be considered at an annual Shareholders' general meeting and we must include in the agenda of that meeting any proposed resolutions which are within the powers of an annual Shareholders' general meeting.

The Overseas Listing Special Regulations and the Mandatory Provisions provide that a meeting of our Shareholders may be held if Shareholders holding 50% or more of our voting Shares have confirmed in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. If this 50% level is not attained, a Shareholders' general meeting may only be held if we notify the Shareholders of the agenda, venue and date of the meeting by public announcement within five days after the deadline for confirming attendance.

Each Shareholder present at a Shareholders' general meeting is entitled to one vote for each Share held. A Shareholder may appoint a proxy to attend and vote on his behalf at a Shareholders' general meeting. Ordinary resolutions proposed at a Shareholders' general meeting generally must be passed by more than half of the votes cast by Shareholders present in person or by proxy at the meeting. However, special resolutions and the following actions must be approved by more than two-thirds of the votes cast: (i) amendments to our Articles of Association; (ii) a merger, division, dissolution or liquidation of our company; (iii) an increase or reduction of our share capital or the issue of any class of Shares, warrants and other securities; and (iv) other matters which the Shareholders' general meeting has resolved by way of ordinary resolution as having a potentially material effect on us as a company and should be approved by special resolution.

In the event of a variation or abrogation of the rights of a particular class of Shareholders, the Mandatory Provisions require us to hold a special class meeting. Holders of our Domestic Shares and holders of our H Shares are deemed to be different classes of Shareholders.

Board of Directors. Detailed provisions relating to our Board of Directors are summarized in Appendix VI of this Prospectus.

The PRC Company Law provides that the following persons may not serve as one of our Directors:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offence relating to bribery, corruption, appropriation of property, or the destruction of social economic order, where less than five years have elapsed since the date of completion of the sentence;
- a person who has been deprived of his political rights where less than five years have elapsed since completion of such deprivation;
- a person who is a former director, factory manager or manager of a company or enterprise which has become bankrupt or has been liquidated due to mismanagement and who is personally liable for the bankruptcy or liquidation of such company or enterprise, where less than three years have elapsed since the date of the completion of the liquidation of the company or enterprise;
- a person who has been a legal representative of an enterprise that has had its business license revoked because of unlawful operations and the person is personally responsible for such revocation, where less than three years has elapsed since the date of such revocation;
- a person who is liable for a relatively large amount of debt which has not been repaid when due; or
- a person who is a State civil servant.

Other circumstances under which a person is disqualified from acting as a Director are set out in the Mandatory Provisions.

Supervisory Committee. We are required to establish a supervisory committee comprised of not less than three members. The supervisory committee has the duty to:

- examine our financial situation;

- supervise the Directors, manager, deputy managers and other senior administrative officers to ensure their compliance with the Articles of Association and applicable laws and regulations;
- demand rectification from a Director, the manager or any other senior administrative officer when the acts of such persons are harmful to our interests;
- check the financial information and plans for distribution of profits to be submitted by the Board of Directors to the Shareholders' general meetings, and authorize a re-examination of such information or plan by our certified public accountants and practicing auditors should any queries arise;
- propose to convene an extraordinary Shareholders' general meeting;
- represent us in negotiation with or bringing an action against a Director; and
- carry out other functions and exercise other powers specified in the Articles of Association.

In our Articles of Association, we may fix the number of votes of Supervisors necessary to pass resolutions of the supervisory committee, as long as such number is no less than two-thirds.

Members of the supervisory committee include representatives elected by our workers and representatives elected by our Shareholders in a Shareholders' general meeting. Our Directors, manager and financial controller may not serve as a Supervisor. The term of office for our Supervisors is three years and a Supervisor may serve consecutive terms if re-elected. The circumstances under which a person is disqualified from acting as a Director under the PRC Company Law and the Mandatory Provisions also apply to a Supervisor.

Manager and Officers. We are required to have a manager who is appointed, and may be removed, by the Board of Directors. Our manager is accountable to the Board of Directors and may exercise the following powers:

- supervise our production, business and administration and implement resolutions of our Board of Directors;
- organize the implementation of our business and investment plans;
- formulate plans for the establishment of our internal management structure;
- formulate our basic administration system;
- formulate our internal rules;
- recommend the appointment and dismissal of deputy managers and the financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by our Board of Directors);
- attend board meetings; and
- other powers conferred by our Board of Directors or our Articles of Association.

The Overseas Listing Special Regulations require us to employ other corporate officers, including a financial controller and company secretary.

The circumstances under which a person is disqualified from acting as a Director under the PRC Company Law and the Mandatory Provisions also apply to our manager and other senior officers.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in our Articles of Association (a summary of which is set out in Appendix VI—Articles of Association).

Duties of Directors, Supervisors, Managers and Officers. Our Directors, Supervisors, manager and officers are required under the PRC Company Law to comply with the relevant laws, regulations and our Articles of Association, carry out their duties honestly, and protect our interests. The Overseas Listing Special Regulations and the Mandatory Provisions provide that our Directors, Supervisors, manager and officers owe a fiduciary duty to us and require them to perform their duties faithfully, protect our corporate interests and not abuse their positions for personal gain. Our Directors, Supervisors, manager and officers are also under a duty of confidentiality and are prohibited from divulging certain information unless required by applicable laws or regulations or by our Shareholders.

If a Director, Supervisor, manager or officer contravenes any law, regulation or our Articles of Association in the performance of his duties and such action results in a loss to us, the respective individual is personally liable to us for such loss.

Finance and Accounting. We are required to establish a financial and accounting system which must comply with relevant laws and regulations as well as rules stipulated by the Ministry of Finance and the State Council.

We are also required to prepare financial statements at the end of each financial year. These financial statements include our balance sheet, profit and loss account, a statement on financial status and changes of financial status and a profit distribution statement. We are required to make our financial statements available for inspection by our Shareholders at least 20 days prior to our annual general meeting. We must also publish our financial statements by way of public announcement.

We are required by PRC law to make the following transfers from our after tax profit before we distribute any profits to our Shareholders:

- 10% of our after tax profit must be transferred to our statutory common reserve fund provided that no transfer is required if our accumulated statutory common reserve fund exceeds 50% of our registered capital;
- between 5% and 10% of our after tax profit must be transferred to the statutory public welfare fund; and
- subject to our Shareholders' approval in a general meeting and after transfer of the requisite amount to the statutory common reserve fund, a discretionary amount from our after tax profit must be transferred to the discretionary common reserve.

Any balance of the after tax profit after making up losses and transfers to the common reserve and statutory public welfare funds may be distributed to our Shareholders in proportion to their respective shareholdings.

If the amount in our statutory common reserve fund is insufficient to make up for losses from the previous year, our profits in the current year must be applied to make up for such losses before we make allocations to the statutory common reserve fund and the statutory public welfare fund.

Our common reserve consists of the statutory common reserve fund, discretionary common reserve fund and the capital common reserve fund. Our capital common reserve fund is made up of the premium over the nominal value of our Shares; other amounts required by the relevant governmental financial authority are to be treated as the capital common reserve fund.

Our common reserve must be applied for the following purposes:

- to make up for any losses;
- to expand our business operations; and
- to pay up our registered share capital by the issue of new Shares to Shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the Shareholders, provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion may not be less than 25% of our registered capital.

The statutory public welfare fund must be applied for the collective welfare of our employees.

Appointment and Retirement of Auditors. The Overseas Listing Special Regulations require us to employ an independent PRC qualified firm of accountants to audit our annual financial statements and review certain other financial reports.

The auditors are to be appointed for a term commencing from their appointment at an annual general meeting to the close of the next annual general meeting.

If we remove or fail to renew the appointment our existing auditors, we are required by the Overseas Listing Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before our Shareholders in a general meeting. If our auditors resign from their position, they are obligated to make a statement to the Shareholders stating whether or not we have undertaken any inappropriate transactions. The appointment, removal or non-renewal of appointment of auditors is decided by our Shareholders and must be recorded with CSRC.

Distribution of Profits. The Overseas Listing Special Regulations provide that dividends and other distributions payable to holders of our H Shares must be declared and calculated in Renminbi and paid in a foreign currency. Under the Mandatory Provisions, the payment of foreign currency to Shareholders must be made through a receiving agent.

Amendments to Articles of Association. Our Articles of Association may only be amended by an affirmative vote of more than two-thirds of our Shareholders at a general meeting. An amendment to our Articles of Association will only take effect after we have obtained any necessary approvals from relevant regulatory and administrative agencies. If an amendment to our Articles of Association affects the information in our business registration, we must apply to the related government department to change these details in the license.

Merger and Division. Our Shareholders must approve all mergers and divisions. We may also need to seek government approval for a merger or division. In the PRC, a merger may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

If our Shareholders approve a proposed merger, we are required to sign a merger agreement and to prepare our balance sheet and an inventory of assets. We must notify our creditors of the merger within 10 days and publicly announce the merger in the newspapers at least three times within 30 days after the resolution approving the merger has been passed. Our creditors are allowed within a certain time period to request us to repay any outstanding indebtedness or provide guarantees covering such indebtedness. If we are unable to repay our debts or provide such guarantees, we may be prohibited from proceeding with the merger.

In the case of a division, we are likewise required to prepare our balance sheet and an inventory of assets and to notify our creditors. Our creditors are again entitled to ask us to repay or guarantee any outstanding indebtedness and our inability to do so may prevent the consummation of the division.

Dissolution and Liquidation. Under the PRC Company Law, we will be dissolved and liquidated if any of the following events occur:

- (i) our term of operations as stipulated in our Articles of Association has expired;
- (ii) the occurrence of any event in our Articles of Association which specifically triggers our dissolution;
- (iii) our Shareholders in a general meeting agree to our dissolution by special resolution;
- (iv) a merger or division which requires our dissolution,
- (v) the declaration of our insolvency as a result of our inability to pay our debts when they become due and payable; or
- (vi) we have been ordered to close down as a result of a violation of the law or administrative regulations.

If we are dissolved in the circumstances referred to in (i) - (iii) above, our Shareholders in general meeting must, within 15 days of the occurrence of the event, appoint the members of a liquidation committee. If the liquidation committee is not established within the specified time, our creditors may apply to the people's court to appoint the members of the liquidation committee. The people's court or the relevant supervising department will then organize a liquidation committee to conduct the liquidation. A liquidation committee consists of Shareholders, the relevant department and the relevant professional personnel if we are dissolved in the circumstances described in (iv) or (v) above. The

liquidation committee is responsible for dealing with our assets, preparing a balance sheet and an inventory of our assets, notifying creditors of our dissolution, handling our outstanding business, discharging our outstanding indebtedness (including unpaid taxes), distributing our surplus assets after repayment of our indebtedness and representing us in all civil litigation.

A liquidation committee is required to notify our creditors of our dissolution within 10 days after its establishment and issue a public announcement of our dissolution at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory time limit.

The liquidation committee shall exercise the following powers during the liquidation period:

- to sort out the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors or issue public notices;
- to dispose of and liquidate any unfinished businesses of the company;
- to pay all outstanding taxes;
- to settle the company's financial claims and liabilities;
- to deal with the surplus assets of the company after its debts have been paid off; and
- to represent the company in civil lawsuits.

In the event of a dissolution, our assets will be applied to pay all expenses incurred in connection with the liquidation, employee wages, employees' insurance, tax and our general indebtedness. Any surplus assets will be distributed to our Shareholders in proportion to their respective shareholdings. If our assets are insufficient to repay or discharge our indebtedness, the liquidation committee will apply to the people's court for a declaration of insolvency and will transfer the liquidation proceedings to the people's court.

If we are involved in liquidation proceedings, we will not be allowed to engage in any new business operations.

On completion of the liquidation process, the liquidation committee is required to submit a liquidation report to our Shareholders in a general meeting and to the relevant administrative department for confirmation. The liquidation committee is also required to apply to the Administration of Industry and Commerce for the cancellation of our registration and to make a public announcement of our dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with laws. A member of the liquidation committee is liable to us and our creditors in respect of any loss arising from his willful or material default.

Overseas Listing. We must obtain the approval of the securities regulatory authority of the State Council to list our Shares overseas. An overseas listing of our Shares must comply with the Overseas Listing Special Regulations.

According to the Special Regulations and the Mandatory Provisions, our Board of Directors must implement our plan to issue the H Shares and Domestic Shares within 15 months after the securities regulatory authority of the State Council has approved our application.

Loss of Share Certificates. If a Share certificate in registered form is either lost or stolen, the respective Shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After obtaining the declaration, the Shareholder may apply to us for a replacement certificate.

A separate procedure regarding the loss of H Share certificates is provided in the Mandatory Provisions, which has been incorporated into our Articles of Association, a summary of which is set out in Appendix VI to this Prospectus.

Suspension and Termination of Listing. We may have our listing on the Stock Exchange suspended by the securities regulatory authority of the State Council if any of the following events occur:

- (i) our registered capital or the distribution of our Shares no longer complies with the relevant listing requirements;
- (ii) we have failed to disclose our financial position in accordance with the relevant law and regulations or our financial report contains false information;
- (iii) we have committed a material breach of the law; or
- (iv) we have incurred losses for three consecutive years.

If the circumstances referred to in (ii) or (iii) above have occurred and are considered serious, or if the circumstances referred to in (i) or (iv) above have occurred and the situation has not been rectified within the time stipulated, the securities regulatory authority of the State Council may terminate the listing of our Shares.

The securities regulatory authority of the State Council may also terminate the listing of our Shares if we have resolved to be wound up or are ordered by the relevant governmental authority to be dissolved, or if we are declared insolvent.

Securities Law and Regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of our Shares and disclosure of information by us. In early 1993, the State Council established the Securities Committee and CSRC. The Securities Committee is responsible for co-ordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering CSRC. CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis.

On April 22, 1993, the State Council promulgated the Provisional Regulations Governing the Issue and Trading of Shares (股票發行與交易管理暫行條例) (the "Securities Provisional Regulations"). These regulations deal with the application and approval procedures for public offerings of equity securities,

trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, we must obtain the approval of the Securities Committee to offer our Shares outside the PRC. In addition, if we propose to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, we must comply with the Securities Provisional Regulations. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

On June 12, 1993, CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information of the Public Issuing Share's Company (公開發行股票公司信息披露實施細則(試行)) pursuant to the Securities Provisional Regulations. Under these measures, CSRC is responsible for supervising the disclosure of information by companies such as us which offer shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on our Share price. They include changes to our Articles of Association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the Shareholders or the Supervisors and the merger or division.

On September 2, 1993, the Securities Committee promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

On December 29, 1998, the Securities Law of the PRC (中華人民共和國證券法) was passed by the Standing Committee of NPC (全國人民代表大會常務委員會). The Securities Law took effect on July 1, 1999. This is the first national securities law in the PRC, and it is divided into 12 chapters and 214 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 29 of the Securities Law provides that we must obtain prior approval from the State Council's securities regulatory authorities to list our Shares outside the PRC. Article 213 of the Securities Law provides that specific measures in respect of shares of companies in the PRC

which are to be subscribed and traded in foreign currencies by a person or organization outside the PRC shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and CSRC.

In order to promote strict compliance of companies listed outside China with the relevant domestic and foreign laws and regulations, their conscientious performance of their continuing obligations toward investors and their establishment of a good corporate image on domestic and foreign capital markets, SETC and CSRC jointly issued the Further Standardizing Operations and Reform of Companies Listed Outside China Opinion (關於進一步促進境外上市公司規範運作和深化改革的意見) (the “Standardizing Opinion”) on March 29, 1999. The Standardizing Opinion sets out regulations governing the relationship between CNOOC, as our controlling entity, and us and the operations of our administrative organizations. Our Board of Directors, management and financial and marketing organizations must be independent from CNOOC. No more than two senior management personnel from CNOOC (i.e. the chairman of the board, vice-chairman of the board and executive directors) may concurrently hold a senior management position with us. The Standardizing Opinion also requires us to specify our decision-making process, strengthen Director responsibility, establish a sound external and independent Director system, strengthen the functions of our supervisory board and secretary of the Board of Directors, explore methods to motivate our senior management personnel and intensify our internal reform.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the People’s Republic of China (中華人民共和國仲裁法) (the “Arbitration Law”) was passed by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law while the China Chamber of International Commerce may formulate the arbitration rules in the regard of disputes involving foreign parties in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to handle the case except when the arbitration agreement is not valid.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in our Articles of Association and, in the case of the Listing Rules, also in contracts with each of our Directors and Supervisors. Such clause refers to arbitration any disputes or claims relating to our affairs or any rights or obligations under our Articles of Association, the PRC Company Law or other relevant laws and administrative regulations and arising between: holders of our H Shares and (i) us; (ii) our Directors, Supervisors, manager or other senior officers; or (iii) holders of Domestic Shares.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall comply with the arbitration. Disputes in respect of the definition of Shareholders and disputes in relation to our register of Shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations. On June 18, 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

Foreign Exchange Control

The foreign exchange control system is regulated by three sets of provisions. On December 28, 1993, PBOC, with the authorization of the State Council, issued the Notice to Further Reform the Foreign Exchange Control System (中國人民銀行關於進一步改革外匯管理體制的公告), which came into effect on January 1, 1994. Other main regulations and implementation measures include the PRC Foreign Exchange Control Regulations (中華人民共和國外匯管理條例) promulgated by the State Council on January 29, 1996, effective on April 1, 1996 and amended on January 14, 1997, and the Regulations on Foreign Exchange Settlement, Sale and Payments (結匯、售匯及付匯管理規定), which were promulgated by PBOC

on June 20, 1996 and became effective on July 1, 1996. The Regulations on Foreign Exchange Settlement, Sale and Payments contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organizations and social organizations in the PRC.

PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such rate is set by reference to Renminbi/major foreign currencies trading price on the previous day on the inter-bank foreign exchange market.

In general, all organizations and individuals within the PRC, including foreign invested enterprises, are required to remit their foreign exchange earnings to the PRC government. In addition, PRC enterprises are generally required to sell their recurrent foreign exchange earnings to designated banks unless they have received a specific waiver. Foreign-invested enterprises, on the other hand, are permitted to retain a certain percentage of their recurring foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Foreign exchange capital must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, the PRC Government is relaxing its control of foreign exchange. Enterprises which require foreign exchange for recurring activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires any foreign exchange for the payment of dividends, such as the distribution of profits by a foreign invested enterprise to its foreign investor, then, subject to the due payment of tax on such dividends, the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks; and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks.

Despite the relaxation of foreign exchange control over current account transactions, the approval of the SAEC is still required before an enterprise may borrow a foreign currency loan, provide a foreign exchange guarantee, make an investment outside the PRC or enter into any other capital account transaction which involves the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate.

HONG KONG LAWS AND REGULATIONS

The Hong Kong Company Law

The Hong Kong law applicable to a company having share capital and incorporated in Hong Kong is based on the Companies Ordinance and supplemented by the common law and the rules of equity under Chapter 88 of the Laws of Hong Kong.

As a joint stock limited liability company established in the PRC that is seeking a listing of H Shares on the Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

In the following sections, we summarize certain material differences between the Hong Kong company law (applicable to a company incorporated in Hong Kong) and the PRC Company Law (applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law). This summary is, however, not intended to be an exhaustive comparison.

Share Capital. Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue. A company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. The PRC Company Law does not adopt the system of authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our Shareholders in a general meeting and the relevant PRC Governmental and regulatory authorities.

Under the PRC Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have registered capital of not less than Rmb 50,000,000. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares allowed by a joint stock limited company in return for injection of intellectual property rights and non-patented technology may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law on a Hong Kong company.

Restrictions on Shareholding and Transfer of Shares. Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons and natural persons. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for and traded by investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, our Promoter is not allowed to transfer its Shares for a period of three years after the date of our establishment. Similarly, our Directors, Supervisors and manager cannot transfer any Shares that they hold during their respective terms of office.

There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

Financial Assistance for Acquisition of Shares. Although the PRC Company Law does not prohibit or restrict us or our subsidiaries from providing financial assistance for the purpose of an acquisition of our Shares, the Mandatory Provisions contain restrictions similar to those under Hong Kong company law.

Variation of Class Rights. Under the Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class.

Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of our Shareholders in a general meeting and by three-fourths of the votes cast by

Shareholders of the affected class present in person or by proxy at a separate class meeting. For the purpose of a variation of class rights, domestic shares and foreign shares are treated as separate classes of shares except in the case of (i) an issue of shares once every 12 months either separately or concurrently following the approval by a special resolution of our Shareholders in a general meeting not exceeding 20% of each of our Domestic Shares and H Shares existing as at the date of such special resolution; and (ii) an issue of Domestic Shares and H Shares in accordance with our plan at the time of our establishment approved by the PRC securities regulatory authority and which is completed within 15 months from the date of the approval. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Directors. The PRC Company Law, unlike the Hong Kong company law, does not contain any requirements relating to:

- the declaration of interests in material contracts, restrictions on interested Directors being counted towards the quorum of and voting at a meeting of the Board of Directors at which a transaction in which a Director is interested in is being considered;
- restrictions on Directors' authority in making major dispositions;
- restrictions on companies providing certain benefits such as loans to Directors; and
- guarantees in respect of Directors' liability and prohibitions against compensation for loss of office without Shareholders' approval.

The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

Supervisory Committee. Under the PRC Company Law, our Directors and manager are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

The Mandatory Provisions provide that each Supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be our best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders. Hong Kong law permits minority Shareholders to start a derivative action on behalf of all Shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting and can thereby effectively prevent a company from suing, in its own name, the directors in breach of their duties. Although the PRC Company Law gives our Shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our Shareholders in a general meeting or by the Board of Directors which violates any law or infringes the lawful rights and interests of our Shareholders, the PRC Company Law does not have a form of proceedings which is the same as a derivative action. The Mandatory Provisions, however, provide us with certain remedies against Directors, Supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H Shares on the Stock Exchange, each of our Directors and Supervisors is required to give an undertaking in favor of us acting as agent for each of our Shareholders to comply with our Articles of Association. This allows minority Shareholders to act against our Directors and Supervisors who violates such undertaking.

Protection of Minorities. Under Hong Kong law, a Shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Mandatory Provisions contain provisions to the effect that CNOOC as our controlling Shareholder may not exercise its voting rights in a manner prejudicial to the interests of our Shareholders generally or of some part of our Shareholders, to relieve a Director or Supervisor of his duty to act honestly in our best interests or to approve the expropriation by a Director or Supervisor of our assets or the individual rights of other Shareholders.

Notice of Shareholders' General Meetings. Under the PRC Company Law, notice of a Shareholders' general meeting must be given not less than 30 days before the meeting or, in the case of a company having bearer shares, a public announcement of a Shareholders' general meeting must be made at least 45 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to our Shareholders and Shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting.

Quorum for Shareholder's Meetings. Under the Hong Kong company law, the quorum for a general meeting is provided for in the articles of association of a company, but may never be less than two members. The PRC Company Law does not specify any quorum requirement for a Shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that our general meeting may only be convened when replies to the notice of that meeting have been received from Shareholders whose Shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our Shareholders by public announcement and we may hold the Shareholders' general meeting thereafter.

Voting. Under the Hong Kong company law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting.

Under the PRC Company Law, the passing of any resolution requires one half or more of the votes held by our Shareholders present in person or by proxy at a Shareholders' general meeting except in cases of proposed amendments to our Articles of Association, increase or reduction of share capital merger, division or dissolution which require two-thirds of votes held by Shareholders present in person or by proxy at a Shareholders' general meeting.

Financial Disclosure. We are required under the PRC Company Law to make available at our office for inspection by Shareholders our annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before our Shareholders' annual general meeting. In addition, we must publish our financial statements and our annual balance sheet must be verified by registered accountants. The Companies Ordinance requires a company to send to every Shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

We are required under PRC law to prepare our financial statements in accordance with PRC accounting standards. The Mandatory Provisions require that we must, in addition to preparing our

accounts according to PRC standards, have our accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards and our financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Our Directors and Shareholders. There are no provisions in the PRC Company Law concerning the public's or our Shareholders' right to access information about our Directors and Shareholders. Under the Mandatory Provisions, Shareholders have the right to inspect and copy certain information about our Shareholders and Directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

Receiving Agent. Under both PRC and Hong Kong law, declared dividends are debts payable to Shareholders. The limitation period for debt recovery action is six years under Hong Kong law and two years under PRC law. The Mandatory Provisions require us to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owed by us in respect of our Shares.

Corporate Reorganization. Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a voluntary transfer of the whole or part of the business or property of the company being wound up to another company pursuant to section 237 of the Companies Ordinance or a court-sanctioned compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance. Under the PRC Company Law, a merger or division involving us must be approved by our Shareholders in a general meeting and the relevant governmental authorities.

Arbitration of Disputes. In Hong Kong, disputes between Shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Transfers. Under the PRC Company Law, we are required to make transfers equivalent to certain prescribed percentages of our after tax profit to the statutory common reserve fund and statutory public welfare fund. There are no such requirements under Hong Kong law.

Listing Rules

The Listing Rules provide additional requirements which apply to us as an issuer which is incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Sponsor. We are required to retain for at least one year following our listing, or such shorter period as the Stock Exchange may in its absolute discretion permit, the services of a sponsor for our listing, or other financial adviser or professional firm which is acceptable to the Stock Exchange, to provide us

with professional advice on continuous compliance with the Listing Rules and our listing agreement with the Stock Exchange and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Stock Exchange. The appointment of the sponsor may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the sponsor is fulfilling its responsibilities adequately, it may require us to terminate the sponsor's appointment and appoint a replacement.

The sponsor must be satisfied that our Directors and the Supervisors appreciate the nature of their responsibilities and can be expected to honor their obligations under their respective undertakings, the Listing Rules, the listing agreement and applicable laws and regulations.

The sponsor must keep us informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to our company. It must act as our principal channel of communication with the Stock Exchange if our authorized representatives are expected to be frequently outside Hong Kong.

Accountants' Report. An Accountants' Report for a PRC issuer will not normally be regarded as acceptable unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards.

Process Agent. We are required to appoint and maintain a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Stock Exchange and must notify the Stock Exchange of his or its appointment, the termination of his appointment and his contract particulars.

Public Shareholdings. If at any time we issue securities other than the H Shares listed on the Stock Exchange, the Listing Rules require that all of our H Shares must be held by the public. The H Shares must represent not less than 10% of our issued share capital and the aggregate amount of our H Shares and other securities held by the public must constitute not less than 25% of our issued share capital.

If we do not have existing issued securities other than H Shares, the H Shares must constitute not less than 25% of our issued share capital unless the expected market value of the H Shares at the time of listing is over HK\$4,000 million, in which case the Stock Exchange may accept a prescribed percentage of between 10% and 25%. See the section headed "Substantial Shareholder" in this Prospectus for more information.

Independent Non-Executive Directors and Supervisors. Our independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of Shareholders will be adequately represented. Our Supervisors must have the character, expertise, integrity and competence commensurate with their positions as Supervisors.

Restrictions on Purchase and Subscription of Our Own Securities. Subject to governmental approvals and our Articles of Association, we may repurchase our own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Such repurchase must be approved by special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with our Articles of Association. In seeking approvals, we are required to provide information on any proposed or actual purchases of all or any of our equity securities, whether

or not listed or traded on the Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and any similar PRC law of which our Directors are aware, if any. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of our existing issued H Shares.

To increase the level of protection afforded to investors, the Stock Exchange requires a PRC company whose primary listing is on the Stock Exchange to include in its articles of association parts of the Mandatory Provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into our Articles of Association, a summary of which is set out in Appendix VI.

Listing Agreement. We are required to enter into a listing agreement with the Stock Exchange (the “Listing Agreement”), which is in substantially the same form as the listing agreement for an overseas company seeking a listing on the Stock Exchange, subject to certain modifications and additions as follows:

Redeemable Shares. We must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

Pre-emptive Rights. Except in the circumstances mentioned below, our Directors must obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of our Domestic Shares and H Shares at separate class meetings conducted in accordance with our Articles of Association, prior to: (i) authorizing, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or (ii) allowing any major subsidiary to make any such authorization, allotment, issue or grant so as to materially dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing Shareholders have resolved otherwise by special resolution in general meeting, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares and H Shares or, such Shares as are part of a plan we adopted at the time of our establishment for propose of issuing Domestic Shares and H Shares.

Supervisors. We are required to adopt rules governing dealings by our Supervisors in our securities in terms no less exacting than the model code, as set out in Appendix 10 to the Listing Rules.

Neither we nor any of the subsidiaries may enter into a service contract of ten years or more with a Director or proposed Director without the prior approval of our Shareholders in a general meeting, at which the relevant Director did not vote on the matter. The same restriction also applies to a service contract of such duration between us or our subsidiary with a Supervisor or proposed Supervisor.

Amendment to Our Articles of Association. We may not permit or cause any amendment to our Articles of Association which would cause them to cease to comply with the Mandatory Provisions of the Listing Rules.

Documents for Inspection. We are required to make available at a place in Hong Kong for inspection by the public and our Shareholders free of charge, and for copying by our Shareholders at reasonable charges, the following:

- a complete duplicate register of Shareholders;
- a report showing the state of our issued share capital;
- our latest audited financial statements and the reports of the Directors, auditors and Supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with the Administration for Industry and Commerce Bureau of the PRC; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

Receiving Agents. We are required to appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owed in respect of the H Shares held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates. We are required to ensure that all our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those Shares bearing statements to the following effect that:

- the acquirer of our Shares agrees with us and each Shareholder, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- the acquirer of our Shares agrees with us, each Shareholder, Director, Supervisor, manager and other officer and we, acting on our own behalf and for each Director, Supervisor, manager and other officer, agree with each Shareholder to refer to arbitration in accordance with the Articles of Association all claims arising from our Articles of Association or any rights or obligations under the PRC Company Law or other relevant laws and administrative regulations. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- the acquirer of our Shares agrees with us and each Shareholder that our Shares are freely transferable by the holder thereof; and

- the acquirer of our Shares authorizes us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

Compliance with the PRC Company Law, the Special Regulations and the Articles of Association. We are required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between Us and Our Directors, Officers and Supervisors. We are required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to us to observe and comply with the PRC Company Law, the Special Regulations, our Articles of Association, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and an agreement that we shall have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to us, in our capacity as agent for each Shareholder, to observe and comply with his obligations to our Shareholders as stipulated in our Articles of Association; and
- an arbitration clause which provides that whenever any claims arise from the contract, our Articles of Association or any rights or obligations under the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and our Directors or officers and between a holder of H Shares and a Director or officer, such claims will be referred to arbitration, at the election of the claimant, at either the CIETAC or the HKIAC in accordance with their respective rules, and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive.

We are also required to enter into a contract in writing with every Supervisor containing terms substantially similar to those for Directors.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations.

The award of the arbitrary body is and shall be final and binding on the parties thereto.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

Subsequent Listing. We must not apply for the listing of our H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

English Translation. All notices or other documents required under the Listing Agreement to be sent by us to the Stock Exchange or to holders of the H Shares are required to be in the English language, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the listing requirements have been prepared, the Stock Exchange may impose additional requirements or make the listing of our H Shares subject to such special conditions as the Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of our listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon our listing on the Stock Exchange, the provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong), the Securities (Insider Dealing) Ordinance (Chapter 395 of the Laws of Hong Kong), the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange, will apply to us.

SECURITIES ARBITRATION RULES

Our Articles of Association provide that certain claims arising from our Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC LEGAL MATTERS

The Commerce & Finance Law Offices, our legal adviser on PRC law, has sent to us a letter dated November 11, 2002 confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between the Hong Kong company law and the PRC Company Law in so far as they relate to PRC law as contained in this Appendix and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This letter is available for inspection as referred to in the section headed “Documents Delivered and Available for Inspection” in Appendix VIII to this Prospectus.