

(D) RECONCILIATION STATEMENT OF DIFFERENCES IN CONSOLIDATED SHAREHOLDERS' FUNDS BETWEEN THE NEW AND OLD PRC ACCOUNTING STANDARDS (CONTINUED)
NOTE ON THE RECONCILIATION STATEMENT OF DIFFERENCES

1 PURPOSE OF PREPARATION

Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises (the "New PRC Accounting Standards") promulgated by the Ministry of Finance of the People's Republic of China (the "MOF") in 2006. To analyse and disclose the impact of adopting the New PRC Accounting Standards on the Company's financial position, the China Securities Regulatory Commission issued the "Notice on the Proper Disclosure of Financial and Accounting Information In Relation to the New Accounting Standards" (Zheng Jian Fa [2006] No. 136) (the "Notice") in November 2006 under which the Company is required to disclose the reconciliation of major differences in the "Supplementary Information" section of the annual financial report for 2006 in the form of reconciliation statement of differences in consolidated shareholders' funds between the new and old PRC accounting standards ("reconciliation statement of differences") in accordance with relevant requirements of the Accounting Standard for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises ("ASBE 38") and the Notice.

2 BASIS OF PREPARATION

The Company issued H shares and prepared financial reports for external use under the PRC Accounting Rules and Regulations (the "Old PRC Accounting Standards") and the International Financial Reporting Standards ("IFRS") for the previous years. As required by the "Opinion of the Expert Team on the Implementation of the Accounting Standards for Business Enterprises" (the "Opinion"), on the date of first time adoption, the following retrospective adjustments have been made to items relevant to the changes in accounting policies arising from the implementation of New PRC Accounting Standards.

For the principles of the New PRC Accounting Standards which are different from the Old PRC Accounting Standards, if the Company had already adopted the principles of the New PRC Accounting Standards in the preparation of financial statements under IFRS for the previous years, retrospective adjustments will be made to the changes in accounting policies arising from the implementation of New PRC Accounting Standards based on the information relied upon by the Company in preparing the financial statements under IFRS for the previous years.

Apart from the retrospective adjustments which are required by the Opinion as stated above, the Company has also made retrospective adjustments to other items in accordance with paragraphs 5 to 19 of ASBE 38.

This reconciliation statement of differences has been prepared in accordance with the principle of retrospective adjustment as stated above, the characteristics and actual situation of the Company and its subsidiaries and the principle of materiality, on the basis of the consolidated financial statements of 2006. References have been made to the Notice in respect of the presentation and disclosure of information in the reconciliation statement of differences.

3 DESCRIPTIONS OF SIGNIFICANT ITEMS

(a) The amount of consolidated shareholders' funds as at 31 December 2006 (under the Old PRC Accounting Standards) is extracted from the Company's consolidated financial statements for the year ended 31 December 2006 prepared under the Old PRC Accounting Standards. These financial statements were audited by KPMG Huazhen, an auditors' report with unqualified opinion was issued on 6 April 2007. The basis of presentation and the significant accounting policies of these financial statements are set out in the Company's financial statements for the year ended 31 December 2006 prepared under the Old PRC Accounting Standards.

This reconciliation statement of differences and its notes should be read in conjunction with the Company's 2006 financial statements for the year ended 31 December 2006 prepared under the Old PRC Accounting Standards.

(b) Capitalisation of general borrowing costs

Under the Accounting Standards for Business Enterprises No.17 – Borrowing Cost, where funds are borrowed generally and qualified for capitalisation, the corresponding borrowing costs are capitalised as part of the cost of related assets. The Company has, upon its first time adoption of the New PRC Accounting Standards as at 1 January 2007, adjusted the carrying amount of fixed assets and the construction in progress, and increased retained earnings.

(c) Equity investment differences

Under the Accounting Standards for Business Enterprises No.2 – Long Term Equity Investment, where there is an excess of the long term equity investment's initial investment cost over the investor's interest in the fair value of the investee's identifiable net assets, equity investment differences are not recognised, nor are they amortised. The Company has, upon its first time adoption of the New PRC Accounting Standards as at 1 January 2007, reversed the equity investment differences amortised in prior years, and increased retained earnings.

(d) Disposal of oil and gas properties

Under the Accounting Standards for Business Enterprises – No.27 Exploration of Oil and Gas, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The Company has, upon its first time adoption of the New PRC Accounting Standards on 1 January 2007, adjusted the losses on the retirement or disposal of any individual item of proved oil and gas properties recognised in previous years, net of depreciation charges, and increased retained earnings.

(e) Change in the fair value of available-for-sale securities

Given that the fair value of available-for-sale financial assets is determined in accordance with the Accounting Standards for Business Enterprises – No.22 Recognition and Measurement of Financial Instruments, the Company has determined the available-for-sale securities' fair value as at 1 January 2007 based on quoted prices in active markets, and increased shareholders' funds by the difference between the fair value and the carrying value.

(f) Pre-operating expenditures

Under the New PRC Accounting Standards, expenditures on start-up activities are recognised as an expense when they are incurred. The Company has, upon its first time adoption of the New Accounting Standards on 1 January 2007, adjusted the incurred pre-operating expenditures, and reduced retained earnings.

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NOTE ON THE RECONCILIATION STATEMENT OF DIFFERENCES**

(g) Government grants

Under the Accounting Standards for Business Enterprises No.16 – Government Grants, the asset-related government grants received in previous years are recognised as deferred income and recognised on the income statement over the assets' useful lives. The Company has, upon its first time adoption of the New PRC Accounting Standards on 1 January 2007, adjusted the asset-related government grants received in previous years which had been recognised in capital reserve, and reduced shareholders' funds.

(h) Income tax

The Company adjusted the deferred tax effect and shareholders' funds as at 1 January 2007 due to the retrospective adjustments made to the above items 3(b) to 3(g).

(i) Minority interests

Under the New PRC Accounting Standards, the Company has changed the accounting treatment of minority interests by separately presenting minority interests within the consolidated shareholders' funds, which increased the shareholders' funds accordingly.

4 IMPORTANT NOTES

The Company commenced adoption of the New PRC Accounting Standards on 1 January 2007, and is in the process of assessing the impact on the Company's financial position, operating results, and cash flow. After giving careful consideration to this and the further interpretation on the New PRC Accounting Standards by the MOF, the Company may adjust related accounting policies or significant recognition applied in the preparation of the reconciliation statement of differences during the preparation of the interim and annual financial statements of 2007. This may, in turn, cause a difference between the consolidated shareholders' funds (under the New PRC Accounting Standards) as at 1 January 2007 as stated in the reconciliation statement of differences and the respective figures as presented in the interim and annual financial statements of 2007.