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China Energy Reserve and Chemicals Group International Company Limited
(incorporated with limited liability in the British Virgin Islands)

US\$400,000,000 6.125 per cent. Bonds due 2019
with the benefit of a keepwell deed and a deed of equity interest purchase and
investment undertaking provided by



China Energy Reserve and Chemicals Group Company Limited
中國國儲能源化工集團股份公司

(incorporated with limited liability in the People's Republic of China)

Issue Price: 100 per cent.

The US\$400,000,000 6.125 per cent. Bonds due 2019 (the “**Bonds**”) will be issued by China Energy Reserve and Chemicals Group International Company Limited (the “**Issuer**”) and the Bonds are in registered form in denominations of US\$200,000 each and integral multiples of US\$1,000 in excess thereof.

The Issuer, China Energy Reserve and Chemicals Group Company Limited (the “**Company**”) and Bank of Communications Trustee Limited (the “**Trustee**”) will enter into a keepwell deed on or about 15 January 2016 (the “**Keepwell Deed**”) and a deed of equity interest purchase and investment undertaking on or about 15 January 2016 (the “**Deed of Equity Interest Purchase and Investment Undertaking**”) as further described in “Description of the Keepwell Deed” and “Description of the Deed of Equity Interest Purchase and Investment Undertaking”, respectively. **Neither the Keepwell Deed nor the Deed of Equity Interest Purchase and Investment Undertaking constitutes a direct or indirect guarantee by the Company of the obligations of the Issuer under the Bonds.**

The Bonds will constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer, and will rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of applicable law.

The Bonds will bear interest from and including 15 January 2016 at the rate of 6.125 per cent. of their principal amount per annum. Interest on the Bonds is payable semi-annually in arrear on the Interest Payment Date (as defined in the Terms and Conditions of the Bonds) falling on or nearest to 15 January and 15 July in each year commencing the first interest payment date falling on or nearest to 15 July 2016. The Bonds will mature on the Interest Payment Date falling on or nearest to 15 January 2019, but are subject to redemption, in whole but not in part, at their principal amount, together with interest accrued to the date of redemption, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the PRC (as defined herein). The Bonds also contain a provision for redemption at the option of Bondholders at 101 per cent. of the aggregate principal amount of Bonds redeemed, together with accrued interest, upon the occurrence of a Change of Control or a Use of Proceeds Non-compliance Event. See “Terms and Conditions of the Bonds – Redemption and Purchase”.

For a more detailed description of the Bonds, see “Terms and Conditions of the Bonds”.

Investing in the Bonds involves risks. See “Risk Factors” beginning on page 13 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

With respect to the Bonds, registration has been completed by the Issuer and the Company in accordance with the Notice on the Administrative Reform for the Registration of Offshore Debt Issuances issued by the National Development and Reform Commission (the “**NDRC Notice**”). After issuance of the Bonds, the Issuer and the Company shall report the issuance information to the NDRC within 10 working days after the completion of such issuance.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see “Subscription and Sale”.

Application has been made to the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Company, their respective subsidiaries, their respective associated companies (if any), the Keepwell Deed, the Deed of Equity Interest Purchase and Investment Undertaking or the Bonds.

The Bonds will be issued in registered form and initially represented by interests in a global certificate (the “**Global Bond Certificate**”) deposited on or about the Issue Date with a common depository for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the Bonds will not be issued in exchange for interests in the Global Bond Certificate.

Joint Bookrunners

Barclays	Wing Lung Bank Limited	Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	Haitong International	China Securities International
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Offering Circular dated 12 January 2016

IMPORTANT NOTICE

Each of the Issuer and the Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Company and its subsidiaries taken as a whole (the “**Group**”), the Bonds, the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking which is material in the context of the issue and offering of the Bonds, (ii) the statements contained in this Offering Circular relating to the Issuer, the Company and the Group are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Company and the Group are honestly and reasonably held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) the financial, operational, statistical, industry and market-related data included in this Offering Circular has been accurately extracted from the various sources, (v) there are no other facts in relation to the Issuer, the Company, the Group, the Bonds, the Keepwell Deed or the Deed of Equity Interest Purchase and Investment Undertaking, the omission of which would, in the context of the issue and offering of the Bonds, the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking, make any statement, opinion or intention expressed in this Offering Circular misleading in any material respect, (vi) all reasonable enquiries have been made by the Issuer and the Company to ascertain all facts in relation to the Issuer, the Company, the Group and the Bonds and to verify the accuracy of all such information and statements in this Offering Circular, and (vii) this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they were made, not misleading.

The Issuer and the Company have prepared this Offering Circular solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of Barclays Bank PLC, Wing Lung Bank Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, Haitong International Securities Company Limited and China Securities (International) Corporate Finance Company Limited (the “**Initial Purchasers**”), the Issuer or the Company to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Company and the Initial Purchasers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Hong Kong, the PRC, Japan and Singapore, and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Bonds, and distribution of this Offering Circular, see “Subscription and Sale”. By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to in this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Company, the Group, the Bonds, the Keepwell Deed or the Deed of Equity Interest Purchase and Investment Undertaking other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Company, the Initial Purchasers, the Trustee or the Agents (as defined in the Terms and Conditions of the Bonds) or their respective affiliates, directors or advisers. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Company, the Initial Purchasers, the Trustee or the Agents to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Initial Purchasers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Initial Purchasers, the Trustee or the Agents or any of their respective affiliates, directors or advisers, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Initial Purchasers, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Company, the Initial Purchasers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Initial Purchasers, the Trustee, the Agents or on any person affiliated with the Initial Purchasers, the Trustee or the Agents or any director or adviser to the Initial Purchasers, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Company and the Group and the merits and risks involved in investing in the Bonds. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

To the fullest extent permitted by law, none of the Initial Purchasers, the Trustee or the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular or for any statement made or purported to be made by any of them or on their behalf in connection with the Issuer, the Company, the Group or the Bonds. Each of the Initial Purchasers, the Trustee and the Agents and their respective affiliates, directors and advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Initial Purchasers, the Trustee or the Agents or any of their respective affiliates, directors or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer, the Company or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Initial Purchasers, the Trustee or the Agents.

IN CONNECTION WITH THIS OFFERING, BARCLAYS BANK PLC AS STABILISING MANAGER (THE “STABILISING MANAGER”) OR ANY PERSON(S) ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSON(S) ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

INDUSTRY AND MARKET DATA

Market data and certain industry forecasts used throughout this Offering Circular have been obtained based on internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Company, the Initial Purchasers, the Trustee, the Agents and their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial information of the Company as at and for the three years ended 31 December 2012, 2013 and 2014 and the unaudited consolidated financial information of the Company as at and for the six months ended 30 June 2014 and 2015, which was prepared in accordance with the Accounting Standards for Business Enterprises (the “**PRC GAAP**”). PRC GAAP differs in certain material respects from the International Financial Reporting Standards (“**IFRS**”).

ROUNDING

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. References to information in billions of units are to the equivalent of a thousand million units.

CONVENTION USED IN THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise indicated or the context otherwise requires, references to:

- “we”, “us”, “our company”, the “Group”, “our” and words of similar import refers to China Energy Reserve and Chemicals Group Company Limited itself, or to China Energy Reserve and Chemicals Group Company Limited and its consolidated subsidiaries, as the context requires;
- the “Issuer” refers to China Energy Reserve and Chemicals Group International Company Limited, an indirectly wholly-owned subsidiary of the Company;
- “Big Three Oil Companies” refers to CNPC, Sinopec and CNOOC, collectively;
- “China” or the “PRC” refers to the People’s Republic of China, excluding, for purposes of this Offering Circular only, Taiwan, Hong Kong and Macau;
- “CNG” refers to compressed natural gas;
- “CNOOC” refers to China National Offshore Oil Corporation, a Chinese state-owned oil and gas corporation;
- “CNPC” refers to China National Petroleum Corporation, a Chinese state-owned oil and gas corporation;
- “CPC” refers to Communist Party of China;
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the PRC;
- “LNG” refers to liquefied natural gas;
- “Macau” refers to the Macau Special Administrative Region of the PRC;
- “MOFCOM” refers to the Ministry of Commerce of the People’s Republic of China;
- “NDRC” refers to the National Development and Reform Commission of the People’s Republic of China;
- “PBOC” refers to the People’s Bank of China, the central bank of the PRC;
- the “PRC government” refers to the central government of China and its political subdivisions, including provincial, municipal and other regional or local government entities, and instrumentalities thereof, or where the context requires, any of them;
- “SAFE” refers to the State Administration of Foreign Exchange of the People’s Republic of China or its competent local counterpart;
- “SAIC” refers to the State Administration for Industry and Commerce of the People’s Republic of China or its competent local counterpart;

- “SASAC” refers to the State-owned Assets Supervision and Administration Commission of the People’s Republic of China;
- “SAT” refers to the State Administration of Taxation of the People’s Republic of China;
- “Sinopec” refers to China Petroleum & Chemical Corporation, a Chinese state-owned oil and gas corporation;
- “CNY”, “RMB” or “Renminbi” refers to the legal currency of China;
- “HK\$” or “Hong Kong dollar” refers to the legal currency of Hong Kong; and
- “US\$” or “US dollar” refers to the legal currency of the United States.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

FORWARD-LOOKING STATEMENTS

We have made certain forward-looking statements in this Offering Circular. All statements other than statements of historical facts contained in this Offering Circular constitute “forward-looking statements”. Some of these statements can be identified by forward-looking terms, such as “anticipate”, “target”, “believe”, “can”, “would”, “could”, “estimate”, “expect”, “aim”, “intend”, “may”, “plan”, “will”, “would” or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding expected financial condition and results of operations, business plans and prospects are forward-looking statements. These forward-looking statements include but are not limited to statements as to the business strategy, revenue and profitability, planned projects and other matters as they relate to our company discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by us or by any third party) involve known and unknown risks, including those disclosed under the caption “Risk Factors”, assumptions, uncertainties and other factors that may cause the actual results, performance or achievements of our company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

These forward-looking statements speak only as at the date of this Offering Circular. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in our expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

The factors that could cause our actual results, performance and achievements of to be materially different include, among others:

- risks associated with our business activities;
- general economic and political conditions, including those related to the PRC;
- our ability to implement our business strategy and plan of operation;
- our ability to expand and manage our growth;
- our financial condition and results of operations;
- fluctuations in foreign currency exchange rates; and
- those other risks identified in the “Risk Factors” section of this Offering Circular.

We do not undertake any obligation to update or revise publicly any of the opinions or forward-looking statements expressed in this Offering Circular as a result of any new information, future events or otherwise.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

We are a state-controlled oil and gas trading, logistics and distribution and supply services provider in China. We offer our customers a broad range of oil and gas services, from the procurement and supply of oil and gas products and equipment, to logistics, storage, piped gas, and exploration and production. Our largest beneficial shareholders include CNPC, Beijing Municipal Commission of Commerce, China Overseas Holding Group Co., Ltd. and China Economic Cooperation Center. We are headquartered in Beijing, with strategic business operations in over 20 provinces, autonomous regions and direct-controlled municipalities across China.

We conduct the following key businesses:

- **Energy Products Trading:** The major energy products we trade include fuel oil, natural gas and petrochemical products. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, operating revenue contributed by our energy products trading business was approximately RMB1,179 million, RMB7,049 million, RMB11,294 million and RMB10,254 million, respectively, representing approximately 43.4 per cent., 78.5 per cent., 86.7 per cent. and 92.5 per cent., respectively, of our total operating revenue. For the same periods, approximately 34.8 per cent., 85.7 per cent., 87.9 per cent. and 70.4 per cent. of revenues arising from our trading of energy products, respectively, were derived from the trading of fuel oil, which in turn accounted for approximately 15.1 per cent., 67.3 per cent., 76.2 per cent. and 65.1 per cent. of our total revenue, respectively. As for our fuel oil trading business, our suppliers mainly include national oil companies and oil products trading companies, while the aggregate volumes we sold to independent refineries represented approximately 100.0 per cent., 95.8 per cent., 92.7 per cent. and 85.4 per cent. of the total sales volumes in the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively.
- **Logistics:** Our logistics business consists primarily of short- to medium-distance land transportation of CNG and LNG. For the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015, operating revenue contributed by our logistics business was approximately RMB314 million, RMB550 million, RMB620 million and RMB396 million, respectively, representing approximately 11.6 per cent., 6.1 per cent., 4.8 per cent. and 3.6 per cent., respectively, of our total operating revenue.
- **Storage:** We started commercial operation of our storage business in 2015 after a strategic acquisition of Shandong Jinxiang Petrochemical Co., Ltd. (“**Shandong Jinxiang**”). As of the date of this Offering Circular, Shandong Jinxiang owns storage facilities of oil products in Yantai with a total capacity of approximately 200,000 cubic metres. In addition, we are currently in the process of development and construction of an oil products storage facility in Tianjin. We expect to complete construction of Phase I of the facility in the second quarter of 2016 with a capacity of approximately 400,000 cubic metres and to complete construction of Phase II in 2018 with an additional capacity of approximately 400,000 cubic metres. We plan to develop two other oil and gas storage facilities strategically located in Jiangsu Province and Hubei Province in phases from 2015 to 2019. We expect that these three projects will have a final combined total capacity of approximately 2.2 million cubic metres, significantly increasing the size and scope of our storage business.
- **Others:** We also engage in energy equipment trading, piped gas, exploration and production and other businesses which are collectively referred to as our “Others” segment. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, operating revenue contributed by our Others segment was approximately RMB1,221 million, RMB1,381 million, RMB1,114 million and RMB442 million, respectively, representing approximately 45.0 per cent., 15.4 per cent., 8.6 per cent. and 4.0 per cent., respectively, of our total operating revenue.

COMPETITIVE STRENGTHS

We have the following competitive strengths:

- Strong support from major shareholders including CNPC and the Chinese government;
- Established relationships with the Big Three Oil Companies as major suppliers;
- Established relationships with major consumers in China's rapidly growing market;
- Access to key energy infrastructure;
- Key business licences and other high barriers to entry in oil and gas industry that provide us competitive advantages; and
- Experienced and reliable management team and modern corporate management and control system.

STRATEGIES

Our strategies include overall strategies and segment-specific strategies, which are described below.

Overall Portfolio Strategies

Since our incorporation in 2011, we have consistently aimed to achieve fully integrated operations. As our long-term strategy, we are targeting to complete vertical integration of the entire oil and gas industry value chain from upstream and midstream to downstream and to drive synergies between these segments. We will strive to make progress in the following areas:

- Continue focusing on energy products trading;
- Appropriate diversification;
- Well-capitalised growth; and
- Synergistic development.

Segment Strategies

- Diversification of trading products and expansion of energy products imports;
- Market share growth in logistics;
- Development of oil and gas storage operations; and
- Progress on exploration and production investments.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth the Company's selected consolidated financial information as at and for the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2014 and 2015, which has been derived from the Company's audited consolidated financial statements for the years ended 31 December 2013 and 2014 and Company's unaudited consolidated financial statements for the six months ended 30 June 2015, including the notes thereto, if any. Such financial information should be read in conjunction with the Company's consolidated financial statements and the notes thereto. The Company's consolidated financial statements were prepared in accordance with PRC GAAP.

SUMMARY CONSOLIDATED INCOME STATEMENT OF THE COMPANY

	For the Year Ended 31 December			For the Six Months Ended 30 June	
	2012	2013	2014	2014	2015
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)				
Total operating revenue	2,714.6	8,980.4	13,027.8	4,201.7	11,091.9
Including: operating revenue	2,714.6	8,980.4	13,027.8	4,201.7	11,091.9
Including: Revenue from main business	2,712.0	8,980.4	13,027.8	4,201.7	11,091.9
Revenue from other business	2.6	-	-	-	-
Total operating costs	2,261.0	7,971.4	12,001.9	3,999.0	10,383.7
Including: operating costs	2,111.8	7,756.7	11,650.2	3,858.0	10,212.7
Including: costs on main business . . .	2,111.7	7,756.7	11,650.2	3,858.0	10,212.7
Costs on other business	0.1	-	-	-	-
Business taxes and surcharges	19.8	27.2	31.0	9.0	21.0
Selling expenses	36.9	50.0	57.2	24.1	22.1
Administrative expenses	73.8	94.5	110.2	51.0	53.3
Finance expenses	18.7	43.0	153.3	56.9	74.6
Investment income	5.0	(3.3)	0.6	0.5	1.3
Operating profit	458.7	1,005.7	1,026.6	203.2	709.5
Add: non-operating income	8.2	0.5	7.8	0.8	12.0
Less: non-operating expenses	4.8	14.5	0.1	-	3.0
Total profit	462.1	991.7	1,034.3	204.0	718.5
Less: income tax expenses	111.0	251.8	256.4	51.0	179.9
Net profit	351.1	739.9	777.9	153.0	538.6
Less: minority shareholders' profit or loss	52.8	63.0	151.1	140.6	28.9
Net profit attributable to owners of parent company	298.3	676.9	626.8	12.4	509.7

OPERATING PROFIT OF THE COMPANY BY BUSINESS SEGMENTS

	For the Year Ended 31 December			For the Six Months Ended 30 June	
	2012	2013	2014	2014	2015
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)				
Operating profit from energy products					
trading business	115.5	641.3	787.7	147.8	579.1
Operating profit from logistics business . .	81.4	98.5	73.2	16.9	51.2
Operating Profit from storage business . .	–	–	–	–	–
Operating Profit from other businesses . .	261.7	265.9	165.7	38.5	79.1
Operating Profit	458.7	1,005.7	1,026.6	203.2	709.5

SUMMARY CONSOLIDATED BALANCE SHEET OF THE COMPANY

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	(Audited)	(Audited)	(Audited)	(Unaudited)
	(RMB in millions)			
Current assets:				
Cash and cash equivalents	673.8	1,107.6	789.2	3,063.8
Held-for-trading financial assets	–	2.4	20.0	31.0
Bills receivable	0.3	7.8	32.2	46.2
Accounts receivable	169.6	346.8	653.1	797.6
Other receivables	234.9	120.0	134.0	226.5
Prepayments	929.8	858.2	1,083.6	1,761.6
Inventory	276.0	488.0	1,169.5	1,629.0
Total current assets	2,284.5	2,930.8	3,881.6	7,555.7
Non-current assets:				
Long-term equity investments	64.3	584.5	654.9	654.9
Fixed assets	1,506.3	1,721.2	2,803.1	3,495.6
Less: accumulated depreciation	292.0	301.4	407.5	548.5
Net value of fixed assets	1,214.2	1,419.8	2,395.7	2,947.1
Net fixed assets	1,214.2	1,419.8	2,395.7	2,947.1
Construction materials	77.3	43.2	85.4	181.9
Construction in progress	420.2	1,412.0	1,681.7	2,204.4
Intangible assets	89.8	142.5	155.2	195.3
Long-term prepaid expenses	24.3	20.5	17.8	9.8
Other non-current assets	0.7	–	–	–
Total non-current assets	1,890.8	3,622.5	4,990.6	6,193.5
Total assets	4,175.3	6,553.3	8,872.3	13,749.2

	As at 31 December			As at
	2012	2013	2014	30 June
	(Audited)	(Audited)	(Audited)	(Unaudited)
	(RMB in millions)			
Current liabilities:				
Short-term borrowings	202.2	841.1	1,546.2	1,825.4
Bills payable	160.0	–	154.0	402.1
Accounts payable	103.7	90.1	131.9	51.4
Advance receipt	92.0	139.5	406.5	242.7
Staff remuneration payables	0.4	1.1	1.7	1.6
Taxes payable	22.4	30.3	28.5	20.5
Other payables	34.4	102.5	96.3	32.4
Other current liabilities	2.3	–	–	–
Total current liabilities	617.3	1,204.6	2,365.1	2,576.2
Non-current liabilities:				
Long-term borrowings	654.6	763.1	1,189.3	1,261.5
Long-term payables	110.6	52.0	4.8	4,061.1
Special accounts payable	0.7	0.7	0.7	0.7
Other long-term liabilities	11.0	37.4	38.9	37.7
Total non-current liabilities	776.9	853.2	1,233.7	5,360.9
Total liabilities	1,394.3	2,057.7	3,598.8	7,937.1
Owners' equity:				
Paid-in capital	865.0	1,725.0	1,725.0	1,725.0
Capital reserves	341.2	339.4	339.4	339.4
Retained profit	1,181.8	1,858.7	2,485.6	2,995.3
Total equity attributable to owners of parent company	2,388.0	3,923.2	4,550.0	5,059.7
Minority interests	393.0	572.4	723.5	752.4
Total owners' equity	2,781.0	4,495.6	5,273.5	5,812.1
Total liabilities and owners' equity	4,175.3	6,553.3	8,872.3	13,749.2

SUMMARY CONSOLIDATED CASH FLOW OF THE COMPANY

	For the Year Ended 31 December		For the Six Months Ended 30 June	
	2013	2014	2014	2015
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)			
Cash flows from operating activities:				
Cash received from sales of goods and rendering of services	10,166.6	15,146.5	4,254.3	11,955.1
Cash received relating to other operating activities	115.7	89.3	50.9	22.3
Subtotal of cash inflows	10,282.3	15,235.9	4,305.2	11,977.4
Cash paid for goods and services	9,213.7	14,220.7	3,918.6	12,090.1
Cash paid to and for employees	73.6	75.8	38.6	20.2
Taxes and surcharges paid	277.9	297.1	71.9	97.9
Cash paid relating to other operating activities	489.4	425.8	141.3	102.9
Subtotal of cash outflows	10,054.7	15,019.5	4,170.4	12,311.1
Net cash flows from operating activities	227.6	216.4	134.8	(333.7)
Cash flows from investing activities:				
Cash received from investment income	1.0	0.6	0.5	0.0
Subtotal of cash inflows	1.0	0.6	0.5	0.0
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	733.9	1,337.6	283.4	1,311.7
Cash paid on investments	593.1	70.4	–	–
Subtotal of cash outflows	1,326.9	1,408.0	283.4	1,311.7
Net cash flows from investing activities	(1,325.9)	(1,407.3)	(282.9)	(1,311.7)
Cash flows from financing activities:				
Cash received from capital contribution	860.0	–	–	0.00
Cash received from borrowings	747.3	1,913.7	270.0	5,153.4
Subtotal of cash inflows	1,607.3	1,913.7	270.0	5,153.4
Cash repayments of amounts borrowed	–	882.4	185.0	1,158.7
Cash paid for dividend and profit distribution or interest payment	43.1	158.8	56.9	74.6
Cash paid relating to other financing activities	32.2	–	–	–
Subtotal of cash outflows	75.3	1,041.1	241.9	1,233.3
Net cash flows from financing activities	1,532.0	872.6	28.1	3,920.1
Net increase in cash and cash equivalents	433.7	(318.4)	(120.0)	2,274.6
Add: balance of cash and cash equivalents as at the beginning of the period	673.8	1,107.6	1,107.6	789.2
Balance of cash and cash equivalents as at the end of the period	1,107.6	789.2	987.6	3,063.8

	For the Year Ended 31 December		For the Six Months Ended 30 June	
	2013	2014	2014	2015
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)			
Reconciliation of net profits as cash flows from operating activities:				
Net profit	739.9	777.9	153.0	538.6
Depreciation of fixed assets	9.4	106.0	51.0	141.0
Amortisation of intangible assets	1.7	4.8	1.6	(40.1)
Amortisation of long-term prepaid expenses	9.2	3.8	3.4	8.0
Financial expenses	43.1	119.4	56.9	74.6
Investment losses	3.3	0.6	(0.5)	(1.3)
Decrease in inventory (less: increase)	(211.9)	(681.5)	(51.4)	(459.5)
Decrease in operating items receivable (less: increase)	(315.3)	(570.1)	(172.8)	(929.0)
Increase in operating items payable	(51.6)	455.3	(150.1)	334.0
Net cash flows from operating activities	227.6	216.4	134.8	(333.7)
Net increase in cash and cash equivalents:				
Balance of cash and cash equivalents at the end of the period	1,107.6	789.2	987.6	3,063.8
Less: balance of cash and cash equivalents at the beginning of the period	673.8	1,107.6	1,107.6	789.2
Net increase in cash and cash equivalents	433.7	(318.4)	(120.0)	2,274.6

EBITDA Data of the Company

	For the Year Ended 31 December			For the Six Months Ended 30 June	
	2012	2013	2014	2014	2015
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)				
EBITDA⁽¹⁾	383.4	1,100.5	1,353.0	342.1	949.4
EBITDA margin⁽²⁾	14.1	12.3	10.4	8.1	8.6
EBITDA to total interest expense ratio	9.8	12.4	6.6	4.2	7.8
Ratio of total debt to EBITDA	2.2	1.5	2.0	5.0	7.2

- (1) EBITDA for any period is calculated as net profit, adding back taxation, finance costs, depreciation and amortisation. EBITDA is not a standard measure under PRC GAAP. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as selling and distribution costs and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented in this offering memorandum may not be comparable to similarly titled measures presented by other companies. You should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. The following table reconciles our EBITDA to our profit for the period, which is the most directly comparable PRC GAAP measure:

	For the Year Ended 31 December			For the Six Months Ended 30 June	
	2012	2013	2014	2014	2015
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	(RMB in millions)				
Net Profit	351.1	739.9	777.9	153.0	538.6
Adjustments:					
Add:					
Taxation	111.0	251.8	256.4	51.0	179.9
Finance costs	39.3	88.5	204.0	82.2	122.0
Depreciation	(140.9)	9.4	106.0	51.0	141.0
Amortisation	22.9	10.9	8.6	4.9	(32.1)
EBITDA	383.4	1,100.5	1,353.0	342.1	949.4

- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

THE OFFERING

The following contains summary information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the Bonds” and “Summary of Provisions relating to the Bonds in Global Form” have the same meanings in this summary. For a comprehensive description of the terms of the Bonds, see the section of this Offering Circular entitled “Terms and Conditions of the Bonds”.

Issuer	China Energy Reserve and Chemicals Group International Company Limited.
Company	China Energy Reserve and Chemicals Group Company Limited (中國國儲能源化工集團股份公司).
Issue	US\$400,000,000 in aggregate principal amount of 6.125 per cent. Bonds due 2019.
Issue Price	100 per cent.
Form and Denomination	The Bonds will be issued in registered form in the specified denomination of US\$200,000 each and integral multiples of US\$1,000 in excess thereof.
Interest	The Bonds will bear interest from and including 15 January 2016 at the rate of 6.125 per cent. per annum, payable semiannually in arrear on the Interest Payment Date falling on or nearest to 15 January and 15 July in each year.
Issue Date	15 January 2016.
Maturity Date	Interest Payment Date falling on or nearest to 15 January 2019.
Status of the Bonds	The Bonds will constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank <i>pari passu</i> without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of applicable law.
Keepwell Deed	The Issuer, the Company and the Trustee will enter into a keepwell deed as further described in “Description of the Keepwell Deed”.

Deed of Equity Interest Purchase and Investment Undertaking . . .	The Issuer, the Company and the Trustee will enter into a deed of equity interest purchase and investment undertaking as further described in “Description of the Deed of Equity Interest Purchase and Investment Undertaking”.
Negative Pledge	The Bonds contain a negative pledge provision, as further described in Condition 3(a) of “Terms and Conditions of the Bonds”.
Events of Default	The Bonds contain certain events of default provisions as further described in Condition 8 of “Terms and Conditions of the Bonds”.
Taxation	All payments of principal, premium and interest in respect of the Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event the Issuer shall, subject to the limited exceptions specified in Condition 7 of “Terms and Conditions of the Bonds”, pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on or nearest to 15 January 2019.
Redemption for Tax Reasons . . .	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders and the Trustee (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, in the event of certain changes affecting taxes of the British Virgin Islands or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, as further described in Condition 5(b) of “Terms and Conditions of the Bonds”.

Redemption for Change of Control	At any time following the occurrence of a Change of Control, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date at 101 per cent. of their principal amount, together with interest accrued to such Put Settlement Date, as further described in Condition 5(c) of "Terms and Conditions of the Bonds".
Redemption for Use of Proceeds Non-Compliance Event.	At any time following the occurrence of a Use of Proceeds Non-Compliance Event, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date at 101 per cent. of their principal amount, together with interest accrued to such Put Settlement Date; <i>provided that</i> , in the case of a put event resulting from the occurrence of a Partial Release Event only (and not a Full Release Event) on or prior to the Use of Proceeds Compliance Deadline, (i) the maximum principal amount of the Bonds that the Issuer may be required to redeem shall be equal to the Total Unused Proceeds and (ii) in the event that the holders of any Bond who exercise their option in the event of a Use of Proceeds Non-Compliance Event and whose Bonds, in aggregate, represent more than the Total Unused Proceeds, the Bonds shall be selected for redemption on a <i>pro rata</i> basis. See Condition 5(c) of "Terms and Conditions of the Bonds".
Clearing Systems	The Bonds will be represented by beneficial interests in the Global Bond Certificate, which will be registered in the name of a nominee for, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Bond Certificate will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Bond Certificate.
ISIN Code	XS1328315723.
Common Code	132831572.
Governing Law	Hong Kong law.
Trustee	Bank of Communications Trustee Limited.
Principal Paying Agent, Registrar and Transfer Agent	Bank of Communications Co., Ltd. Hong Kong Branch.

Listing	Application has been made to the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Company, their respective subsidiaries, their respective associated companies (if any), the Keepwell Deed, the Deed of Equity Interest Purchase and Investment Undertaking or the Bonds. Subject to the approval of the SGX-ST, the Bonds will be traded on the SGX-ST in a minimum board lot size of not less than US\$200,000 as long as any of the Bonds are listed on the SGX-ST.
Rating	The Bonds will not be rated.
Further Issues	The Issuer may, from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects except, if applicable, for the first payment of interest so as to form a single series with the Bonds, as further described in Condition 14 of “Terms and Conditions of the Bonds”.
Use of Proceeds	See “Use of Proceeds”.

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. PRC laws and regulations may differ from the laws and regulations in other countries. Additional risks not described below or not currently known to us or that we currently deem immaterial may also adversely affect the value of the Bonds. We believe that the risk factors described below represent the principal risks inherent in investing in the Bonds, but we may not be able to pay interest, principal or other amounts on or in connection with any Bonds or to satisfy our obligations under the Keepwell Deed or the Deed of Equity Interest Purchase and Investment Undertaking for reasons which we may not consider as significant risks based on information currently available to us, which we may not currently be able to anticipate or which we may currently deem immaterial. All of these factors are contingencies which may or may not occur and we are not in a position to express a view on the likelihood of any such contingency occurring.

We do not represent that the statements below regarding the risk factors of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Risks Relating to Our Business Operation

Our business may be adversely affected by the fluctuation of crude oil prices in general and fuel oil and natural gas prices in particular

Although we currently do not produce fuel oil and refined oil products from crude oil, the price of crude oil in international markets affects the prices of fuel oil, natural gas and refined oil in international markets as well as the PRC domestic market, which is beyond our control. When there is an increase in the price of crude oil, our ability to pass on our increased purchase costs of energy products resulting from relevant price increase to our customers is dependent on various international and domestic market conditions and how our competitors behave, as well as the PRC government's price controls over oil and gas products. As the majority of our operating revenue is currently derived from the trading of fuel oil and natural gas, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil price and, particularly, fuel oil and natural gas prices.

For fuel oil, unlike refined oil products, there is no national-wide price control by the PRC government. In order to minimise holding inventory and price risks, we usually try to match sell-side agreements with buy-side agreements for all shipments both based on fixed prices before entering into the buy-side agreements. There can be no assurance that we will be able to effectively reduce the price risks faced by us while increasing or even maintaining our trading volume, failure of which, however, will create an adverse effect on our financial performance and profitability.

Although the current price-setting mechanism for refined oil products in China allows the PRC government to adjust prices in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains discretion as to whether or when to adjust refined oil products prices. See "Summary of Relevant PRC laws and regulations – Pricing". As we plan to commence refined oil trading operations in the future, our results of operations and financial condition may also be materially and adversely affected by the fluctuation of refined oil product prices.

We heavily rely on our suppliers, who generally have no long term commitments to supply to us

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the purchase volumes from our top five suppliers of fuel oil accounted for approximately 100.0 per cent., 85.0 per cent., 59.1 per cent. and 55.8 per cent., respectively, of our total purchases of fuel oil. These top five suppliers include subsidiaries of Sinopec, CNPC and CNOOC, which are major state-owned oil companies. In addition, for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, all of our natural gas purchases were directly or indirectly from CNPC or its affiliates. As a result, we often do not have strong bargaining power in setting contract price or terms.

Except for certain framework contracts which last for one year or less, we have not entered into any long-term buy-side agreements with our suppliers. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, approximately 100.0 per cent., 85.0 per cent., 76.0 per cent. and 72.6 per cent., respectively, of our buy-side agreements for fuel oil were concluded on a shipment-by-shipment basis. In addition, one of our main suppliers, CNPC is also one of our major shareholders. If CNPC divests or terminates its interest in us as a shareholder or as a supplier, it would adversely affect our supply and operation. If any of our largest suppliers or active suppliers terminates its business relationship with us, and we are unable to secure on a timely basis a suitable supplier of energy products, then there may be an adverse effect on our business operations, financial performance and profitability.

We heavily rely on the trading of fuel oil

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, approximately 34.8 per cent., 85.7 per cent., 87.9 per cent. and 70.4 per cent., respectively, of revenues arising from our trading of energy products were derived from the trading of fuel oil, which in turn accounted for approximately 15.1 per cent., 67.3 per cent., 76.2 per cent. and 65.1 per cent., respectively, of our total revenue. There can be no assurance that we will be able to secure supply and sale of fuel oil from our suppliers or to our customers at a profitable price with the required quantity. In the event that we cannot secure either side of a trade, our financial conditions and results of operations may suffer.

We face exposure to default risk of our customers

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, most of our customer sales were settled on an open account basis using telegraphic transfer. During the financial year ended 31 December 2014, the average selling price of each shipment reached approximately RMB30 million, representing approximately 3.9 per cent. of our net profit during the same period.

The macroeconomic environment and financial conditions of our customers may affect their ability to make payments to us. Therefore, there is no assurance that our customers will continue to settle their payment obligations during the payment period or honour their payment obligations at all. In the event that any of our customers fails to meet its payment obligations, our financial conditions and results of operations may suffer.

Our customers do not have long term commitments to purchase from us

Most of our customers do not have long term commitments to purchase from us. Their orders are placed through separate purchase agreements or confirmations of orders for specified products at such prices and quantities as agreed between the customers and ourselves on a shipment-by-shipment basis.

Except for a few term agreements which last for one year or less, we have not entered into any long-term sell-side agreements with our customers. For the years ended 31 December 2012, 2013 and 2014, approximately 100.0 per cent., 60.0 per cent. and 55.5 per cent., respectively, of the sell-side agreements for fuel oil were concluded on a shipment-by-shipment basis according to our customers' demands. There is no assurance that these customers will continue to purchase from us in the future. If any of our major customers terminates its business relationship with us, and we fail to secure new orders on a timely basis, there may be an adverse effect on our business operations, financial performance and profitability.

We heavily rely on our key management and traders

Our success depends to a significant degree upon the expertise, experience, continuity, network and committed service of our senior management personnel and traders, most of whom have an in-depth understanding of our industry and operations and would be difficult to replace. Our key management members and traders, including Dr. Chen Yihe, Mr. Sun Shucai, Mr. Gong Hongyan, Mr. Fan Wenzheng, Mr. Yang Feng, Mr. Duan Chongjun, Ms. Yu Xue, Mr. Wang Jinzhou, Mr. Wu Youliang and Mr. Zhang Hao, are key to our success because of their expertise, experience and connection in the oil industry, market development skills and expertise in managing our operations. In addition, the relationship and reputation that our management team and traders have established and maintained with our customers and suppliers contribute to our ability to maintain good relationships with them.

The departure of any of our key management members or traders could be disruptive to our business development and could have a material adverse effect on our business and financial conditions. We cannot guarantee that the services of such personnel will continue to be available to us or that we will be able to replace any such personnel with individuals with similar knowledge, experience or network.

The planned expansion of our energy products trading business into international markets may not be as successful or profitable as in the PRC domestic market in which we currently operate

We plan to expand our energy products trading business into international markets, particularly, importing LNG and fuel oil, as we obtained a permit for import of energy products in April 2014. Our experience in the PRC domestic market in which we currently have operations, however, may not be applicable in international energy products markets. There can be no assurance that we will be able to leverage such experience to develop and expand our import of energy products operations. When we enter international markets, we may face intense competition from other oil companies and trading companies with established experience or presence in the geographical areas from which we plan to import energy products and from other trading companies with similar expansion targets. Expansion may require a significant amount of operating capital, which could divert the resources and time of our management and, if we fail to integrate the new operations effectively, it will affect our operating efficiency. In addition, we may face different environmental standards and government regulation and support in other nations. Our failure to manage our planned expansion may have a material adverse effect on our business, financial condition and results of operations and we may not have the same degree of success in international markets that we have had so far to date, or at all.

Handling of inflammable and toxic oil and petrochemical products exposes us to potential liability

We transport and store inflammable oil, gas and petrochemical products in the course of our business. In the event of a leakage of toxic or inflammable oil, gas and/or petrochemical products or any associated incidents, health or fire hazards may occur.

These hazards can cause personal injury and loss of life, catastrophic damage to, or destruction of, property and equipment and environmental damage, and may result in a suspension of operations and imposition of civil or criminal penalties. We could become subject to environmental claims brought by government entities or third parties. The loss or shutdown of our facilities over an extended period of operations would have a material adverse effect on our business, financial conditions and operations.

If we fail to implement an effective operational safety management system, standardised management of operational practices, provide emergency facilities in case of accidents or carry out emergency drills, the occurrence of any accident could have a material adverse effect upon our reputation, business, financial condition and operations.

Should we become liable for any of such accidents, a penalty may be imposed on us and criminal liability under the laws of the PRC being imposed on our employees. In such an event, our reputation, business, financial position and operating results may be adversely affected.

Natural gas operations entail inherent safety and environmental risks that may result in substantial liability to us

Natural gas operations entail inherent risks, including equipment defects, malfunctions and failures, human error, accidents, and natural disasters, which could result in uncontrollable flows of natural gas, fires, explosions, property damage, damage to the environment, injury or death. CNG and LNG fuel tanks, if damaged or improperly maintained, may rupture and the contents of the tank may rapidly decompress and result in death or injury. Also, operation of LNG pumps requires special training and protective equipment because of the extremely low temperatures of LNG. Improper loading of LNG vehicles can result in venting of methane gas, leading to explosions.

The location of facilities for natural gas near populated areas, including residential areas, commercial business centres, industrial sites and other public gathering places, could increase the level of damage resulting from these risks, including the loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. We may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

Our business may be adversely affected by governmental regulation of fuel oil

Governmental regulations and policies could adversely affect the market demand for fuel oil in China. If the government enacts new environmental legislation or policies that force small scale refineries to close, as has happened in the past, or incentivise utilities of gas power plants instead of fuel oil power plants out of environmental protection concerns, the demand for our fuel oil will likely experience a sharp decrease. Moreover, if the government decides to increase import quotas allowing small scale refineries to import crude feedstock as an alternative to fuel oil, or it revamps the licence regime for fuel oil trading, the demand for our fuel oil will likely decrease, negatively impacting on our business, financial condition and results of operations.

Our limited operating history may make it difficult for you to evaluate our business and prospects

The Company was established in 2011. We have been engaged in our core oil services businesses only since 2012. Our limited operating history in these businesses may make it difficult for you to evaluate our business and prospects, and our results and growth over the past three years may not be representative of our future results and growth.

We recorded negative operating cash flows for the six months ended 30 June 2015

We recorded negative operating cash flows of RMB333.7 million for the six months ended 30 June 2015. The negative operating cash flows we incurred during this period were largely due to the increased total amount of our pre-payments to suppliers under purchase agreements as a result of the expansion of our fuel oil trading business. There can be no assurance that we will not record negative operating cash flows for the year ended 31 December 2015 or in the future, the occurrence of which may adversely affect our financial condition and results of operation.

Our future success depends on our ability to achieve and manage growth

A principal component of our strategy is to continue to grow by expanding the size of our existing businesses and entering into new businesses. From 2012 to 2014, our total operating revenue has experienced significant growth with a CAGR of approximately 119.1 per cent.. There can be no assurance that we will be able to maintain our growth rate in the future. Our future growth will depend upon a number of factors, both within and outside of our control. We may not be successful in expanding our operations, and any expansion may not be profitable, especially as we plan to commence new operations such as international trading and storage of energy products. This could ultimately have a material adverse effect on our business, financial condition and results of operations.

To the extent our operations continue to expand, we may need to increase the number of our employees and the scope of our operational and financial systems to handle the increased complexity and expanded geographic area of our operations. There can be no assurance that we will be able to retain and attract qualified management and employees or that our current operational and financial systems and controls will be adequate as we grow. This could ultimately have a material adverse effect on our business, financial condition and results of operations.

We face possible exposure to uninsured liability

We maintain a master insurance coverage for most risks of loss or damages to our trading products (including loss arising from piracy), general average and salvage charges. However, certain types of liabilities (such as liabilities from war and earthquakes) which are beyond our control are generally not insured because they are either uninsurable or the costs involved in insuring against such risks are not commercially justifiable. Should an uninsured liability or a liability in excess of its insured limit occur, we may suffer great losses which could adversely affect our future revenue streams financial performances.

Any interruptions in our operations due to suspension, damage, destruction or closure of key operational facilities and assets could adversely affect our activities

We own and operate a variety of key operational facilities and assets in China, such as production lines, transport pipelines, storage facilities and vehicles. Any interruption in, or prolonged suspension of any part of operations at, or any damage to or destruction of such key operational facilities, or the closure of the same, could adversely affect our activities. Our various facilities are subject to the risk of operational breakdowns or disruptions, which may result from external factors beyond our control, including natural disasters, such as earthquake and tsunamis, terrorist attacks, health epidemics and labour disputes.

Operational breakdowns or disruptions may also result from industrial accidents, such as faulty construction, technical failures and human error, which may lead to fire, explosions or the release of toxic or harmful substances. Any interruptions in our operations may prevent us from serving our

principal customers, which may, in turn, result in breach of contract, loss of revenues, or expose us to liability, lawsuits and damage to our reputation, any of which could have an adverse effect on our business, financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental protection regulations

We incur, and expect to continue to incur, substantial capital, operating, maintenance and remediation costs relating to compliance with increasingly complex laws and regulations for the protection of the environment and human health and safety. Our production operations produce certain wastewater, gas and solid waste materials. We believe we have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters. Furthermore, in countries where we operate or expect to operate in the near future, new laws and regulations, the imposition of stricter requirements on licences, increasingly strict enforcement of or new interpretations of existing laws and regulations, the aftermath of operational catastrophes in which we or members of our industry are involved or the discovery of previously unknown contamination may require future expenditure in order to, among other things.

Our logistics operations are subject to operational hazards and may not be fully covered by our insurance policies

We use transportation vehicles in our logistics business operations, which consist primarily of short- to medium-distance land transportation of CNG/LNG. The transportation of CNG/LNG requires special handling and transport equipment in order to keep the CNG/LNG at controlled temperatures and pressure levels. As a result, our logistics business may be adversely affected due to the occurrence of typhoons, earthquakes, floods, fire, or other natural disasters, terrorist act, technical failures and human error or similar events during the course of the transportation. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well as damage to our reputation. Any material loss not covered by our insurance could materially and adversely affect our business, financial condition and results of operations.

There may be uncertainties as to whether our storage projects can meet requirements and pass inspections in respect of certain safety and environmental protection regulations in the time frame originally anticipated

Our storage projects are subject to certain rules and regulations in the PRC. We need to apply for certain licences from relevant government authorities, such as a licence for storage of dangerous chemicals and a permit for oil products storage. Furthermore, storage facilities are required to meet requirements and pass inspections in respect of certain safety and environmental protection inspections conducted by relevant government authorities.

Set out below are some of the requisite documents/licences for the commencement of the storage business:

1. Hazardous Chemicals Operation Licence (危險化學品經營許可證);
2. Oil Depot Planning Affirmative Documents (油庫規劃確認文件);

3. Ownership Certificates on Oil Depots and Accessory Facilities (油庫及其配套設施的產權證明文件); and
4. Approving Certificates or Acceptance on Oil Depots and Accessory Facilities issued by Authorities of Land Resources, Planning and Construction, Safety Supervision, Public Security and Fire Fighting, Environmental Protection, Weather, Quality Supervision, etc. (國土資源、規劃建設、安全監管、公安消防、環境保護、氣象、質檢等部門核發的油庫及其他設施的批准證書及驗收合格文件).

We cannot guarantee that we will be able to obtain the above licences/certificates in a timely manner. If we fail to remedy any problems that hinder our application and fail to obtain the licences from relevant authorities, our oil products storage projects could be delayed, or we will have to abandon the whole projects and incur loss on the investment made.

There may be uncertainties as to whether we can manage inventory risk of oil products storage projects effectively

For the development of our trading business in the PRC, we expect that approximately 30 per cent., or 120,000 m³, of the storage facilities being constructed under our storage projects will be used by us for internal use of storage of oil and/or petrochemical products after completion of the projects.

Market prices of oil products and petrochemical products may be volatile. Fluctuations in prices of oil products and petrochemical products are affected by various factors which we can neither control nor predict. If we cannot manage inventory risks of our storage projects effectively through appropriate inventory management strategies and the market value of our inventory declines, then our financial position and operating results may be adversely affected.

We face risks associated with construction of our storage facilities projects that may adversely affect our business

Our storage facilities projects typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they generate cash proceeds. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages of construction materials, equipment or labour, disputes with contractors, adverse weather conditions, natural disasters, accidents and other unforeseen circumstances. Any of these circumstances could give rise to construction delays and/or cost overruns. Thus, the contractors hired by us may not be able to complete our storage projects on time, within budget or otherwise to the specifications and standards we have set out in our contracts with them. Delays in completion and commercial operation could increase the financing costs associated with the construction and cause our forecasted budget to be exceeded. In addition, the failure to complete storage projects according to its specifications may result in reduced efficiency and higher operational risk. While for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we did not experience any material problems in completing any major sections of our projects on time and in accordance with their specifications, there is no assurance that we will be able to do so successfully in the future, or at all.

We may not be able to secure suitable tenants for the storage facilities under our storage projects

We expect that the majority of storage facilities of our storage projects, when completed, will be leased to third parties and/or our trading customers whenever appropriate. We estimate the construction of Phase I of Nangang Project in Tianjin, will be completed in the second quarter of

2016. As of the date of the offering circular, we had entered into non-binding framework agreements with several petrochemical companies, pursuant to which such companies agreed to lease our storage tanks commencing from the completion of construction of the Nangang Project.

In the event that we fail to enter into legally binding leasing agreements with such petrochemical companies, or if the market conditions change so that we have to lease our tanks at lower prices, or tenants refuse to renew the lease for the storage facilities under the our storage projects after the termination or expiration of the lease and we fail to find new tenants in a timely manner, or that the new tenants do not honour their rental payment obligations, our storage facilities may become vacant and our financial position and operating results may be adversely affected.

Our piped gas business is subject to price controls in certain markets and may not be able to pass-through increased costs to end-customers

The city-gate price of natural gas is agreed between us and the suppliers with reference to the wellhead price and transportation costs. Wellhead price may vary up to 10.0 per cent. above the benchmark price set by the NDRC. The NDRC announced an onshore wellhead gas price hike of RMB0.23/m³ effective from 1 June 2010, a 24.9 per cent. increase on average. The NDRC also announced in June 2010 the abolishment of the two-tiered pricing system which was created in 2005. On 10 November 2007, the NDRC increased the wellhead price of the natural gas for industrial use by RMB0.4/m³. The 2007 price increases would apply to industrial users but not residential users. However, the June 2010 price increase is applicable to both industrial and residential users. In November 2015, the NDRC lowered the upper limit of city-gate price of natural gas used for industrial purposes by RMB0.7/m³. The price of pipeline transportation services of natural gas are also regulated and supervised by the NDRC and Administration Bureau of Commodity Price.

End-user tariffs are determined by local pricing bureaus and any tariffs adjustment affecting residential end-users may be approved only after a hearing. Even if the adjustments sought by us are approved, such approval process and hearing can cause substantial delay and we may not be able to completely and quickly pass-through future increases in natural gas costs to end-users and may face margin pressure if the NDRC makes unfavourable adjustments in gas prices. There can be no assurance we will be able to obtain the required approval from the relevant local pricing bureau for an increase in pipeline connection fees or gas tariffs if our costs increase significantly.

Financing terms may restrict our strategies and activities

The agreements relating to credit facilities and loans and certain other financing transactions entered into by us contain covenants that require us to meet certain financial tests and that restrict, or may restrict, among other things, our ability to incur additional debt, create liens or other encumbrances on our property, commit to additional lease obligations, acquire other businesses, sell or otherwise dispose of assets, make certain payments and investments, pay dividends and merge or consolidate with other entities in certain circumstances. These restrictions may affect our growth, expansion into targeted markets and ability to plan for and react to changes in our business. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, some of our financing agreements contain cross-default or cross-acceleration provisions that would be triggered by a default or acceleration of loans under other financing agreements. A cross-default or cross-acceleration under such other financing agreements could have a material adverse effect on our business, financial condition and results of operations.

Increases in interest rates may materially impact our results of operations

Some of our debt facilities carry interest at floating rates. We currently do not enter into any swap or interest rate hedging transactions in connection with these debt facilities, although we may decide to engage in such transactions in the future. Unless we fully hedge our interest rate exposure, we will be exposed to interest rate risk resulting from fluctuations in the relevant reference rates. Any such increase in interest expense may have a material adverse effect on our business, financial condition and results of operations. Furthermore, if we decide to enter into agreements to hedge our interest rate risk, there can be no assurance that we will be able to do so on commercially reasonable terms or that these agreements, if entered into, will protect us fully against our interest rate risk.

We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we were not involved in any material legal or administrative proceedings. There can be no assurance, however, that we will not be involved in legal or administrative proceedings in the future, the outcome of which may have a material adverse effect on our business, financial condition and results of operations or have a negative impact on our reputation or brand. Further, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decrees that result in pecuniary liabilities and cause delays to our ordinary course of business.

We conduct our business through operating subsidiaries and joint venture partners, some of which we do not control, and these business partners' interests may not align with ours

We currently conduct our business operations primarily through operating subsidiaries established in China, a substantial portion of which are not wholly-owned. Although we have control over the management of these operating subsidiaries, certain important corporate actions for many subsidiaries typically require supermajority or unanimous board or shareholder approval. Such corporate actions generally include amending the articles of association, terminating the joint ventures or winding up the subsidiaries, merging, increasing the registered share capital, transferring equity interests or pledging of assets. There can be no assurance that our subsidiaries will not engage in certain of these corporate actions in the future or that, if they do, that they will be able to cause our partners to consent to such actions.

In addition, there is a possibility that the partners of these operating subsidiaries may have economic or business interests or goals which are inconsistent with our own, and are unable or unwilling to fulfil their obligations under the relevant joint venture or shareholders' agreements, or have financial difficulties.

Risks Relating to Our Industry

Our operations may be adversely affected by the global and domestic economic conditions

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. Although nations around the world have adopted various economic policies to mitigate the adverse influences caused by factors such as the slowdown of world economy and the European financial crisis, it is uncertain how quickly the world economy would grow going forward. Our operations may also be adversely affected by factors such as certain countries' trade protection policies which may affect export and certain regional trade agreements which may affect import.

Our operations may be adversely affected by the cyclical nature of the market

Most of our revenues are attributable to sales of energy products, and certain of these businesses and related products have historically been cyclical and sensitive to a number of factors that are beyond our control. These factors include the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. We have limited ability to mitigate the adverse impact of the cyclical nature of global markets.

We face intense competition

We operate in a highly competitive environment, competing with a large number of international and PRC oil companies in supplying oil and gas products to our customers. Our competitors or potential competitors generally fall into the following categories:

- *National State-owned Oil Companies*

National State-owned Oil Companies (e.g., CNPC, Sinopec and CNOOC, who are also our suppliers), each of which responsible for maximising returns from the petroleum interests of the country, generally operate in monopoly positions in China.

- *Oil Majors*

Oil Majors are the leading global energy companies which typically have large, integrated operations, including exploration, exploitation, production, refinery, trading and marketing of energy products, in many locations around the world.

- *Oil trading companies*

There are a large number of oil trading companies in China who frequently buy and sell oil products which exist physically, and which are due to be transported shortly or in transit. Their scale of operation is usually relatively small, compared to National Government-owned Oil Companies and Oil Majors.

We face intense competition in selling our trading products to our customers. Some of our competitors have greater financial and marketing resources and geographical reach than ourselves. Any future increases in competition could adversely affect our Group's business and profitability. There can be no assurance that our Group will be able to compete successfully in the future in a competitive market environment.

Risks Relating to Doing Business in the PRC

Interpretation of PRC laws and regulations involves significant uncertainties

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate

organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. In particular, the oil and gas industry is highly regulated in PRC. As the PRC legal system develops together with the PRC oil and gas industry, there is no assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material and adverse effect on our business operations.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This has resulted in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgements by a court of another jurisdiction.

PRC economic, political and social conditions as well as government policies could adversely affect our business

The PRC economy differs from the economies of most developed countries in many respects, including its structure, amount of government involvement, level of development, economic growth rate, control of foreign exchange, policies and restrictions on capital reinvestment, rate of inflation, trade balance position and allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC government has implemented measures emphasizing market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a substantial portion of productive assets in the PRC is still owned by the PRC government. The PRC government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that any such reforms will not have an adverse effect on our business.

Our operations and financial results could also be materially and adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof). Our operations and financial results, as well as our ability to satisfy our obligations under the Bonds, could also be materially and adversely affected by changes in measures which might be introduced to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

Government regulations may limit our activities and affect our business operations

The PRC government, though gradually liberalizing its regulations on entry into the petroleum and petrochemical industry, continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include granting licences to explore and produce crude oil and natural gas, granting licences to market and distribute crude oil and refined petroleum products, adjusting upper limit of the retail prices for gasoline and diesel; collecting special gain levies, formulating import and export quotas and procedures, imposing human health, safety, environmental and quality regulations and standards, and promulgating policies to conserve energy and reduce emission; meanwhile, there could be potential changes to macroeconomic and industry policies such as further improvement of pricing mechanism of petroleum products, reforming and improvement of pricing mechanism of natural gas, and reforming resource tax and environmental tax, which could affect our operations. Such control mechanisms may have material adverse effects on our operations and profitability.

Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results

We receive a significant majority of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency needs, including import of LNG, fuel oil and other materials; debt service on foreign currency-denominated debt; purchases of imported equipment; and payment of the principal and interest on bonds issued overseas. The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of Renminbi. The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the foreign exchange control policies of the PRC government and the changes in the PRC's and international political and economic conditions. On 21 July 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. On 19 June 2010, PBOC decided to further promote the reform of the Renminbi exchange rate formation mechanism, and improve the flexibility of Renminbi exchange rate. Since we plan to expand our oil and gas imports business, and the purchase prices are benchmarked to U.S. dollar-denominated international prices, fluctuations in the exchange rate of the Renminbi against the U.S. dollars and certain other foreign currencies may materially and adversely affect our oil and gas purchase costs.

Some of our development plans require compliance with state policies and governmental regulation

We are currently engaged in a number of construction projects. Some of our construction projects are subject to governmental confirmation and registration. The timing and cost of completion of these projects will depend on numerous factors, including when we can receive the required confirmation and registration from relevant PRC governmental authorities and general economic conditions in China. If any of our key projects required for our future growth are not confirmed or registered, or not confirmed or registered in a timely manner, our results of operations and financial condition could be adversely impacted.

The outbreak, or threatened outbreak, of any severe communicable disease in the PRC could materially and adversely affect our business, financial condition and results of operations

The outbreak, or threatened outbreak, of any severe communicable disease (such as severe acute respiratory syndrome or avian influenza) in the PRC could materially and adversely affect the overall business sentiment and environment in the PRC, particularly if such outbreak is inadequately controlled. This, in turn, could materially and adversely affect domestic consumption, labour supply and, possibly, the GDP growth of the PRC. Our revenue is currently derived mainly from PRC operations, and any labour shortages or contraction or slowdown in the growth of domestic consumption in the PRC could materially and adversely affect our business, financial condition and results of operations. In addition, if any of our employees are affected by any severe communicable

disease, it could adversely affect or disrupt production levels and operations at the relevant plants and materially and adversely affect our business, financial condition and results of operations, which may also involve a closure of our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which could materially and adversely affect our business, financial condition and results of operations.

The Issuer may be considered a PRC tax resident enterprise, which could result in unfavourable tax consequences to it and its non-PRC Bondholders

Pursuant to the Enterprise Income Tax Law of the PRC (the “EIT Law”) effective on 1 January 2008 and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25 per cent. in respect of their worldwide income. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is located in the PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC.

As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, Bondholders will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of payments of interest, premium (if any) and repayments of principal by the Issuer.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC must pay enterprise income tax on PRC source income and such tax must be withheld by the PRC payer at source. Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer may be required to withhold tax from the payments of interest or redemption premium in respect of the Bonds to any non-PRC Bondholder and gain from the disposition of the Bonds may be subject to PRC tax if such income or gain is treated as PRC source. The tax rate is generally 10 per cent. for non-PRC enterprise Bondholders and 20 per cent. in the case of non-PRC individual Bondholders, subject to the provisions of any applicable tax treaty.

Subject to certain exceptions, the Issuer has agreed to pay additional amounts to Bondholders so that Bondholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions. The requirement to pay additional amounts as a result of any such PRC withholding tax will increase the cost of servicing the debt and could have an adverse effect on the Issuer’s financial condition.

Risks relating to the Bonds, the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking

The Issuer is a special purpose finance vehicle and payments with respect to the Bonds are dependent upon cash flow from other members of our Group

The Issuer is a special purpose finance vehicle with no material operations and no significant assets. We conduct our operations primarily through our PRC subsidiaries, which will not provide guarantees for the Bonds. The Issuer's primary assets are expected to be intergroup loans to non-PRC subsidiaries upon the completion of this offering. Some of such non-PRC subsidiaries may not have material operations or assets. Accordingly, the Issuer's ability to pay principal and interest on the Bonds will depend upon its receipt of principal and interest payments on the intergroup loans from such borrowing subsidiaries. The borrowing subsidiaries may not have material operations or assets, and therefore depend upon the receipt of sufficient funds from their subsidiaries or other members in our Group to meet their obligations.

The Bonds do not contain restrictive operating covenants

The Trust Deed will contain various covenants intended to benefit the Bondholders that limit the ability of the Issuer or the Company to, among other things, incur liens on Relevant Indebtedness (as defined in the "Terms and Conditions of the Bonds") outside the PRC. The Trust Deed, however, does not contain restrictions on the payment of dividends or making of other restricted payments. In addition, the Trust Deed does not contain any other covenants or provisions designed to afford the Bondholders protection in the event of a highly leveraged transaction involving the Issuer or the Company that could adversely affect such holders. Subject to the terms of the existing debt and credit facilities of the Issuer and the Company, the Issuer and the Company may incur substantial additional indebtedness in the future.

The Bonds are unsecured obligations

The Bonds are unsecured obligations of the Issuer. The payment obligations under the Bonds may be adversely affected if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Bonds.

The Keepwell Deed is not a guarantee of the payment obligations under the Bonds

The Company will enter into the Keepwell Deed in relation to the Bonds. Pursuant to the terms of the Keepwell Deed, the Trustee may take action against the Company to enforce the provisions of the Keepwell Deed. However, neither the Keepwell Deed nor any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligation of the Issuer under the Bonds. Accordingly, the Company will only be obliged to cause the Issuer to obtain, before the due date of the relevant payment obligations, funds sufficient by means as permitted by applicable laws and regulations so as to enable the Issuer to pay such payment obligations in full as they fall due, rather than assume the payment obligation as in the case of a guarantee. Furthermore, even if the Company intends to perform its obligations under the Keepwell Deed, depending on the manner in which the Company performs its obligations under the Keepwell Deed in causing the Issuer to obtain, before the due date of the relevant payment obligations, funds sufficient meet its obligations under the Bonds, such performance may be subject to obtaining prior consent, approvals, registration and/or filings from relevant PRC governmental authorities, including the MOF, PBOC, CBRC, the National Development and Reform Commission (“**NDRC**”), the Ministry of Commerce of the People’s Republic of China (“**MOFCOM**”) and the State Administration of Foreign Exchange (“**SAFE**”). Although the Company is required to use all reasonable efforts to obtain any required consents and approvals in order to fulfil its obligations under the Keepwell Deed, there is no assurance that such consents or approvals will be obtained in a timely manner or at all.

In addition, under the Keepwell Deed, the Company will undertake, among other things, to cause the Issuer to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds. However, any claim by the Issuer and/or the Trustee against the Company in relation to the Keepwell Deed will be effectively subordinated to all existing and future obligations of the Company’s subsidiaries (which do not guarantee the Bonds), particularly the onshore operating subsidiaries of the Company, and all claims by creditors of such subsidiaries (which do not guarantee the Bonds) will have priority to the assets of such entities over the claims of the Issuer and the Trustee under the Keepwell Deed.

Performance by the Company of its undertaking under the Deed of Equity Interest Purchase and Investment Undertaking is subject to approvals of the PRC governmental authorities

The Company intends to assist the Issuer to meet its obligations by entering into the Deed of Equity Interest Purchase and Investment Undertaking on the Issue Date. Under the Deed of Equity Interest Purchase and Investment Undertaking, upon the occurrence of an Event of Default the Company agrees to purchase from any offshore subsidiary of the Company (each, a “Relevant Transferor”) the equity interest in certain PRC-incorporated subsidiaries held by such offshore subsidiaries (the “**Purchase**”) and/or to invest in any offshore subsidiary of the Company (each, a “**Relevant Investee**”) (the “**Investment**”), in each case at a purchase price or investment amount, as the case may be, not lower than the amount sufficient to enable the Issuer to discharge its obligations under the Bonds and the Trust Deed (as defined in “Terms and Conditions of the Bonds”).

Performance of the Company of the Deed of Equity Interest Purchase and Investment Undertaking is subject to the approval of the MOF, the CBRC, the NDRC and the MOFCOM, as well as the registration by the SAFE, the relevant Administration for Industry and Commerce, and the relevant tax authority. As the approval process is beyond the control of the Company, there can be no assurance that the Company will successfully obtain either of the requisite approvals in time, or at all. In the event that the Company fails to obtain the requisite approvals, the Issuer may still have insufficient funds to discharge its outstanding payment obligations to the holders of the Bonds.

Further, in the event of an insolvency of a Relevant Transferor or a Relevant Investee, any sale proceeds or investment amount received by that Relevant Transferor or Relevant Investee, as the case may be, may be subject to the insolvency claims of third parties. The Trustee's claim against the sale proceeds will be an unsecured claim and may rank lower in priority to any claims by secured third party creditors of such Relevant Transferor or Relevant Investee where it is the Issuer. Where a Relevant Transferor or Relevant Investee is not the Issuer, the Trustee will not have a direct claim against the sale proceeds received by such Relevant Transferor or Relevant Investee.

Performance by the Company of its undertaking under the Deed of Equity Interest Purchase and Investment Undertaking may be subject to consent from third party creditors and shareholders, and may also be restricted if any of the equity interests are secured in favour of third party creditors

Under the Deed of Equity Interest Purchase and Investment Undertaking, the Company agrees to purchase from a Relevant Transferor the equity interest in certain PRC-incorporated subsidiaries held by such offshore subsidiaries. The ability of the Company to perform this undertaking may be affected by any present or future financing agreements of the Company and its subsidiaries:

- in the event that such financial agreements contain non-disposal or other restrictive covenants that would prevent the sale of an equity interest by a Relevant Transferor, the Company and its subsidiaries would need to obtain the consent from the third party creditor before the Relevant Transferor is able to proceed with the sale of such equity interest; and
- in the event that certain equity interests have been secured in favour of third party creditors, the Company and its subsidiaries would need to arrange for these security interests to be released before the Relevant Transferor is able to proceed with the sale of such equity interests.

In the event the obligation to purchase under the Deed of Equity Interest Purchase and Investment Undertaking becomes effective, there is no assurance that the Relevant Transferor will be able to obtain any required consents from its creditors or that it will be able to arrange for any existing security arrangement to be released in order for the sale of the equity interest to proceed. If the Relevant Transferor is not able to do so, it may need to repay the indebtedness owed to its third party creditors in order to be able to sell the relevant equity interests to the Company.

In the event that the required consents or waivers from third party creditors are not able to be obtained and in the case of third party creditors, the relevant indebtedness cannot be repaid in the timely manner, the sale of the equity interest may not be able to proceed and eventually the Issuer may have insufficient funds to discharge its payment obligations to the holders of the Bonds.

In addition, the sale of the equity interests in certain non-wholly-owned companies may be subject to pre-emptive rights or other restrictions in such company's articles of association, shareholders' agreement or otherwise that would require the selling shareholder to obtain consent or waiver from other third party shareholders before any equity interest can be sold to the Company. In the event the obligation to purchase under the Deed of Equity Interest Purchase and Investment Undertaking becomes effective there is no assurance that any required consents or waivers can be obtained from third party shareholders in a timely manner or at all.

There can be no assurance that we will be able to obtain and remit foreign exchange

The ability of the Issuer to satisfy its obligations under the Bonds depends upon our ability to obtain and remit sufficient foreign currency to the Issuer. We need to present certain documents to the SAFE, its authorised branch, or the designated foreign exchange bank, for approval before we can obtain and remit foreign currencies out of the PRC. If we for any reason fail to satisfy any of the PRC legal requirements for remitting foreign currency payments, we will be unable to make payments to the Issuer in foreign currency, which may affect the Issuer's ability to satisfy its obligations under the Bonds.

The Issuer may not be able to redeem the Bonds upon the due date for redemption thereof

Following the occurrence of a Change of Control (as defined in the "Terms and Conditions of the Bonds"), the Issuer may, at the option of any Bondholder, be required to redeem all, but not some only, of such Holder's Bonds at 101 per cent. of their principal amount, together with accrued interest.

Furthermore, we intend to use the net proceeds from this Offering to fund a potential strategic acquisition of an LNG regasification and refined oil terminal with related storage facilities in China. However, there can be no assurance that we will be able to close the proposed acquisition successfully or in accordance with the expected timetable. If, on or prior to the Use of Proceeds Compliance Deadline (as defined in the "Terms and Conditions of the Bonds"), we were not able to apply the net proceeds towards such purposes and to deliver the certificates and evidence (including a certificate from the Company's external auditors) required to achieve a Full Release Event or a Partial Release Event (each as defined in the "Terms and Conditions of the Bonds"), the Issuer may, at the option of any Bondholder, be required to redeem all, but not some only, of such Holder's Bonds at 101 per cent. of their principal amount, together with accrued interest. If a Partial Release Event only (and not a Full Release Event) was achieved on or prior to the Use of Proceeds Compliance Deadline, the Issuer may, at the option of any Bondholder, be required to redeem a portion of the Bonds up to the Total Unused Proceeds (as defined in the "Terms and Conditions of the Bonds") at 101 per cent. of their principal amount, together with accrued interest, as further described in Condition 5(c) of the "Terms and Conditions of the Bonds".

If any of the above events were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's, the Company's or the Group's other indebtedness.

The insolvency laws of the British Virgin Islands, the PRC and other local insolvency laws may differ from the laws of jurisdictions with which holders of the Bonds are familiar

The Issuer is incorporated under the laws of the British Virgin Islands. Therefore, an insolvency proceeding relating to the Issuer would likely involve the insolvency laws of the British Virgin Islands, which may have different procedural and substantive provisions from the United States federal bankruptcy law. In addition, the Company is incorporated under the laws of the PRC. The insolvency laws of the PRC may also differ from the laws of other jurisdictions with which the holders of the Bonds are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in the PRC. We are therefore subject to the bankruptcy and insolvency laws of the PRC in a bankruptcy or insolvency proceeding involving our PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of jurisdictions with which the holders of the Bonds are familiar. You should analyse the risks and uncertainties carefully before you invest in our Bonds.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Trust Deed, there could be a default under the terms of these agreements or the Trust Deed, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Trust Deed, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Trust Deed, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Bonds, or result in a default under our other debt agreements, including the Trust Deed. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favourable or acceptable to us.

A trading market for the Bonds may not develop, and there are restrictions on resales of the Bonds

The Bonds are a new issue of securities for which there is currently no trading market. We have been advised that the Initial Purchasers intend to make, or to continue to make, a market in the Bonds, but none of the Initial Purchasers is obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Bonds are being offered without registration under the Securities Act and, as a result, you will only be able to resell your Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See “Subscription and Sale”. We cannot predict whether an active trading market for the Bonds will develop or be sustained.

The liquidity and price of the Bonds following the offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. We cannot assure you that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Bonds

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although

economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the subprime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our or their respective advisers

Facts and statistics in this Offering Circular relating to PRC economy and the oil and gas industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

The Bonds will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Bonds will initially only be issued in global form and held through Euroclear and Clearstream. Interests in the Bonds represented by the Global Bond Certificate will trade in book-entry form only, and Bonds in definitive registered form, or definitive registered Bonds, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Bonds. The nominee of the common depository for Euroclear and Clearstream will be the sole registered holder of the Global Bond Certificate representing the Bonds. Payments of principal, interest and other amounts owing on or in respect of the Global Bond Certificate representing the Bonds will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the Global Bond Certificate representing the Bonds and credited by such participants to indirect participants. After payment to the Paying Agent, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Bondholder under the Trust Deed.

Unlike the holders of the Bonds themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Bondholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis. Similarly, upon the occurrence of an Event of Default under the Trust Deed, unless and until definitive registered Bonds are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds.

The Trustee may request holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances, including without limitation giving of notice to the Issuer pursuant to Condition 8 and taking enforcement steps pursuant to Condition 13 of the Terms and Conditions of the Bonds, the Trustee may, at its sole discretion, request holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of holders of the Bonds. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed (as defined in the Terms and Conditions of the Bonds) or the Terms and Conditions of the Bonds or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Bonds to take such actions directly.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds

The Terms and Conditions of the Bonds contain provisions for calling meetings of holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of the individuals.

Our financial states are prepared according to PRC GAAP, which may differ significantly from IFRS

Our financial statements are prepared and presented in accordance with PRC GAAP, which differ in certain significant respects from IFRS. We have not prepared a reconciliation of our consolidated financial information and our consolidated financial statements and related footnotes between PRC GAAP and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between PRC GAAP and any other GAAPs and how those differences might affect the financial information contained in this Offering Circular.

As a privately held company, public information about us is very limited

Unlike publicly listed companies that have sufficient public disclosure for investors to fully understand their business, operation, prospects and risks, we are a privately held company with very limited public information. As a result, you could only rely on this Offering Circular to understand our business, operation, prospects and risks, which may not present a comprehensive picture of us.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Bonds:

The US\$400,000,000 6.125 per cent. bonds due 2019 (the “**Bonds**”, which expression, unless expressly indicated otherwise, includes any further bonds issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of China Energy Reserve and Chemicals Group International Company Limited (the “**Issuer**”) are constituted by a trust deed dated 15 January 2016 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, China Energy Reserve and Chemicals Group Company Limited (中國國儲能源化工集團股份公司) (the “**Keepwell Provider**”) and Bank of Communications Trustee Limited (交通銀行信託有限公司) as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).

The Bonds will have the benefit of (i) a keepwell deed dated on or about 15 January 2016 (as amended or supplemented from time to time, the “**Keepwell Deed**”) entered into by the Issuer, the Keepwell Provider and the Trustee; and (ii) a deed of equity interest purchase and investment undertaking dated on or about 15 January 2016 (as amended or supplemented from time to time, the “**Equity Interest Purchase and Investment Undertaking**”) entered into by the Issuer, the Keepwell Provider and the Trustee. The Bonds are the subject of an agency agreement dated 15 January 2016 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, the Keepwell Provider, Bank of Communications Co., Ltd. Hong Kong Branch as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Bonds), Bank of Communications Co., Ltd. Hong Kong Branch as principal paying agent (the “**Principal Paying Agent**”, which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the transfer agents named therein (the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds), and the Trustee. References herein to the “**Agents**” are to the Registrar, the Paying Agents and the Transfer Agents and any reference to an “**Agent**” is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking and the Agency Agreement and subject to their detailed provisions. The holders of the Bonds are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking and the Agency Agreement applicable to them. Copies of the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking and the Agency Agreement are available for inspection by Bondholders during normal office hours at the principal office of the Trustee (presently at 1st Floor, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong) and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out in the Agency Agreement.

1. Form, Denomination and Status of the Bonds

- (a) *Form and Denomination*: The Bonds are in registered form in the denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof (an “**Authorised Denomination**”).
- (b) *Status of the Bonds*: The Bonds constitute direct, general, unconditional, unsubordinated and (subject to Condition 3(a) (*Negative pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference or priority among themselves (subject to Condition 3(a) (*Negative pledge*)) and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by applicable provisions of law.

*Upon issue, the Bonds will be evidenced by a global bond certificate (the “**Global Bond Certificate**”) substantially in the form scheduled to the Trust Deed. The Global Bond Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg, and will be exchangeable for individual Bond Certificates only in the circumstances set out therein.*

2. Register, Title and Transfers

- (a) *Register*: The Registrar will maintain a register (the “**Register**”) in respect of the Bonds outside of Hong Kong and the United Kingdom in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Bond means the person in whose name such Bond is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Bondholder**” shall be construed accordingly. A certificate (each, a “**Bond Certificate**”) will be issued to each Bondholder in respect of its registered holding. Each Bond Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) *Title*: The Holder of each Bond shall (except as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder.
- (c) *Transfers*: Subject to Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however*, that a Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

- (d) *Registration and delivery of Bond Certificates:* Within five business days of the surrender of a Bond Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (air mail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2(d), “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (e) *No charge:* The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity and/or security and/or prefunding as the Issuer, the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) *Closed periods:* A Bondholder may not require transfers to be registered during the period of (i) 14 days ending on (but excluding) the due date for any payment of principal in respect of that Bond, (ii) seven days ending on (and including) any Record Date (as defined in Condition 6(a)(ii)), (iii) seven days ending on (and including) any date on which the Bonds may be called for redemption by the Issuer pursuant to Condition 5(b), or (iv) after any Bond held by such Bondholder has been put for redemption pursuant to Condition 5(c).
- (g) *Regulations concerning transfers and registration:* All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Holder) by the Registrar to any Bondholder who requests in writing a copy of such regulations.

3. Covenants

(a) *Negative Pledge*

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Keepwell Provider shall, and the Issuer and the Keepwell Provider shall procure that none of their respective Subsidiaries will, create, incur, assume or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (i) at the same time or prior thereto securing the Bonds equally and rateably therewith or (ii) providing such other security for the Bonds as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

(b) *[Reserved]*

(c) Information Rights

So long as any Bond remains outstanding (as defined in the Trust Deed):

- (i) the Keepwell Provider shall send to the Trustee as soon as practicable after their date of publication, and in any event not more than 120 days after the end of each financial year, the audited consolidated annual financial statements of the Keepwell Provider and its Subsidiaries prepared in accordance with accounting principles generally accepted in, and pursuant to the relevant laws of, the People's Republic of China and audited by a firm of independent accountants recognised internationally or qualified and recognised nationally in the PRC (a "**Qualified Accounting Firm**") and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) a Qualified Accounting Firm or (B) a professional translation service provider and checked by a Qualified Accounting Firm, together with a certificate signed by a director of the Keepwell Provider certifying that such translation is complete and accurate;
- (ii) the Keepwell Provider send to the Trustee as soon as practicable after their date of publication, and in any event not more than 90 days after the end of each financial period, the reviewed unaudited consolidated semi-annual financial statements of the Keepwell Provider and its Subsidiaries prepared on a basis consistent with the audited consolidated annual financial statements of the Keepwell Provider and its Subsidiaries and reviewed by a Qualified Accounting Firm, and if such statements shall be in the Chinese language, together with an English translation of the same and a certificate signed by a director of the Keepwell Provider certifying that such translation is complete and accurate;
- (iii) the Keepwell Provider shall deliver to the Trustee within 120 days after the end of each financial year of the Keepwell Provider ending after the Original Issue Date, a compliance certificate signed by a director of the Keepwell Provider stating whether, to such director's knowledge, the Keepwell Provider is in compliance with all covenants and conditions to be complied with by the Keepwell Provider under the Bonds, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking and the Trust Deed;
- (iv) the Issuer shall deliver to the Trustee within 120 days after the end of each financial year of the Keepwell Provider ending after the Original Issue Date, a compliance certificate signed by a director of the Issuer stating whether, to such director's knowledge, the Issuer is in compliance with all covenants and conditions to be complied with by the Issuer under the Bonds, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking and the Trust Deed; and
- (v) the Issuer shall and the Keepwell Provider shall deliver to the Trustee as soon as possible, and in any event within 14 days after the Issuer (or the Keepwell Provider, as the case may be) becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and a certificate signed by any director of the Issuer (or the Keepwell Provider, as the case may be) setting forth the details thereof and the action the Issuer (or the Keepwell Provider, as the case may be) is taking or proposes to take with respect thereto (if any).

(d) Limitation on the Issuer's Activities

The Issuer shall not, and the Keepwell Provider procure that the Issuer will not, conduct any business or other activities other than the activities in connection with the issue of the Bonds and any other activities reasonably incidental thereto. Such activities in connection with the Bonds shall, for the avoidance of doubt, include (i) the offering, sale or issuance of the Bonds and the incurrence of Indebtedness represented by the Bonds; (ii) the on-lending of the proceeds of the offering, sale or issuance of the Bonds to any Subsidiary of the Keepwell Provider; (iii) the activities directly related to the establishment and/or maintenance of the Issuer's corporate existence; and (iv) any other activities in connection therewith.

(e) Sanctions Compliance

Neither the Issuer nor the Keepwell Provider shall, and the Keepwell Provider shall procure that none of its Subsidiaries will, directly or indirectly, use the proceeds of the offering of the Bonds, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity:

- (i) to fund or facilitate any activities or business of or with any individual or entity or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or
- (ii) in any other manner that will result in a violation of Sanctions by any individual or entity, including any individual or entity participating in the offering of the Bonds, whether as underwriter, advisor, investor, trustee, agent or otherwise.

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Keepwell Provider shall, and the Keepwell Provider shall procure that none of its Subsidiaries and no director, officer, agent, employee or affiliate of, or any other person acting on behalf of, the Issuer, the Keepwell Provider or any of its Subsidiaries will, engage in any dealings or transactions with any individual or entity, or with or in any country or territory (including, without limitation, Crimea, Cuba, Iran, North Korea, Sudan and Syria), that at the time of the dealing or transaction is the subject of Sanctions.

(f) Keepwell Deed

For so long as any Bond remains outstanding, the Issuer covenants to take all such actions as may be necessary to be taken by it in order to enable the Keepwell Provider to comply with its obligations under the Keepwell Deed under which the Keepwell Provider has given certain undertakings to the Trustee, as trustee for the benefit of itself and the Bondholders.

(g) Equity Interest Purchase and Investment Undertaking

Upon the occurrence of any Event of Default, the Trustee shall give to the Keepwell Provider (with a copy to the Issuer) a notice in writing in accordance with the Trust Deed notifying the Keepwell Provider of its obligations to purchase and/or to invest under the Equity Interest Purchase and Investment Undertaking. Upon the completion of any equity purchase and/or investment made in accordance with the Equity Interest Purchase and Investment Undertaking, the Issuer undertakes to

(i) procure the Keepwell Provider to promptly pay or procure to be paid an amount (being an amount no less than the amount sufficient to enable the Issuer to discharge its obligations under the Bonds, the Trust Deed and the Agency Agreement) from the proceeds to be received by any Subsidiaries of the Keepwell Provider incorporated outside the PRC in relation to such equity purchase and/or investment made in accordance with the Equity Interest Purchase and Investment Undertaking to, or to the order of, the Trustee and (ii) promptly do all such things (including entering into and executing any agreements or arrangements required) and take all actions necessary for the proceeds received under the Equity Interest Purchase and Investment Undertaking upon the occurrence of any Event of Default to be applied solely towards the payment in accordance with the Trust Deed of any outstanding amounts under the Trust Deed, the Agency Agreement and the Bonds (including any interest accrued but unpaid on the Bonds) prior to any other use, disposal or transfer of the proceeds received.

In these Conditions:

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Original Issue Date**” means 15 January 2016;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Relevant Indebtedness**” means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

“**Sanctions**” means, collectively, any sanctions administered or enforced by the U.S. Government (including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury (the “**OFAC**”) or the U.S. Department of State), the United Nations Security Council, the European Union, Her Majesty’s Treasury, or other relevant sanctions authority, including, without limitation, the inclusion on the “Specially Designated Nationals and Blocked Persons” list maintained by the OFAC, the Consolidated List of Financial Sanctions Targets or the Investment Ban List maintained by the United Kingdom and Her Majesty’s Treasury, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the relevant sanctions authorities;

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any applicable jurisdiction; and

“**Subsidiary**” means, in relation to any Person (the “**first Person**”) at any particular time, any other Person:

- (i) that the first Person Controls (as defined below in Condition 5(c)) or has the power to Control; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. Interest

The Bonds bear interest on their outstanding principal amount from, and including, the Issue Date at the rate of 6.125 per cent. per annum, payable semi-annually in arrear in equal instalments of US\$30.625 per Calculation Amount (as defined below) on 15 January and 15 July in each year (each an “**Interest Payment Date**”).

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgement) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

Interest in respect of any Bond shall be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Interest in respect of any Bond shall be calculated per US\$1,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any Interest Period shall be equal to the product of 6.125 per cent., the Calculation Amount and the day-count fraction (determined in the same manner as stated above in this Condition 4) for the relevant Interest Period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

In these Conditions:

“**Interest Period**” means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date.

5. Redemption and Purchase

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 15 January 2019, subject as provided in Condition 6 (*Payments*).
- (b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Bondholders and the Trustee (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (A) the Issuer has or will become obliged to pay Additional Amounts (as defined below in Condition 7) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of, or the stating of an official position regarding, such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or in the case of an official position is announced) on or after the Original Issue Date (or in the case that Additional Amounts are payable with respect to taxes imposed by a jurisdiction other than the British Virgin Islands or the PRC, after the Issuer becomes subject to tax in the relevant jurisdiction); and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; *provided, however*, that (i) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Bonds were then due, and (ii) for the avoidance of doubt, a change to the jurisdiction of incorporation of the Issuer would not be considered a reasonable measure to be taken by the Issuer.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver or procure to be delivered to the Trustee (i) a certificate signed by one director of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the obligation to pay Additional Amounts could not be avoided by taking reasonable measures, and (ii) an opinion of counsel or an opinion of a tax consultant, in either case of recognised standing with respect to tax matters of the relevant jurisdiction, stating that the requirement to pay such Additional Amounts results from a change or amendment in the relevant regulations or laws, or the stating of an official position, referred to in this Condition 5(b).

The Trustee shall be entitled to accept and rely upon such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (A) and (B) above, in which event such evidence shall be conclusive and binding on the Bondholders and the Trustee shall be protected and shall have no liability to any Bondholder or any other person for so accepting and relying on such certificate or opinion.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

Notwithstanding anything to the contrary herein, the Issuer or any successor person may not redeem the Bonds in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Issuer or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

- (c) *Redemption for Change of Control or Use of Proceeds Non-Compliance Event*: At any time following the occurrence of a Put Event, the Holder of any Bond will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the applicable Put Settlement Date at 101% of their principal amount, together with accrued interest to such Put Settlement Date; *provided that*, in the case of a Put Event resulting from the occurrence of a Partial Release Event only (and not a Full Release Event) on or prior to the Use of Proceeds Compliance Deadline, (i) the maximum principal amount of the Bonds that the Issuer may be required to redeem shall be equal to the Total Unused Proceeds and (ii) in the event that the Holders of any Bond who exercise their option in the event of a Use of Proceeds Non-Compliance Event and whose Bonds, in aggregate, represent more than the Total Unused Proceeds, the Bonds shall be selected for redemption on a pro rata basis. To exercise such right, the Holder of the relevant Bond must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed by not later than 30 days following a Put Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15 (*Notices*). Where not all the Bonds represented by the surrendered Bond Certificate shall be redeemed, a new Bond Certificate in respect of the balance of the Bonds will be issued to the Holder to which such surrendered Bond Certificate relates.

The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Bondholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than (i) 14 days following the first day on which it becomes aware of the occurrence of a Change of Control (in the case of a Change of Control) or (ii) the Use of Proceeds Compliance Deadline (in the case of a Use of Proceeds Non-Compliance Event), which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 5(c) (*Redemption for Change of Control or Use of Proceeds Non-Compliance Event*).

In this Condition 5(c) (*Redemption for Change of Control or Use of Proceeds Non-Compliance Event*):

"**Capital Stock**" means issued and outstanding ordinary shares having voting rights, but does not include ordinary or preference shares without voting rights;

a “**Change of Control**” occurs when (i) a Person or Persons Controlled by the State Council of the PRC and/or the PRC government, acting together (if applicable), ceases to be either in Control of the Keepwell Provider or the single largest (in the aggregate, if applicable) direct or indirect holder of the Capital Stock of the Keepwell Provider, or (ii) the Issuer ceases to be a direct or indirect wholly-owned subsidiary of the Keepwell Provider;

“**Control**” means, with respect to any Person, (a) the acquisition or control of more than 50% of the voting rights of the Capital Stock of such Person, or (b) the right to appoint and/or remove all or the majority of the members of such Person’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the terms “**Controlling**” and “**Controlled**” shall have meanings correlative to the foregoing;

“**Full Release Event**” means the receipt by the Trustee of:

- (i) a certificate in substantially the form set out in the Trust Deed of a director or duly authorised signatory of the Keepwell Provider confirming (A) the entire amount of the net proceeds received by the Issuer on or around the Original Issue Date (such net proceeds, the “**Total Net Proceeds**”) have been applied towards the purpose set forth in the “Use of Proceeds” section in the Offering Circular for the Bonds dated 12 January 2016 and (B) no Event of Default has occurred; and
- (ii) evidence reasonably satisfactory to the Trustee supporting (i)(A) above, including (but not limited to) any share certificates (or certified true copies thereof) or a certified true copy of the register of members or such other documentation evidencing legal ownership with respect to the potential acquisition set forth in the “Use of Proceeds” section in the Offering Circular for the Bonds dated 12 January 2016, together with a certificate from the Keepwell Provider’s external auditors confirming (1) the application of the Total Net Proceeds and (2) the abovementioned legal ownership;

“**Partial Release Event**” means the receipt by the Trustee of:

- (i) a certificate in substantially the form set out in the Trust Deed of a director or duly authorised signatory of the Keepwell Provider confirming (A) the partial amount, which shall exceed US\$0, of the Total Net Proceeds which have been applied towards the purpose set forth in the “Use of Proceeds” section in the Offering Circular for the Bonds dated 12 January 2016 (the “**Total Used Proceeds**”) and (B) no Event of Default has occurred; and
- (ii) evidence reasonably satisfactory to the Trustee supporting (i)(A) above, including (but not limited to) any share certificates (or certified true copies thereof) or a certified true copy of the register of members or such other documentation evidencing legal ownership with respect to the potential acquisition set forth in the “Use of Proceeds” section in the Offering Circular for the Bonds dated 12 January 2016, together with a certificate from the Keepwell Provider’s external auditors confirming (1) the Total Used Proceeds and (2) the abovementioned legal ownership;

a “**Person**”, as used in this Condition 5(c) (*Redemption for Change of Control*), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity);

“**Put Event**” means a Change of Control or the occurrence of a Use of Proceeds Non-Compliance Event;

“**Total Unused Proceeds**” means the excess of the Total Net Proceeds over the Total Used Proceeds (as determined under the definition of “Partial Release Event”), being rounded down to the nearest US\$1,000;

“**Use of Proceeds Compliance Deadline**” means the day falling 270 days after the Original Issue Date; and

“**Use of Proceeds Non-Compliance Event**” means either (i) the failure to occur of a Full Release Event on or prior to the Use of Proceeds Compliance Deadline or (ii) the occurrence of a Partial Release Event only (and not a Full Release Event) on or prior to the Use of Proceeds Compliance Deadline.

- (d) *No other redemption*: The Issuer shall not be entitled to redeem the Bonds otherwise than as provided in Condition 5(a) (*Scheduled redemption*) to Condition 5(c) (*Redemption for Change of Control or Use of Proceeds Non-Compliance Event*) above.
- (e) *Purchase*: The Issuer, the Keepwell Provider or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price.
- (f) *Cancellation*: All Bonds so redeemed or purchased by the Issuer, the Keepwell Provider or any of their respective Subsidiaries may be cancelled and may not be reissued or resold.

6. Payments

- (a) *Method of Payment*
 - (i) *Principal and premium*: Payments of principal and premium shall be made (subject to surrender of the relevant Bond Certificates at the Specified Office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Bond Certificates) by transfer to a U.S. dollar account of the Bondholder.
 - (ii) *Interest*: Payments of interest shall be made to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Bond shall be made in U.S. dollars by transfer to a U.S. dollar account of the Bondholder.

- (iii) For the purposes of this Condition 6(a), a Bondholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the fifth Payment Business Day before the due date for payment.
 - (iv) If the amount of principal being paid upon surrender of the relevant Bond Certificate is less than the outstanding principal amount of such Bond Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Bond Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium or interest so paid.
- (b) *Payments subject to fiscal laws:* All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment, and, except as provided in Condition 7 (*Taxation*) below, no Additional Amounts will be payable as a result of the withholding or deduction of any taxes or duties of whatever nature imposed or levied as a result of such laws, regulations or directives. No commissions or expenses shall be charged to the Bondholders in respect of such payments.
- (c) *Payment Initiation:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date or, if that date is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if that date is not a Payment Business Day, on the first following day which is a Payment Business Day) or, in the case of payments of principal where the relevant Bond Certificate has not been surrendered at the Specified Office of any Paying Agent or of the Registrar, on a Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Bond Certificate is surrendered.
- (d) *Appointment of Agents:* The Principal Paying Agent, the Registrar and the Transfer Agent will initially be appointed by the Issuer. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Bondholder.
- (e) *Delay in Payment:* Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Bond Certificate (if required to do so).
- (f) *Payment Business Day:* In this Condition 6, "**Payment Business Day**" means a day (other than a Saturday or a Sunday or a public holiday in Hong Kong and New York City) on which commercial banks and foreign exchange markets are open for business and settlement of U.S. dollar payments in New York City, Hong Kong and (if surrender of the relevant Bond Certificate is required) the relevant place of presentation.

7. Taxation

All payments of principal, premium and interest in respect of the Bonds by or on behalf of the Issuer, shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC or any jurisdiction through which payments are made or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts (the “**Additional Amounts**”) as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Bond:

- (a) for taxes, duties, assessments or governmental charges imposed, levied, collected, withheld or assessed, in respect of payments of such Bond by reason of the Holder or beneficial owner having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Bond; or
- (b) to a Holder (or to a third party on behalf of a Holder) who would not be liable for or subject to such withholding or deduction but for the failure of the Holder or a beneficial owner to comply with a timely request of the Issuer, addressed to the Holder, to make a declaration of or provide certification or information concerning such Holder’s or beneficial owner’s identity, non-residence or nationality if such declaration, certification or information is required under applicable law to reduce or eliminate such withholding or deduction; or
- (c) in respect of which the Bond Certificate representing it is surrendered (where required to be surrendered) more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such Additional Amounts if it had presented such Bond for payment on the last day of such period of 30 days; or
- (d) for or on account of any estate, inheritance, gift, sale, transfer, personal property or similar tax, duty, assessment or governmental charge; or
- (e) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive amending, supplementing or replacing such Directive or any law implementing or complying with, or introduced in order to confirm such Directive or Directives; or
- (f) for or on account of any combination of taxes, duties, assessments or governmental charges referred to in the preceding paragraphs (a) to (e); or
- (g) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required (for tax purposes) to be included in the income under the laws of the jurisdiction imposing the tax of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

“**Relevant Date**” means whichever is the later of (a) the date on which the payment in question first becomes due, and (b) if the full amount payable has not been received by the Principal Paying Agent in accordance with the provision of the Agency Agreement on or prior to such due date, the date on which the full amount has been received and notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal, premium or interest shall be deemed to include any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, references in these Conditions to the British Virgin Islands shall be construed as references to the British Virgin Islands and/or, such other jurisdiction.

If any taxes, duties, assessments or other governmental charges are required to be withheld or deducted from payments on the Bonds, the Issuer, as applicable, will make such withholding or deduction as required by applicable laws and remit the full amount so deducted or withheld to the relevant authority as and when required in accordance with applicable laws. The Issuer will use reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any such taxes, duties, assessments or other governmental charges so deducted or withheld from each governmental authority imposing such taxes, duties, assessments or other governmental charges and will provide such certified copies to the Trustee.

8. Events of default

If any of the following events occurs (each, an “**Event of Default**”), then the Trustee at its discretion may and, if so requested in writing by holders of at least 25% of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) *Non-payment*: the Issuer (i) fails to pay any amount of principal or premium in respect of the Bonds, on the due date for payment thereof or (ii) fails to pay any amount of interest in respect of the Bonds within 15 days of the due date for payment thereof; or
- (b) *Breach of other obligations*: the Issuer or the Keepwell Provider defaults in the performance or observance of any of its other obligations under or in respect of the Bonds, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Keepwell Provider, as the case may be; or
- (c) *Cross-default of Issuer, Keepwell Provider or Principal Subsidiaries*:
 - (i) any other present or future Indebtedness of the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

- (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described); or
- (iii) the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above of this Condition 8(c) and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above of this Condition 8(c) individually or in the aggregate exceeds US\$20,000,000 (or its equivalent in any other currency or currencies); or

- (d) *Enforcement Proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Keepwell Provider or any of their respective Principal Subsidiaries and is not discharged or stayed within 30 days; or
- (e) *Unsatisfied judgement*: one or more final non-appealable judgement(s) or order(s) from a court of competent jurisdiction for the payment of an aggregate amount in excess of US\$20,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries and the relevant encumbrance is not discharged within 30 days; or
- (g) *Insolvency, etc.*: (i) the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries or the whole or a material part of the undertaking, assets and revenues of the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (iv) the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business, except (A) in the case of any Principal Subsidiary, where the cessation is for the purpose of and followed by a solvent winding up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer, the Keepwell Provider, and/or another Subsidiary or (B) on terms approved by an Extraordinary Resolution of the Bondholders; or

- (h) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Keepwell Provider or any of their respective Principal Subsidiaries, except (i) in the case of any Principal Subsidiary, for the purpose of and followed by a solvent winding up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer, the Keepwell Provider and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Bondholders; or
- (i) *Analogous event*: any event occurs which under the laws of the British Virgin Islands, Hong Kong or the PRC has an analogous effect to any of the events referred to in Condition 8(e) (*Unsatisfied judgement*) to Condition 8(h) (*Winding up, etc.*) above; or
- (j) *Failure to take action, etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Keepwell Provider lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Bonds, the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Agency Agreement admissible in evidence in the courts of Hong Kong or the PRC is not taken, fulfilled or done, in each case that is material; or
- (k) *Unlawfulness*: it is or will become unlawful for the Issuer or the Keepwell Provider to perform or comply with any of its obligations under or in respect of the Bonds, the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Agency Agreement, in each case that is material; or
- (l) *Keepwell Deed and Equity Interest Purchase and Investment Undertaking*: the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking is not (or is claimed by the Keepwell Provider to not be) in full force and effect, or the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking is modified, amended or terminated in any manner that is materially prejudicial to the interests of Bondholders; or
- (m) *Ownership*: the Issuer ceases to be a direct or indirect wholly-owned subsidiary of the Keepwell Provider.

In these Conditions, “**Principal Subsidiary**” means any Subsidiary of the Issuer or the Keepwell Provider:

- (a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement are at least 5% of the consolidated revenue as shown by the latest audited consolidated income statement of the Keepwell Provider and its Subsidiaries including, for the avoidance of doubt, the Keepwell Provider and its consolidated Subsidiaries’ share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

- (b) whose gross profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross profit, as shown by its latest audited income statement are at least 5% of the consolidated gross profit as shown by the latest audited consolidated income statement of the Keepwell Provider and its Subsidiaries including, for the avoidance of doubt, Keepwell Provider and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (c) whose gross assets or (in the case of a Subsidiary which itself has Subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet are at least 5% of the amount which equals the amount included in the consolidated gross assets of the Keepwell Provider and its Subsidiaries as shown by the latest audited consolidated balance sheet of the Keepwell Provider and its Subsidiaries as being represented by the investment of the Keepwell Provider in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Keepwell Provider and after adjustment for minority interests; or
- (d) to which the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary is transferred, *provided that* the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Principal Subsidiary at the date on which the first audited accounts (consolidated, if appropriate), of the Keepwell Provider and its Subsidiaries prepared as of a date later than such transfer are issued, unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Keepwell Provider relate, the reference to the then latest consolidated audited accounts of the Keepwell Provider for the purposes of the calculation above shall, until consolidated audited accounts of the Keepwell Provider for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are available be deemed to be a reference to the then latest consolidated audited accounts of the Keepwell Provider adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Keepwell Provider or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, gross profit or gross assets of the Keepwell Provider, and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Keepwell Provider;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, gross profit or gross assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Keepwell Provider; and

- (iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Keepwell Provider, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Keepwell Provider.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the revenue (or consolidated revenue if the Subsidiary itself has subsidiaries), gross profit (or consolidated gross profit if the Subsidiary itself has subsidiaries) or gross assets (or consolidated gross assets if the Subsidiary itself has subsidiaries) attributable to such Subsidiary when aggregated with the revenue (or consolidated revenue if appropriate), gross profit (or consolidated gross profit if appropriate) or gross assets (or consolidated gross assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in this Condition 8 has occurred since the Original Issue Date of the Bonds, exceeds 5% of the consolidated revenue, consolidated gross profit or consolidated gross assets of the Keepwell Provider and its Subsidiaries as shown in the latest audited financial statements.

9. Prescription

Claims for principal, premium and interest on redemption shall become void unless the relevant Bond Certificates are presented for payment within ten years in the case of principal and five years in the case of interest of the appropriate Relevant Date.

10. Replacement of Bond Certificates

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer or such Agent may reasonably require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

11. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual holders of Bonds as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Bonds, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Agents and their initial Specified Offices are listed in the Agency Agreement. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however*, that the Issuer shall at all times maintain a principal paying agent in Hong Kong and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Bondholders.

12. Meetings of Bondholders; Modification and Waiver

- (a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions, the Trust Deed, the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee upon the request in writing of Bondholders holding not less than one-tenth of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided, however*, that certain proposals (including any proposal to change any date fixed for payment of principal, premium or interest in respect of the Bonds, to reduce the amount of principal, premium or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, to change the currency of payments under the Bonds, to effect the exchange, conversion or substitution of the Bonds for other obligations or securities, to amend Condition 3 (*Covenants*) (to the extent that such amendment will be materially prejudicial to the interests of Bondholders), to modify, amend or terminate the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking in any manner that is materially prejudicial to the interests of the Bondholders, or to pass an Extraordinary Resolution to direct the Trustee to institute proceedings in relation to the Keepwell Deed and the Equity Interest Purchase and Investment Undertaking in accordance with Condition 13, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders holding not less than 90% of the aggregate principal amount of the Bonds outstanding shall for purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Bondholders who for the time being are entitled to receive notice of a meeting of Bondholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

- (b) *Modification and waiver:* The Trustee may, without the consent of the Bondholders agree to any modification of these Conditions, the Trust Deed, the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds, the Trust Deed or the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking which is of a formal, minor or technical nature or is to correct a manifest error. The Trustee shall, without the consent of the Bondholders, agree to any amendment or restatement of these Conditions, the Trust Deed the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking reasonably required in connection with a further issue of Bonds pursuant to Condition 14.

In addition, the Trustee may, without the consent of the Bondholders authorise or waive any proposed breach or breach of the Bonds, the Trust Deed or the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be notified to the Bondholders as soon as practicable thereafter and shall be binding on all Bondholders.

- (c) *Directions from Bondholders:* Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed, the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and shall have been indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions.

- (d) *Certificates and Reports*: The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any lawyers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Bonds, the Keepwell Deed or the Equity Interest Purchase and Investment Undertaking, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the holders of at least 25% of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Bondholder may proceed directly against the Issuer or the Keepwell Provider unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the existing Bonds in all respects (or in all respects except for the first payment of interest and, to the extent necessary, certain temporary securities law transfer restrictions) so as to form a single series with the existing Bonds; *provided* that, at the election of the Issuer, (a) the offering circular as used under Condition 5(c) (with respect to a Use of Proceeds Non-Compliance Event) may be deemed to mean the offering circular for such new bonds and (b) “**Original Issue Date**” as used in Condition 5(c) (with respect to a Use of Proceeds Non-Compliance Event) may be deemed to mean the initial issue date of such new bonds.

15. Notices

Notices to the Bondholders will be validly given if sent to them at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of being sent.

16. Currency Indemnity

If any sum due from the Issuer or the Keepwell Provider in respect of the Bonds or any order or judgement given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgement into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer or the Keepwell Provider, (b) obtaining an order or judgement in any court or other tribunal or (c) enforcing any order or judgement given or made in relation to the Bonds, the Issuer and the Keepwell Provider shall indemnify the Trustee and each Bondholder, on the written demand of the Trustee or such Bondholder addressed to the Issuer and the Keepwell Provider and delivered to the Issuer and the Keepwell Provider, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Bondholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgement, claim or proof.

This indemnity constitutes a separate and independent obligation of each of the Issuer and the Keepwell Provider and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

- (a) *Governing law*: The Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed and the Equity Interest Purchase and Investment Undertaking are governed by the laws of Hong Kong.
- (b) *Jurisdiction*: Each of the Issuer and the Keepwell Provider has in the Trust Deed, the Agency Agreement, the Keepwell Deed and the Equity Interest Purchase and Investment Undertaking (i) agreed for the benefit of the Trustee and the Bondholders that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Bonds, the Trust Deed, the Agency Agreement or the Keepwell Deed, the Equity Interest Purchase and Investment Undertaking; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient to accept service of any process on its behalf.
- (c) *Waiver of immunity*: To the extent that the Issuer or the Keepwell Provider may in any jurisdiction claim for itself or its assets or revenues immunity whether sovereign or otherwise from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Keepwell Provider or their respective assets or revenues, each of the Issuer and the Keepwell Provider agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.
- (d) *Agent for Service of Process*: Each of the Issuer and the Keepwell Provider has irrevocably appointed Energy Reserve and Chemicals Group (H.K.) Company Limited (國儲能源化工集團(香港)有限公司) in the Trust Deed, the Agency Agreement, the Keepwell Deed and the Equity Interest Purchase and Investment Undertaking to receive service of process in any Proceedings in Hong Kong based on any of the Bonds.

DESCRIPTION OF THE DEED OF EQUITY INTEREST PURCHASE AND INVESTMENT UNDERTAKING

The following contains summaries of certain key provisions of the Deed of Equity Interest Purchase and Investment Undertaking. Such statements do not purport to be complete and are qualified in their entirety by reference to the Deed of Equity Interest Purchase and Investment Undertaking.

The Company intends to assist the Issuer in meeting its obligations under the Bonds and the Trust Deed. Pursuant to the terms of the deed of equity interest purchase and investment undertaking (the “**Deed of Equity Interest Purchase and Investment Undertaking**”) entered into between the Company, the Issuer and the Trustee, the Company agrees to (i) purchase, either by itself or through a PRC incorporated subsidiary of the Company (the “**Designated Purchaser**”), certain equity interests upon receiving a written purchase notice (the “**Purchase Notice**”) from the Trustee; and to (ii) invest, either by itself or through a PRC incorporated subsidiary of the Company (the “**Designated Investor**”), in certain subsidiaries of the Company incorporated outside the PRC. The equity interests comprise the interests held by the Relevant Transferor(s) in the registered capital (the “**Equity Interest**”) of a PRC incorporated subsidiary of the Company that is held by such Relevant Transferor (the “**PRC Target Subsidiary**”).

PURCHASE OBLIGATION

Following the occurrence of an Event of Default under the Bonds, the Trustee shall issue a Purchase Notice to the Company. Upon the receipt of such Purchase Notice, the Company agrees that it shall, subject to obtaining all Relevant Purchase Approvals (as defined in the Deed of Equity Interest Purchase and Investment Undertaking), purchase (either by itself or through a Designated Purchaser) the Equity Interests held by any of its subsidiaries incorporated outside the PRC. Within two business days after the date of the Purchase Notice, the Company shall determine and notify the Trustee which PRC Target Subsidiaries it will purchase. Furthermore, it shall within 20 business days after the date of the Purchase Notice determine the purchase price, as an amount in US dollars, for the Equity Interest (the “**Purchase Price**”). The Company is obliged to determine the Purchase Price in compliance with any applicable PRC laws and regulations. In any event, the Purchase Price shall be no less than the lesser of (A) the Shortfall Amount and (B) the fair market value of the Equity Interest. The Shortfall Amount means:

- (i) the principal amount of the Bonds then outstanding at the date of the Purchase Notice; plus
- (ii) any premium and interest accrued but unpaid on the Bonds up to but excluding the date of the Purchase Notice; plus
- (iii) an amount reflecting the interest due and payable for one interest period under the Bonds (calculated based on the principal amount outstanding on the issue date of the Bonds); plus
- (iv) all costs, fees and expenses and other amounts payable to the Trustee and/or the Agents under or in connection with the Bonds, the Trust Deed, the Agency Agreement, the Keepwell Deed and/or the Deed of Equity Interest Purchase and Investment Undertaking as at the date of such Purchase Notice plus provisions for costs, fees and expenses and other amounts which may be incurred after the date of the Purchase Notice, as notified by the Trustee in the Purchase Notice.

Within 30 business days after the date of the Purchase Notice, the Company shall execute the relevant equity interest transfer agreement(s) with the Relevant Transferor(s) and file the same with the relevant Approval Authorities for approval of the transfer(s) of the Equity Interest(s). Within 20 business days after receipt of approval from relevant Approval Authorities, the Company shall submit an application to the competent SAIC for the change of SAIC registration of the transfer(s) of the Equity Interest(s). As soon as reasonably practicable after receipt of SAIC registration from the competent SAIC, the Company shall complete the procedures in respect of withholding tax for the Relevant Transferor(s) required by applicable laws and regulations of the PRC with the competent tax authority to obtain the tax clearance certificate from such tax authority.

Within 20 business days after completion of the change of SAIC registration and the receipt of the tax clearance certificate, the Company shall submit an application to SAFE (i) to change the SAFE registration of the companies the Equity Interests in which is or (as the case may be) are subject to the purchase and (ii) for the purchase of US dollar amount of the Purchase Price and the outbound remittance of the Purchase Price (if applicable). Closing shall take place on or prior to the 20th business day after receipt of the approvals from SAFE whereupon the Company shall pay to or to the order of the Relevant Transferor(s) the corresponding amount of the Purchase Price in immediately available funds in USD to an account in Hong Kong designated by the Relevant Transferor(s), which account shall be in the name of the Issuer.

INVESTMENT OBLIGATION

Following the occurrence of an Event of Default and the written notification from the Company that it has reasonably determined that (i) the Purchase Price with respect to the related Event of Default will be less than the Shortfall Amount or (ii) any Relevant Purchase Approval is unlikely to be obtained, the Trustee shall issue an Investment Notice to the Company. Upon the receipt of such Investment Notice, the Company agrees that it shall, subject to obtaining Relevant Investment Approvals, invest (either by itself or through a Designated Investor) in (by equity investment or shareholders' loan or a combination thereof) the Issuer and/or any other subsidiaries of the Company incorporated outside the PRC. Within two business days after the date of the Investment Notice, the Company shall determine and notify the Trustee which Relevant Investees it will invest in. Furthermore, it shall within 10 business days after the date of the Investment Notice determine the Investment Amount. The Company is obliged to determine the Investment Amount in compliance with any applicable PRC laws and regulations. In any event, the Investment Amount shall be no less than the excess of the Shortfall Amount (by replacing the term "Purchase Notice" with term "Investment Notice" in such definition) over the Purchase Price (the Purchase Price shall be deemed zero if the Company has reasonably determined that any Relevant Purchase Approval is unlikely to be obtained).

Within 30 business days after the date of the Investment Notice, the Company shall execute the relevant investment agreement(s) with the Relevant Investee(s) and file the same with the relevant Approval Authorities for approval of the Investment. Within 20 business days after receipt of approval from the relevant Approval Authorities, the Company shall submit all application documents required by applicable laws and regulations of the PRC to SAFE for the investment of the Investment Amount and the outbound remittance of the Investment Amount (if applicable).

Closing shall take place on or prior to the 20th business day after the date of receipt of the approvals from SAFE whereupon the Company shall pay to or to the order of each Relevant Investee the Investment Amount payable in immediately available funds in US dollars to such account in Hong Kong as may be designated by such Relevant Investee, which account shall be in the name of the Issuer.

GENERAL

The Deed of Equity Interest Purchase and Investment Undertaking is not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, or shall be construed as, or shall be deemed an evidence of, a guarantee by or any legal binding obligation of the Company of the payment of any obligation, responsibilities, indebtedness or liability, of any kind or character whatsoever, of the Issuer under the laws of any jurisdiction, including the PRC.

The parties to the Deed of Equity Interest Purchase and Investment Undertaking will acknowledge that in order for the Company to comply with its obligations under the Deed of Equity Interest Purchase and Investment Undertaking, it may require certain approvals and filings pursuant to applicable laws.

This Deed of Equity Interest Purchase and Investment Undertaking may only be modified, amended or terminated by the written agreement of the parties thereto subject to the provisions of the Conditions and the Trust Deed.

The Deed of Equity Interest Purchase and Investment Undertaking will be governed by and construed in accordance with Hong Kong law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds set out in this Offering Circular. The following is a summary of certain of those provisions.

Terms defined in the terms and conditions of the Bonds (the “**Conditions**” or “**Terms and Conditions**”) set out in this Offering Circular have the meaning in the paragraphs below.

The Bonds will be represented by a Global Bond Certificate deposited with a common depository for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream.

The Global Bond Certificate will become exchangeable in whole, but not in part, for definitive certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Bond Certificate is to be exchanged for definitive certificates, such definitive certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Bond Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Bond Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such definitive certificates (including, without limitation, the names and addresses of the persons in whose names the definitive certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Bond Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Bonds scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity, security and/or pre-funding as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Bond Certificate will contain provisions that modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Bond Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Bond Certificate “business day” means a day (other than a Saturday or a Sunday or a public holiday in Hong Kong and New York City) on which commercial banks and foreign exchange markets are open for business and settlement of U.S. dollars payments in New York City, Hong Kong and (if surrender of the relevant Bond Certificate is required) the relevant place of presentation.

Payment Record Date: Each payment in respect of the Global Bond Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Bond Certificate is being held is open for business.

Notices: Notwithstanding Condition 15 (Notices), so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”), notices to Holders of Bonds represented by the Global Bond Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

USE OF PROCEEDS

The Issuer intends to use the net proceeds for funding a potential strategic acquisition of an LNG regasification and refined oil terminal with related storage facilities in China. The Issuer expects the potential acquisition to be completed by the first half of 2016.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated capitalisation and indebtedness of the Company as at 30 June 2015 on an actual basis and as adjusted on a pro forma basis to give effect to the issuance of the Bonds (before deducting the subscription fees and commissions and other estimated transaction expenses payable).

The following table should be read in conjunction with “Use of Proceeds”, “Selected Consolidated Financial Information” and the Company’s financial statements and related notes included elsewhere in this Offering Circular.

	As at 30 June 2015	
	Actual	As adjusted
	(RMB in millions)	
Short-term debt		
– Short-term borrowings	1,825.4	1,825.4
– Other payables	32.4	32.4
	1,857.8	1,857.8
Long-term debt		
– Long-term borrowings	1,261.5	1,261.5
– Bonds Payable	3,739.9	3,739.9
– Bonds to be issued ⁽¹⁾	–	2,445.4
	5,001.4	7,446.8
Total long-term borrowings	5,001.4	7,446.8
Total Equity	5,812.1	5,812.1
	10,813.5	13,258.9
Total Capitalisation⁽²⁾	10,813.5	13,258.9

(1) Translation of US dollar amounts to Renminbi amounts were made of US\$1.00 to RMB6.1136, the mid-point exchange rate published by the People’s Bank of China on 30 June 2015. These translations are solely for your convenience and should not be considered as representations that the relevant US dollar amounts could be converted into the corresponding Renminbi amounts at the rates indicated or at all.

(2) Total capitalisation represents total long-term borrowings plus total equity.

Unless disclosed in this Offering Circular, there has been no material changes in the consolidated capitalisation and indebtedness of the Company since 30 June 2015.

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer was incorporated as a BVI business company in the British Virgin Islands on 24 August 2015 pursuant to the BVI Business Companies Act, 2004. Its registered office is located at Nemours Chambers, Road Town, Tortola, British Virgin Islands. The Issuer is wholly owned by us through our wholly owned subsidiary, Energy Reserve and Chemicals Group (H.K.) Company Limited, a company incorporated with limited liability in Hong Kong.

BUSINESS ACTIVITY

Under the Issuer's memorandum of association, the Issuer has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction that is not prohibited under any law for the time being in force in the British Virgin Islands. The Issuer's primary purpose is to act as a financing subsidiary of the Group. As of the date of this Offering Circular, the Issuer has no material business or assets and does not have any employees. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue further bonds and engage in other business activities related to us and may incur substantial liabilities and indebtedness.

DIRECTORS AND OFFICERS

The sole director of the Issuer is Mr. Wang Jinzhou. The director of the Issuer does not hold any shares or options to acquire shares of the Issuer.

SHARE CAPITAL

The Issuer is authorised to issue a maximum of 50,000 shares with no par value each of a single class, one of which has been issued. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

Save as disclosed elsewhere in this Offering Circular, at the date of this Offering Circular, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Save as disclosed elsewhere in this Offering Circular, at the date of this Offering Circular, there are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

The financial year of the Issuer runs from 1 January to 31 December.

The Issuer has not prepared any financial statements since its incorporation.

DESCRIPTION OF THE GROUP

OVERVIEW

We are a state-controlled oil and gas trading, logistics and distribution and supply services provider in China. We offer our customers a broad range of oil and gas services, from the procurement and supply of oil and gas products and equipment, to logistics, storage, piped gas, and exploration and production. Our largest beneficial shareholders include CNPC, Beijing Municipal Commission of Commerce, China Overseas Holding Group Co., Ltd. and China Economic Cooperation Center. We are headquartered in Beijing, with strategic business operations in over 20 provinces, autonomous regions and direct-controlled municipalities across China.

We conduct the following key businesses:

- **Energy Products Trading:** The major energy products we trade include fuel oil, natural gas and petrochemical products. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, operating revenue contributed by our energy products trading business was approximately RMB1,179 million, RMB7,049 million, RMB11,294 million and RMB10,254 million, respectively, representing approximately 43.4 per cent., 78.5 per cent., 86.7 per cent. and 92.5 per cent., respectively, of our total operating revenue. For the same periods, approximately 34.8 per cent., 85.7 per cent., 87.9 per cent. and 70.4 per cent. of revenues arising from our trading of energy products, respectively, were derived from the trading of fuel oil, which in turn accounted for approximately 15.1 per cent., 67.3 per cent., 76.2 per cent. and 65.1 per cent. of our total revenue, respectively. As for our fuel oil trading business, our suppliers mainly include national oil companies and oil products trading companies, while the aggregate volumes we sold to independent refineries represented approximately 100.0 per cent., 95.8 per cent., 92.7 per cent. and 85.4 per cent. of the total sales volumes in the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively.
- **Logistics:** Our logistics business consists primarily of short- to medium-distance land transportation of CNG and LNG. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, operating revenue contributed by our logistics business was approximately RMB314 million, RMB550 million, RMB620 million and RMB396 million, respectively, representing approximately 11.6 per cent., 6.1 per cent., 4.8 per cent. and 3.6 per cent., respectively, of our total operating revenue.
- **Storage:** We started commercial operation of our storage business in 2015 after a strategic acquisition of Shandong Jinxiang. As of the date of this Offering Circular, Shandong Jinxiang owns storage facilities of oil products in Yantai with a total capacity of approximately 200,000 cubic metres. In addition, we are currently in the process of development and construction of an oil products storage facility in Tianjin. We expect to complete construction of Phase I of the facility in the second quarter of 2016 with a capacity of approximately 400,000 cubic metres and to complete construction of Phase II in 2018 with an additional capacity of approximately 400,000 cubic metres. We plan to develop other two oil and gas storage facilities strategically located in Jiangsu Province and Hubei Province in phases from 2015 to 2019. We expect that these three projects will have a final combined total capacity of approximately 2.2 million cubic metres, significantly increasing the size and scope of our storage business.

- **Others:** We also engage in energy equipment trading, piped gas, exploration and production and other businesses which are collectively referred to as our “Others” segment. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, operating revenue contributed by our Others segment was approximately RMB1,221 million, RMB1,381 million, RMB1,114 million and RMB442 million, respectively, representing approximately 45.0 per cent., 15.4 per cent., 8.6 per cent. and 4.0 per cent., respectively, of our total operating revenue.

The following table sets forth information on operating revenue contribution from our four business segments for the periods indicated.

	For the Year Ended 31 December						For the Six Months Ended 30 June	
	2012		2013		2014		2015	
	RMB	Percentage	RMB	Percentage	RMB	Percentage	RMB	Percentage
	(in millions, except percentages)							
Energy Products								
Trading	1,179	43.4%	7,049	78.5%	11,294	86.7%	10,254	92.5%
Logistics	314	11.6%	550	6.1%	620	4.8%	396	3.6%
Storage	–	–	–	–	–	–	–	–
Others	1,221	45.0%	1,381	15.4%	1,114	8.6%	442	4.0%
Total operating revenue	2,715	100.0%	8,980	100.0%	13,028	100.0%	11,092	100.0%

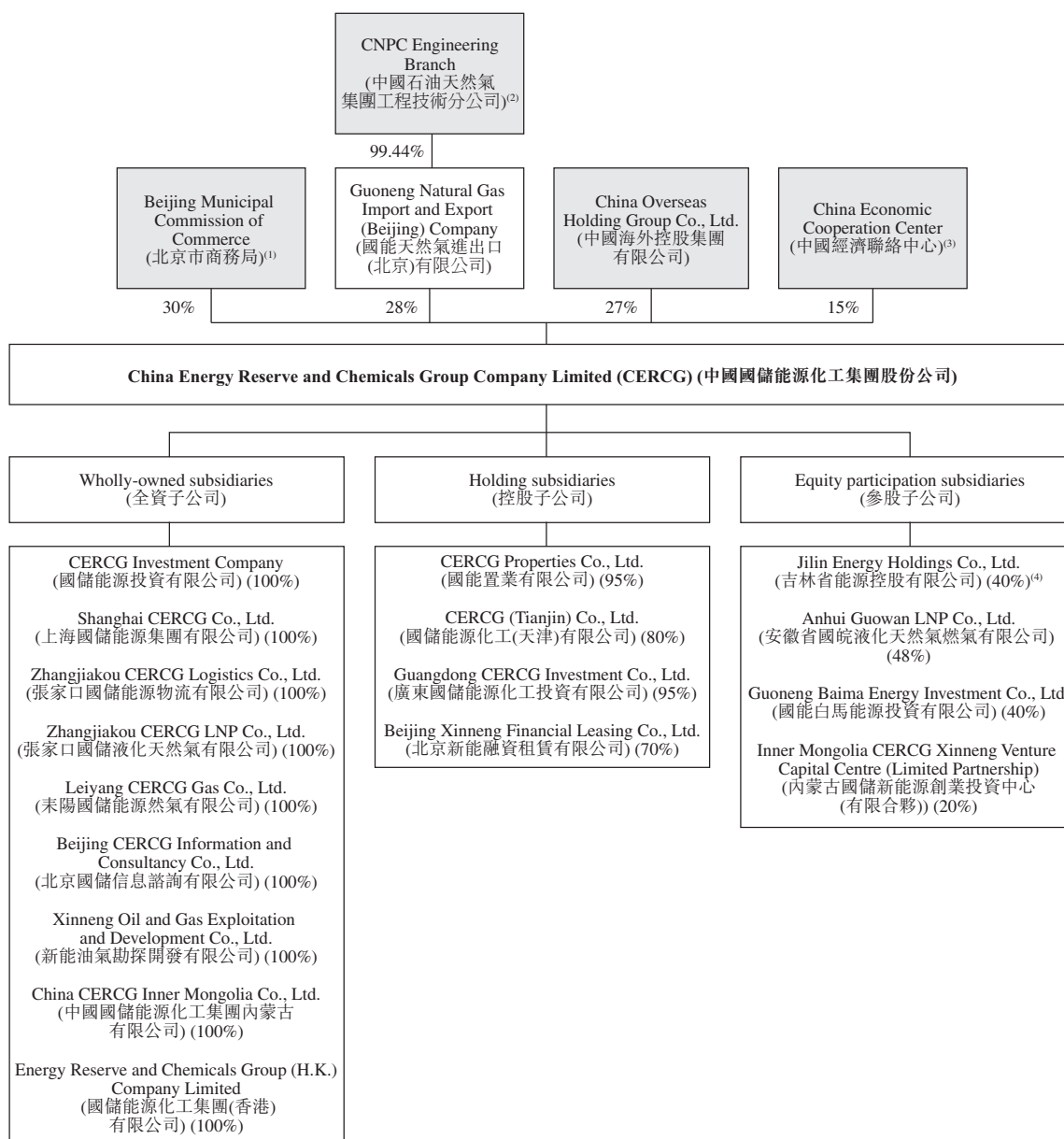
Our History and Development

The following table sets forth the key milestones in our development:

Year	Events
2011	• The Company was established and registered with the SAIC;
2012	• The project for utilisation of natural gas in Leiyang, Hunan was launched, and the Group entered the piped gas industry;
	• The project for oil storage in Nangang, Tianjin was launched, and the Group entered the oil storage industry;
	• The Group entered into a joint venture, Jilin Energy Holdings Co., Ltd. for the construction and operation project of natural gas backbone and branch pipelines in Jilin Province;
	• The Group jointly invested with a local partner in a joint venture to explore and develop shale gas and tight gas in Southeast Qian Region and Tongren City in Guizhou Province, and entered exploration and production industry;
2013	• The project for LNG production in Zhangjiakou, Hebei commenced production, and the Group entered the LNG production industry;
2014	• In April 2014, the Group obtained a permit for import of energy products;
	• The Group signed a cooperation agreement with the People’s Government of Alashankou City in Xinjiang, laying a sound foundation for its future development and import of energies and resources in and from Central Asia;
2015	• The Group signed a cooperation framework agreement with CNPC Jingtang LNG Co, Ltd. and CNPC Jiangsu LNG Co., Ltd. regarding LNG receiving terminals in Rudong, Jiangsu and Caofeidian, Hebei, respectively, becoming one of the few enterprises to form a strategic cooperation with CNPC with respect to receiving terminals for import of LNG with a view to connecting gas sources outside China to large national markets.
	• The Group obtained licences for storage of large-scale hazardous products and wholesale of refined oil through the strategic acquisition of Shandong Jinxiang.

Corporate Structure

The following chart sets forth the organisational structure for the Company and its major subsidiaries and beneficial shareholders as at 30 June 2015:



- (1) Beijing Municipal Commission of Commerce indirectly holds 30 per cent. equity interest in the Company through China National Friend Industry Corporation.
- (2) CNPC Engineering Branch is a wholly-owned subsidiary of CNPC. CNPC Engineering Branch indirectly holds 28 per cent. equity interest in the Company through Guoneng Natural Gas Import and Export (Beijing) Company.
- (3) China Economic Cooperation Center indirectly holds 15 per cent. equity interest in the Company through China Hualian International Trading Company.
- (4) In December 2015, the Company transferred all of its equity interests in Jilin Energy Holdings Co., Ltd. to an independent third party.

Awards and Certificates

The following table sets forth some major awards and certificates received by us during recent years:

<u>Award/Certificate</u>	<u>Awarded by</u>	<u>Year</u>
AAA Grade Credit Enterprise in the Enterprise Credit Evaluation	the Ministry of Commerce	2013
President Enterprise of China Energy Society	China Energy Society	2013

COMPETITIVE STRENGTHS

Strong support from major shareholders including CNPC and the Chinese government

We are a state-controlled enterprise with support from our shareholders and the Chinese government. Since the Company's incorporation in 2011, we have maintained strategic relationships with our state-owned beneficial shareholders, including CNPC, indirectly holding 28 per cent. equity interest in the Company, Beijing Municipal Commission of Commerce, indirectly holding 30 per cent. equity interest in the Company through China National Friend Industry Corporation, China Overseas Holding Group Co., Ltd., directly holding 27 per cent. equity interest in the Company, and China Economic Cooperation Center, indirectly holding 15 per cent. equity interest in the Company through China Hualian International Trading Company.

CNPC is China's largest oil and gas producer and supplier based on production and sales volume. It ranked third in 2014 among the world's 50 largest oil companies according to "Petroleum Intelligence Weekly." CNPC produced approximately 60 per cent. of the total crude oil and natural gas production of China and sold over 70 per cent. of the natural gas in China in 2013. CNPC and its affiliates have provide us support with respect to energy product supply, applications for industrial permits and licences as well as key infrastructures for our operation. In addition, prior to joining us, the majority of our management team held management positions with CNPC, where they gained in-depth understanding of and vast cooperative relationships within the oil and gas industry. China Economic Cooperation Center is responsible for international economic cooperation under International Department of the CPC's Central Committee, and International Department of the CPC's Central Committee is involved in decision-makings relating to national energy security within the CPC's Central Committee. China Overseas Holding Group Co., Ltd. is a state-owned enterprise focusing on overseas business. Beijing Municipal Commission of Commerce is responsible for inbound and outbound trading and international economic cooperation in Beijing. China Economic Cooperation Center and Beijing Municipal Commission of Commerce provide guidance, advices and assistance on our exploration in international market in North America and Asia.

This strong shareholder base helps us to strengthen our relationship with the Chinese government, reinforces customers' confidence, developing and expanding the Group's business both domestic and abroad, and achieving operational and financial growth.

We have also benefited from the industry expertise and support from our shareholders in the areas of energy products trading, logistics and piped gas, as well as project investment. In addition, as oil and gas projects are strictly regulated by governmental authorities, the positive relationships between the Group and local governments in China resulting from our shareholder base and state-controlled background, and previous experience working with local governments have helped grow our business into new regions.

Established relationships with the Big Three Oil Companies as major suppliers

In addition to our shareholding relationship with CNPC, we have established close business relationships with the Big Three Oil Companies. In 2012, 2013, 2014 and the six months ended 30 June 2015, we had an aggregate of four suppliers associated to the Big Three Oil Companies, from whom we purchased approximately 82,000 tonnes, 820,000 tonnes, 1,100,000 tonnes and 685,000 tonnes of fuel oil, respectively, representing approximately 100.0 per cent., 68.3 per cent., 50.0 per cent. and 40.3 per cent. of our total purchase volumes of fuel oil for the same periods, respectively. In 2014, our largest suppliers for fuel oil include Sinopec Fuel Oil Liaoning Sales Co., Ltd., an affiliate of Sinopec, and CNPC Fuel Oil Sales Co., Ltd., an affiliate of CNPC. Particularly, the supply of high quality fuel oil, delivered in close proximity to key centres of demand from the Big Three Oil Companies, which independent refineries and domestic trading companies without affiliation with the Big Three Oil Companies have limited options to obtain, provides us significant competitive advantages over other competitors in the PRC domestic market and relatively strong bargaining power over our independent refineries customers. The natural gas we purchase for our LNG production is directly or indirectly from CNPC or its affiliates. The majority of these suppliers have at least two years of business relationships with us. Our established relationships with these major suppliers improve our competitiveness against our competitors in satisfying demands from customers for oil and gas products of high quality and large quantity. With the Big Three Oil Companies being our major suppliers of oil and gas products, our reputation and recognition in the industry are enhanced, which in turn facilitates our business expansion with those non-state-owned enterprises.

Established relationships with major consumers in China's rapidly growing market

For the years ended 31 December 2012, 2013 and 2014, we had six customers who were among our top ten customers for at least two years. In those three years, we sold approximately 82,000 tonnes, 1,120,000 tonnes and 1,290,000 tonnes of oil and gas products to those customers, respectively, representing approximately 100.0 per cent., 93.3 per cent. and 58.6 per cent. of our total sales volumes of energy products for the same periods, respectively.

Of the oil products supplied by us, the majority is fuel oil used as feedstock by independent refineries. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we sold approximately 82,000 tonnes, 1,150,000 tonnes, 2,040,000 tonnes and 1,451,000 tonnes of fuel oil, respectively, to independent refineries, representing approximately 100.0 per cent., 95.8 per cent., 92.7 per cent. and 85.4 per cent. of our total sales volumes of energy products for the same periods, respectively. The independent refinery sector in China has experienced strong growth in recent years. According to Platts, an independent market research firm, independent refining capacity in Eastern Shandong (where most of the independent refineries are concentrated) rose from 56 million tonnes per year in 2009 to 112 million tonnes per year in 2013.

Through our growing natural gas distribution business, we have established relationships with key industrial gas consumers in Hebei, Shandong, Hunan and Hubei. Natural gas accounts for approximately 5 per cent. of total energy consumption in China as at the end of 2011, which is far below the world average of approximately 23 per cent.. The Chinese government is proactively encouraging a nationwide switch from coal to natural gas due to its lower cost, higher efficiency and reduced carbon footprint. The natural gas consumption volume in China has grown at a CAGR of 17.4 per cent. from 1.1 trillion cubic feet in 2003 to 5.7 trillion cubic feet in 2013, according to U.S. Energy Information Administration. Meanwhile, certain of our customers have also expressed their plan or intention for continuous expansion of their production as well as purchase volume.

We believe that with our established relationships with consumers, we will be able to continuously capture opportunities to increase our sales volume arising from China's rapidly growing market.

Access to key energy infrastructure

Due to regional variations between supply and consumption of oil products and natural gas in China, access to and ownership of energy infrastructure such as port berths, pipelines and storage facilities is a critical part of delivering oil products and natural gas to our customers at a cost below that of competing suppliers.

We have entered into cooperation framework agreements with CNPC Jiangsu LNG Co., Ltd. and CNPC Jingtang LNG Co., Ltd., respectively, for receiving and storage of oil and gas products at LNG receiving terminals in Rudong, Jiangsu and in Caofeidian, Hebei. Under the cooperation framework agreements, we have access to our partners' receiving and storage facilities, which is of strategic importance for oil and gas import operation. We believe that the cooperation with the two receiving terminals will leverage our capability of oil and gas import to further our competitive advantages over other market participants.

We currently own storage facilities of oil products in Yantai with a total capacity of approximately 200,000 cubic metres. In addition, we are constructing a project of oil products storage facilities that is located in Tianjin with a total capacity of approximately 800,000 cubic metres. The construction of Phase I of the project with approximately 400,000 cubic metres capacity is expected to be completed in the second quarter of 2016. We have entered into framework agreements with two companies affiliated with the Big Three Oil Companies and certain independent oil companies for leasing our storage facilities in Tianjin upon completion of construction. We have two other storage facilities projects strategically located in Jiangsu and Hubei. The three projects will have a combined total capacity of approximately 2.2 million cubic metres. We also have gas pipelines in Leiyang, Hunan and Xuancheng, Anhui, all of which we currently own and operate.

Key business licences and other high barriers to entry in oil and gas industry that provide us competitive advantages

As the oil and gas industry is capital-intensive and strictly regulated by governmental authorities in the PRC, relevant operational and financial requirements for certain business licences are high, and it usually takes a great deal of time to go through a series of complicated procedures to attain those licences. For oil and gas projects, passing environmental protection inspections prior to commencement of operation is required. In addition, industrial expertise and experience as well as a network with upstream and downstream oil and gas companies are generally essential for success in the industry. As we are well positioned in the PRC market with our established businesses, the high barriers to entry restrict competition and provide us competitive advantages.

Permit for import

We obtained a permit for importing energy products in April 2014. With our well-experienced management team, our solid financial fund from external financing and retained earning as well as our established business and customer base in China, we believe that obtaining these licences will enable us to grow, diversify and add optionality to our trading business.

Licence for storage facilities

Necessary land use rights as well as government licences are required for developing storage facilities for oil and gas products, including licences for storage of large-scale hazardous products and storage facilities for imports. Through the strategic acquisition of Shandong Jinxiang, we

obtained licence for storage of large-scale hazardous products for its oil storage facilities in August 2015. In addition, our storage facilities project in Tianjin has so far obtained required approvals and permits for its construction and preparation for the storage from government authorities, including, Tianjin NDRC, Tianjin Administration of Production Safety, Tianjin Public Safety Department and Tianjin Fire Department. We expect to obtain a licence for storage of large-scale hazardous products for this project after the completion of the construction.

Licences for wholesale and retail of refined oil

We also obtained licence for wholesale of refined oil in the PRC in August 2015 through the acquisition of Shandong Jinxiang. We plan to obtain licence for retail of refined oil in the future. We believe that these licences would further enable us to facilitate value maximization in the downstream of the value chain.

Experienced and reliable management team and modern corporate management and control system

The business of the Group is centrally managed by the Company, whose management team has extensive experience in the oil and gas industry in China. Prior to joining the Company, our Chairman, Dr. Chen Yihe, worked as General Manager of Baotou Petrochemical Construction Materials and Petroleum Company, Deputy Director of the Management Bureau of Petroleum Pipeline Construction Engineering Group Company Limited, and the Chairman of CNPC Emerging Energy Industry Group Co., Ltd. Dr. Chen has an aggregate of over 20 years industrial experience; he was awarded with the “Prize for Chinese People with Outstanding Contribution (中華赤子傑出貢獻人物獎)” and the title of “Excellent Entrepreneur in China (中國優秀企業家)” in 2009. The senior management team of the Company, the majority of whom previously held management positions with CNPC, has an average of approximately 20 years of experience in the oil and gas industry in China, with proven track records in one or more of the business segments of the Group. Especially, Mr. Wu Youliang and Mr. Zhang Hao, two of our major managers of our energy products trading business, have collectively over 40 years of trading experience in energy trading. The Company has a strong commitment to continue to build an experienced management team with innovative and international perspectives.

We also maintain an efficient, standardised and modern corporate management and control system. To operate efficiently, we have integrated the operations for various aspects of our businesses. Our operation is standardised through nine internal regulations covering substantially all daily operational matters. We also maintain a detail-oriented budget management that tracks our management of daily operation.

STRATEGIES

Our strategies include overall strategies and segment-specific strategies, which are detailed below.

Overall Portfolio Strategies

Since our incorporation in 2011, we have consistently aimed to ultimately achieve fully integrated operations. As our long-term strategy, we are targeting to complete vertical integration of the entire oil and gas industry value chain from upstream and midstream to downstream and to drive synergies between these segments. We will strive to make progress in the following areas:

1. **Continue focusing on energy products trading.** To date, our main focus has been on oil and gas products trading, including our planned imports of LNG and fuel oil and trading and distribution of refined oil, and we will continue to operate, strengthen and expand our existing business as well as diversifying the products we trade and expansion of oil product and LNG imports.
2. **Appropriate diversification.** While we will continue to focus on our main business, we will selectively seek appropriate diversification within the energy value chain into segments such as storage, piped gas and exploration and production. This will enable us to diversify our sources of earnings and provide opportunities to drive synergies between these segments.
3. **Well-capitalised growth.** As energy products trading, logistics, storage, piped gas and exploration and production are all capital-intensive businesses, we will integrate our development objectives with funding objectives so as to support our rapid development and ensure adequate funding needs for our investments and operations.
4. **Synergistic development.** We will continue to realise operational, financial and strategic synergies among our business segments and subsidiaries to promote overall business development and achieve multi-sector and comprehensive strategic advantages in regional markets. We will carry out integration of the trading and distribution, logistics, storage and exploration and production of energy products. For example, our storage facilities will serve as essential infrastructures for our domestic trading as well as imports business; the demand for distribution of energy products traded by us will further facilitate the development of our logistics business.

Segment Strategies

Diversification of trading products and expansion of energy products imports

China's demand for energy products has increased substantially in recent years, due to urbanization and economic growth. We intend to capture the increasing opportunities in this growing energy market by increasing our working capital, sales and market intelligence and human resources. In 2012, 2013, 2014 and the six months ended 30 June 2015, we traded various types of fuel oil, two types of natural gas products and five types of petrochemical products. With the increase in financial and human resources, we plan to increase the types of products we trade and types of businesses we operate, for example, wholesale of refined oil and imports of LNG and fuel oil, and also increase our trading activities in fuel oil and gas products.

We obtained licence for wholesale of refined oil in the PRC in August 2015. We plan to obtain licence for retail of refined oil and further expand our trading operation of refined oil in order to facilitate value maximization in the downstream of the value chain. Since the demand for refined oil is substantially larger than that for fuel oil or natural gas in China and has historically demonstrated strong growth, we expect that the planned refined products business could significantly expand our energy products trading business and improve our profitability.

We plan to continue to develop our energy products imports and international trading by developing and expanding our LNG, fuel oil and other petroleum products imports and international trading business. In April 2014, we obtained a permit for import of energy products, which enables us to import fuel oil, natural gas and petrochemicals into the PRC. As of the date of this Offering Circular, we have entered into framework contracts with several trading partners for imports and/or international trading of energy products.

Market share growth in logistics

As our logistics business consists primarily of short- to medium-distance land transportation of CNG we purchase and of LNG we sell, we are planning to increase our transportation capacity primarily according to the development of our CNG/LNG trading business. From 2012 to 2014, the average CAGR of our CNG/LNG transportation capacity was approximately 42.7 per cent.. As of 30 June 2015, we owned approximately 350 CNG transporters and 230 LNG transporters. Our logistics management team periodically evaluates our transportation capacity in light of internal and external needs and adjusts the capacity in appropriate circumstances. As we expect our CNG and LNG trading and distribution businesses to continue their growth, we plan to expand our transportation capacity.

Development of oil and gas storage operations

We started commercial operation of our storage business in 2015 after the strategic acquisition of Shandong Jinxiang. As of the date of this Offering Circular, Shandong Jinxiang owns storage facilities of oil products in Yantai with a total capacity of approximately 200,000 cubic metres. Prior to the acquisition, we had started to develop the our oil products storage business in 2012 through our investment in the Nangang Project in Tianjin, which is associated with uploading/discharging facilities for oil and gas products. We estimate that construction of Phase I of the Nangang Project will be completed in the second quarter of 2016. We plan to develop two other oil and/or gas storage projects in Jiangsu and Hubei in phases from 2015 to 2019. We expect that these three projects will have a final combined total capacity of approximately 2,200,000 cubic metres. Our other oil and gas storage projects under construction or contemplated include Oil Storage Project in Bortala Mongol Autonomous Prefecture, Xinjiang and LNG and Oil Storage Project in Changshu, Jiangsu.

All of our storage facilities projects are or will be located in strategic regions to serve us and our storage customers. Please refer to the sub-section headed “Storage” in this section for details of the Nangang Project, Dafeng Harbour Project, LNG and Oil Dock Project in Wuhan.

Progress on exploration and production investments

In December 2012, our subsidiary Shanghai CERCG Co., Ltd. jointly invested with a local partner, Tongren Energy Investment Co., Ltd. in a joint venture, which held an exploration licence, to explore and develop shale gas and tight gas in Southeast Qian Region and Tongren City in Guizhou Province. As of 31 December 2014, Shanghai CERCG Co., Ltd. held 80 per cent. equity interests in the joint venture. The project is currently in the exploration period, which spans from 2013 to 2016. As of 31 December 2014, the 2-dimension seismic exploration, treatment and explanation were completed and two exploration wells were drilled. In September 2015, we drilled an additional exploration well.

At the meantime, we plan to seek cooperation opportunities with other oil companies for oil exploration and production projects overseas. We have actively communicated with several oil companies in different countries to explore cooperation opportunities in Asia, North America and Africa.

We expect that our exploration and production segment will provide essential feedstock supply for our midstream and downstream businesses and strengthen the synergy among our business segments along the value chain in the future.

Acquisition of LNG Regasification Terminal in China

We intend to utilize part of the proceeds of this Offering to fund the acquisition of an LNG regasification terminal in China. While we have access to CNPC's LNG regasification terminals at Rudong, Jiangsu and Caofeidian, Hebei, we must share these facilities with CNPC and other third parties, limiting the flexibility of our LNG trading operations. The acquisition of an LNG regasification terminal will provide us with the ability to enter into multiple LNG supply contracts whenever market dynamics are most attractive, and to earn fees from offering regasification and storage services to third parties. For this acquisition, we have identified a specific target in a region in China which has historically experienced rapid gas demand growth and has limited alternative gas supply sources.

ENERGY PRODUCTS TRADING

Overview

We are principally engaged in energy products trading. Before obtaining a permit for the import of energy products in April 2014, we primarily traded energy products in the PRC domestic market. The energy products we mainly trade can be broadly categorised into (i) fuel oil; (ii) natural gas; and (iii) petrochemical products.

The following table summarises our sales performance by our major trading energy product categories for 2012, 2013, 2014 and the six months ended 30 June 2015:

Products	Year Ended 31 December						Six Months Ended 30 June	
	2012		2013		2014		2015	
	Sales quantity	Turnover	Sales quantity	Turnover	Sales quantity	Turnover	Sales quantity	Turnover
		(RMB million)		(RMB million)		(RMB million)		(RMB million)
Fuel Oil	82 thousand tonnes	411	1,200 thousand tonnes	6,044	2,200 thousand tonnes	9,931	1,700 thousand tonnes	7,221
Natural Gas	180 million cubic metres	769	250 million cubic metres	1,005	340 million cubic metres	1,269	270 million cubic metres	862
Petrochemical product	-	-	-	-	108 thousand tonnes	94	430 thousand tonnes	2,086

We recorded gross profit derived from energy products trading of approximately RMB152 million, RMB780 million, RMB1,057 million and RMB718 million in 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. The substantial increase in our gross profit from energy products trading during the years ended 31 December 2013 and 2014 and the six months ended 30 June 2015 was mainly attributable to the rapid growth of our trading volumes.

Our energy products trading business is operated through the Company and our three subsidiaries incorporated in Shanghai, Guangdong and Tianjin, which are regions with strong economic growth or in proximity to established national or regional transportation networks, which enables us to capture the increase in demand for energy products and ensure easy access to supplies.

Business Model for the Trading Business

As trading opportunities appear from time to time in the dynamic oil market environment, we believe oil trading companies, like ourselves, can develop trading businesses in a more profitable and sustainable manner by utilising broad market experiences and capabilities to respond to the changing needs of suppliers and buyers. As oil and gas products are commodities which must comply with each customer's specification and delivery requirements, traders of oil and gas products rely on negotiations with other traders, specialists and oil trading journalists to ascertain pricing, demand and position in the oil products market.

Negotiations with the supplier and the customer for a given shipment usually proceed simultaneously and cover issues such as type, specifications and quantity of oil product to be traded, the place and date of delivery, the contract price, payment terms and shipping terms. For our typical shipments, we (i) arrange for loading, discharging as well as transportation; (ii) monitor and convey loading details; and (iii) liaise with and receive reports from shipping brokers regarding location of oil tankers and the status of transportation. The shipping arrangement is agreed between our counterparties and ourselves based on shipment terms such as CIF and FOB.

We usually enter into buy-side and sell-side agreements on a shipment-by-shipment basis, i.e. one agreement for the purchase or sale of one shipment of oil product. Occasionally, we also enter into term contracts with customers or suppliers, i.e. one agreement for the purchase or sale of more than one shipment of oil product within a specified period. If we consider that availability of an oil product is rare and that the market demand is high, then we try to enter into a term contracts with our customers or suppliers. Trading without entering into a term contract is a specific practice in the oil products trading industry, as the price of oil products is volatile and no trader would like to be locked-in for a long period of time. In addition, without binding oneself to a term contract, traders of oil products could enjoy more flexibility to adapt to market conditions.

Currently, as for buy-side agreements with our suppliers who are associated with the Big Three Oil Companies, the payment date is generally prior to shipment; while for buy-side agreements with other suppliers, the payment date is generally after shipment. Under sell-side agreements, payment of deposit equivalent to 10 per cent. of the total purchase price by customers within two business days is generally required, and the rest of the purchase price is due at the transfer of the goods. We take extra care to keep track of our customers' payment status before the settlement date to ensure that cleared funds are timely received. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we did not experience any major delayed payment from our customers.

For the imports of fuel oil and natural gas, we settle our payment obligations to suppliers by means of letters of credit and receive payment from customers via telegraphic transfer. For any given shipment, the payment date under the buy-side agreement usually coincides with the payment date under the sell-side agreement, which is normally 30 days from the date of bill of lading. In this regard, the only funding needed for a shipment, assuming the customer pays on time, is the margin deposit pledged with the bank for the issuance of a letter of credit. Depending on our banking facilities, the margin deposit usually ranges from 10 per cent. to 25 per cent. of the amount of the letter of credit issued, or a fixed sum deposit according to the banking facilities.

Products

The table below sets out the general specifications of the various oil products traded by us for the three years ended 31 December 2012, 2013 and 2014:

Oil product name	Origin	Density (KG/L)	Sulphur (WT%)
Fuel Oil	China	0.88~0.98	0.5~3.0
Natural Gas	China	0.45	0
Petroleum Ether	China	0.788	0.3~1
Methyl Tert-Butyl Ether	China	0.814	0.05~0.5
Mixed Benzol	China	0.8	0.5~2.0
Methanol	China	0.75~0.8	0.05~0.1
Naphtha	China	0.68~0.73	0.01~0.2

Suppliers

Suppliers of our energy products mainly include national oil companies and oil products trading companies. In 2012, 2013, 2014 and the six months ended 30 June 2015, fuel oil we purchased from our top five suppliers represented approximately 100.0 per cent., 85.0 per cent., 59.1 per cent. and 55.8 per cent., respectively, of our total purchase volume of energy products. In the first half of 2015, our largest supplier, CNPC Fuel Oil Sales Co., Ltd., accounted for approximately 12.6 per cent. of our total purchase volumes of energy products. In 2012, 2013, 2014 and the six months ended 30 June 2015, all of our natural gas purchases were from CNPC or its affiliates directly or indirectly.

We primarily purchase fuel oil in Northeastern Region, Northwestern Region, Northern Region and Southern Region of China, the purchase volumes from which were approximately 82,000 tonnes, 1,130,000 tonnes, 1,870,000 tonnes and 1,574,000 tonnes, respectively, in 2012, 2013, 2014 and the six months ended 30 June 2015, representing 100.0 per cent., 94.2 per cent., 85.0 per cent. and 92.6 per cent. of our total purchase volume of fuel oil for the same periods.

Customers

In 2012, 2013, 2014 and the six months ended 30 June 2015, we sold an aggregate of approximately 82,000 tonnes, 1,150,000 tonnes, 2,040,000 tonnes and 1,451,000 tonnes, respectively, of fuel oil to independent refineries, representing approximately 100.0 per cent., 95.8 per cent., 92.7 per cent. and 85.4 per cent. of our total sales volume of fuel oil for 2012, 2013, 2014 and the six months ended 30 June 2015, respectively; during the same periods, we sold an aggregate of approximately zero tonnes, 50,000 tonnes, 160,000 tonnes and 244,800 tonnes, respectively, of fuel oil to large commercial or industrial customers and independent distributors as well as sales to certain long-term customers such as shipping and public utilities, representing approximately 0.0 per cent., 4.2 per cent., 7.3 per cent. and 14.4 per cent. of our total sales volume of fuel oil for 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. Many of our customers are repeat customers.

We primarily sell energy products in Northeastern Region, Northwestern Region, Northern Region and Southern Region of China. Our sale volumes of fuel oil and natural gas from these regions were approximately 82,000 tonnes, 900,000 tonnes, 1,840,000 tonnes and 1,195,000 tonnes, and 180 million cubic metres, 230 million cubic metres, 326 million cubic metres and 224 million cubic metres, respectively, in 2012, 2013, 2014 and the six months ended 30 June 2015, representing approximately 100.0 per cent., 75.0 per cent., 83.6 per cent. and 70.3 per cent., and 100.0 per cent., 92.0 per cent., 95.9 per cent. and 83.0 per cent. of our total sales volume of fuel oil and natural gas, respectively, for the same periods.

In the first half of 2015, our top five customers of fuel oil by sale volumes were Ningbo Keyuan Plastics Co., Ltd., Jin'ao Technology (Hubei) Chemicals Co., Ltd., Zhongyou Taifu Marine Fuel Co., Ltd., China Energy International Oil Refining Co., Ltd. and Nanjing Runze Fuel Oil Co., Ltd.. These top five customers accounted for approximately 52.4 per cent. of our total sale volumes of fuel oil in the first half of 2015. In the first half of 2015, our largest customer, Ningbo Keyuan Plastics Co., Ltd., accounted for approximately 11.3 per cent. of our total sale volumes of fuel oil, respectively. In the first half of 2015, our top five customers of natural gas by sale volumes were Wuhan Zhongneng Fuel Gas Co., Ltd., Huagang Fuel Gas Group Co., Ltd., Tianjin Zhongxing Haochen Fuel Gas Co., Ltd., Beijing Zhongyou Bus Oil Sale Co., Ltd. and Panjin Zhongqi Industry Co., Ltd.. These top five customers accounted for approximately 56.1 per cent. of our total sale volumes of natural gas in the first half of 2015. In the first half of 2015, our largest customer, Wuhan Zhongneng Fuel Gas Co., Ltd., accounted for approximately 13.2 per cent. of our total sale volumes of natural gas.

LNG Production Project in Zhangjiakou

We have an LNG production project located in Dongshan Industrial Zone in Zhangjiakou, Hebei. The project utilises natural gas resources carried by Yingzhang long-distance pipeline to produce LNP with a designed production capacity of processing 1 million cubic metres natural gas per day. For the six months ended 30 June 2015, we recorded operating revenue and operating profit derived from the production project, which commenced operation in 2013, of approximately RMB284.12 million and RMB18.82 million, respectively.

International Trading

In April 2014, we obtained a permit for import of energy products, which enables us to import fuel oil, natural gas and petrochemicals into the PRC. In August 2015, we obtained licence for wholesale of refined oil in the PRC through the acquisition of Shandong Jinxiang, which, we believe, would further enable us to facilitate the development of our international trading business. As of the date of this Offering Circular, we have entered into framework contracts with several trading partners for imports and/or international trading of energy products. We are planning to develop our international trading business mainly by expanding our LNG and fuel oil import and international trading business.

LOGISTICS

Our logistics business consists primarily of short- to medium-distance land transportation of CNG/LNG. As of 30 June 2015, our logistics segment assets mainly consists of approximately 350 CNG transporters and 230 LNG transporters.

CNG Logistics

Our CNG logistics business is closely tied to our CNG trading business. The majority of the revenue of our CNG transportation business in 2012, 2013, 2014 and the six months ended 30 June 2015 was generated from transportation service for CNG purchased by us. Therefore, we increase our CNG transportation capacity primarily according to the development of our CNG trading business.

LNG Logistics

In contrast to our CNG logistics business, our LNG logistics service is mainly for the transportation of LNG sold by our trading segment. The majority of the revenue of our LNG transportation business in 2012, 2013, 2014 and the six months ended 30 June 2015 was generated from transportation service for LNG sold by us. Therefore, we increase our LNG transportation capacity primarily according to the development of our LNG trading business.

STORAGE

We commenced oil storage business in 2012 through our investment in the Nangang Project in Tianjin with total designed capacity of approximately 800,000 cubic metres. The construction of Phase I of the Nangang Project is expected to be completed in the second quarter of 2016. We started commercial operation of our storage business in 2015 after the strategic acquisition of Shandong Jinxiang. As of the date of this Offering Circular, Shandong Jinxiang owns storage facilities of oil products in Yantai with a total capacity of approximately 200,000 cubic metres. In addition to our storage operation under Shandong Jinxiang, our oil storage segment currently involves three projects, i.e., Nangang Project, Dafeng Harbour Project in Jiangsu and Wuhan LNG and Oil Dock Project in Hubei. We have also entered into framework agreement with local governments for cooperation on construction and operation of other two storage facilities strategically located in Bortala Mongol Autonomous Prefecture, Xinjiang Uyghur Autonomous Region, and Changshu City, Jiangsu Province. We expect our storage facilities to serve as key logistics points in the oil supply chain through which we and our storage customers can import and distribute oil products.

Oil Storage Facility Project in Tianjin Nangang Industrial Zone

This project is located in Nangang Industrial Zone, Binhai New Area, Tianjin. The construction of the facility is expected to comprise storage facilities of oil products with an aggregate capacity of approximately 800,000 cubic metres, a loading and unloading station for trucks and ancillary facilities for production.

Nangang Industrial Zone in Binhai New Area is positioned as a petrochemical industrial area and its oil storage capacity has reached certain scale with established storage facilities of CNPC, CNOOC and facilities for national strategy purposes. Despite such scale, the established storage facilities are mainly for self-use and national strategy purposes and petrochemical projects in Nangang Industrial Zone are suffering insufficient storage of oil and petrochemical products. We expect that our oil storage facility will make up the shortfall.

Oil Storage Facility Project in Jiangsu Dafeng Harbour

This project is located in storage area of petrochemical products in Dafeng Harbour, Yancheng, Jiangsu. The construction of the facilities is expected to comprise storage facilities with an aggregate capacity of approximately 1,200,000 cubic metres. The project is to be constructed in phases, in which the first phase will comprise storage facilities with an aggregate capacity of approximately 300,000 cubic metres. This project caters to the increasing demand in Jiangsu market for oil storage facilities and the key target customers are major chemical enterprises such as Nanjing Lanyan Petrochemicals.

LNG and Dock Project in Wuhan

This project is located in Gulong Industrial Park, Wuhan, Hubei. The facilities comprise two approximately 50,000 cubic metres LNG storage facilities and a approximately 78,000 cubic metres storage facility for oil products. The products include LNG, gasoline and diesel, fuel oil and base oil. Once established, the facilities of this project can be used by us as transit storage facilities in our oil products operation in Central China and delivery sites for transactions in Central China, and we can also provide storage services for CNPC, Sinopec, CNOOC and other major petrochemical enterprises. The LNG storage facilities can stably supply gas to the nearly 100 established gas stations in Central China and the LNG stations to be established by the Company. LNG stations will be established at the sites where vessels are concentrated along the Yangtze River and LNG filling wharf boats will be purchased to provide mobile filling along the Yangtze River.

OTHERS

Energy Equipment Trading

We also engage in energy equipment trading. We recorded gross profit derived from energy equipment trading of approximately RMB243 million, RMB219 million, RMB1 million and zero in 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. The substantial decrease in our gross profit from energy equipment trading since the year ended 31 December 2014 was mainly due to the completion of the construction of gas refuelling stations for which we provided energy equipment.

Our energy equipment trading business covers equipment for CNG refuelling stations, ball checks and skid-mounted facilities. Our energy equipment trading business is operated in several provinces across China, including Anhui, Hunan, Hebei, Guangdong and Shandong.

Piped Gas

In 2012, we launched our piped gas business in Leiyang, Hunan Province. As of 30 June 2015, we had piped gas operations in Leiyang, Hunan and Xuancheng, Anhui, supplying piped gas to approximately 35,600 residential households and C/I customers.

We have engaged in selective expansion of our piped gas operation across China, while taking into account the strategic value of each individual project to our overall expansion strategy. Upon obtaining a concession right for a city or region, we typically have exclusive rights to supply gas in the designated area for a concession period of 30 years. Upon the expiration of such concession right, we also have the right of first refusal to extend our franchise period. Once we have successfully

obtained an exclusive right, we face little or no competition from other piped gas distribution companies in that locality during the concession period. Our gas pipeline infrastructure comprises intermediate pipelines, natural gas processing stations, main pipe lines, branch pipe lines and other ancillary facilities such as gas storage tanks and pressure-regulating boxes. Customer pipelines are owned by the customers.

Exploration and Production

We currently mainly operate our exploration and production business through two of our subsidiaries, Shanghai CERCG Co., Ltd. and Xinneng Oil and Gas Exploitation and Development Co., Ltd..

In December 2012, Shanghai CERCG Co., Ltd. jointly invested with a local partner, Tongren Energy Investment Co., Ltd. in a joint venture, which held an exploration licence, to explore and develop shale gas and tight gas in Southeast Qian Region and Tongren City in Guizhou Province. As of 31 December 2014, Shanghai CERCG Co., Ltd. held 80 per cent. equity interests in the joint venture. The exploration period for this project is from 2013 to 2016. As of 31 December 2014, the 2-dimension seismic exploration, treatment and explanation were completed. The information obtained in the exploration has been processed for reorganisation for explanation purpose; work in relation to well drilling, logging, mud logging, VSP and experimental testing of “Tianxing-1 Well” and “Tianma-1 Well”, and work in relation to fracturing of “Tianxing-1 Well” and related fracturing, monitoring, and gas production and testing have been completed. In September 2015, we drilled an additional exploration well.

We are planning to expanded our exploration and production activities overseas through Xinneng Oil and Gas Exploitation and Development Co., Ltd.. We have actively communicated with several oil companies in different countries to explore cooperation opportunities in Asia, North America and Africa.

PROPERTY

We own land use rights, buildings, pipelines and other properties across China. Our corporate headquarters are located in Beijing.

EMPLOYEES

As of 30 June 2015, we had over 2,000 employees. Our employees participate in various basic social insurance plans organised by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees’ salary as stipulated by relevant local regulations. Total expenses incurred by us in connection with training for our employees during the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were over RMB820 million.

Since 2012, we and our subsidiaries have not experienced any strikes, work stoppages, labour disputes or actions which adversely affected the operation of any of their respective businesses in all material aspects. We believe that we and our subsidiaries maintain good relationships with our and their respective employees in all material aspects.

RISK MANAGEMENT

We are exposed to a variety of risks associated with oil and gas and other business operations and financing activities. Our goal in risk management is to ensure that we understand, measure, monitor and mitigate the various risks that arise in connection with our operations. We have established an integrated risk management system through which we seek to manage the risks. Policies and guidelines have been developed to identify, analyse, appraise and monitor the changing risks that we face.

Safety and Environmental Policy: We have developed an safety and environmental management system to strengthen accountability and adopt measures to target root causes rather than symptoms. In accordance with our safety and environmental management guideline and strategic goals, we provide safety and environmental management training throughout the entire organisation, which covers the whole production process and everyone from top management to grassroots operators.

Working Capital Policy: We maintain sufficient cash flow to meet our payment needs. We also maintain a centralised management of funds in order to operate the cash pools of our group entities in an efficient manner.

Investment Policy: The key factors we take into consideration when making investment decisions include investment return, resources acquisition, synergy and integration with our existing key businesses, improvement of service and technical capabilities as well as the various investment risks involved. In addition, we have internal guidelines that specify the minimum return rates for each type of investment.

Legal Risk Management Policy: Our legal risk management system aims to identify and manage risk relating to the entering into and performance of contracts, risk relating to intellectual property rights, employment-related risk and other regulatory risks. The Risk Management Department is charged with direct responsibility to oversee and manage legal risk.

INSURANCE

The Group maintains insurance policies with insurance companies in the PRC which cover property damage due to natural hazards, including lightning, typhoons, tornados, floods, landslides and other natural phenomena, and accidents, including fires and explosions and general liability under property all risk insurance and public liability insurance.

The Group believes its properties are covered with adequate insurance provided by reputable independent insurance companies and with commercially reasonable deductibles and limits on coverage, in line with industry practice.

INTELLECTUAL PROPERTY

We and our subsidiaries are involved in certain legal proceedings concerning matters arising in the ordinary course of their business. We believe, based on currently available information, that these proceedings, individually or in the aggregate, will not have a material adverse effect on our results of operations or financial condition.

LEGAL PROCEEDINGS

The Group was not a party to any legal or arbitration proceedings, pending or threatened, that may have, or has had during the last 12 months, a material adverse effect on its results of operations or financial condition.

ENVIRONMENTAL MATTERS

We are subject to various PRC national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water and disposal, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials. The environmental regulations require us to register or file an environmental impact report with the relevant environmental bureau for approval before we undertake any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that the environmental equipment installed in the facility satisfies environmental requirements. Our Project Management Department is responsible for the management and monitoring of environmental matters directly.

We believe that our businesses are in compliance with currently applicable national, local and foreign environmental laws and regulations in all material aspects. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, we had not encountered any material issues relating to environmental matters or been subject to any material administrative penalties due to any activities that may cause pollution to the environment.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

DIRECTORS

The following table sets forth certain information with respect to our directors as of the date of this Offering Circular:

Name	Age	Position
Dr. Chen Yihe	52	Chairman of the Board
Mr. Sun Shucui	53	Director
Ms. Yu Xue	35	Director
Mr. Fan Wenzheng	52	Director
Mr. Wang Jinzhou	48	Director

Dr. Chen Yihe, aged 52, is the Chairman of the Board of the Company, and a Vice Chairman of China Energy Association. Dr. Chen subsequently held various positions, such as a Deputy Director of the Price Bureau of Baotou City, Deputy Director of the Urban Planning and Land Management Bureau of Baotou City, Director of the Foreign Economic and Trade Bureau of Baotou City, General Manager of Baotou Petrochemical Construction Materials and Petroleum Company, Deputy Director of the Management Bureau of Petroleum Pipeline Construction Engineering Group Company Limited, and the Chairman of CNPC Emerging Energy Industry Group Co., Ltd.. He is a Senior Economist and was a university graduate with a doctor's degree in economics. He was awarded with the "Prize for Chinese People with Outstanding Contribution (中華赤子傑出貢獻人物獎)" and the title of "Excellent Entrepreneur in China (中國優秀企業家)" in 2009.

Mr. Sun Shucui, aged 53, is a Director and General Manager of the Company. Mr. Sun subsequently held various positions, such as a Deputy General Manager of Beijing Nanyang Development Group, and an Executive Deputy General Manager of Guangdong Cunjin Education Group. He was a university graduate with an MBA. He was awarded with the Labour Medal of Shandong Province for his Achievements in "Enriching People and Prospering Shandong" (山東省“富民興魯”勞動獎章), and the honorary title of the "National Outstanding Returned Overseas Chinese (Overseas Chinese Spouse) Intellectuals (全國優秀歸僑(僑眷)知識分子)".

Ms. Yu Xue, aged 35, is a Director and General Manager of Risk Management Department of the Company. Ms. Yu subsequently held various positions, such as a lawyer at Beijing Voson Law Firm, Manager of the Audit and Internal Control Department of CNPC Emerging Energy Industry Group Co., Ltd.. She was a university graduate with a LL.M.

Mr. Fan Wenzheng, aged 52, is a Director and Deputy General Manager of the Company and General Manager of Operation Management Department of the Company. Mr. Fan subsequently held various positions, such as the Division Head of the Operation Division of CNPC Inner Mongolia Sales Company, and the General Manager of the Trading Management Department of CNPC Emerging Energy Industry Group. He is an Engineer and was a university graduate.

Mr. Wang Jinzhou, aged 48, is a Director and General Manager of Capital Strategy and Financial Management Department of the Company. Mr. Wang served as General Manager of the Investment Management Department of the Company from October 2014 to January 2015. Mr. Wang subsequently held various positions, such as a Deputy General Manager of Sinopec Shengli Oil Field Dynamic Group Co., Ltd., Secretary to the Board of Directors and Deputy General Manager of Qingdao iStarWafer Technology Co., Ltd., and an Assistant to the President of CNPC Emerging Energy Industry Group Co., Ltd.. He is a Senior Economist and was a university graduate with an MBA.

SENIOR MANAGEMENT

Our senior management team includes Mr. Sun Shucaï, Ms. Yu Xue, Mr. Fan Wenzheng and Mr. Wang Jinzhou. See “– Directors” for the description of their experience. In addition, our senior management team also includes Mr. Gong Hongyan, Mr. Yang Feng and Mr. Duan Chongjun.

The table below sets forth certain information regarding our senior management:

Name	Age	Position
Mr. Sun Shucaï	53	General Manager
Mr. Gong Hongyan	47	General Manager of Project Management Department
Mr. Fan Wenzheng	52	Deputy General Manager and General Manager of Operation Management Department
Mr. Yang Feng	54	Chief Financial Officer
Mr. Duan Chongjun	45	Chief Economist
Ms. Yu Xue	35	General Manager of Risk Management Department
Mr. Wang Jinzhou	48	General Manager of Capital Strategy and Financial Management Department

Mr. Sun Shucaï, aged 53, has served as General Manager of the Company since August 2015. For details of Mr. Sun’s biography, please see “– Directors” above.

Mr. Gong Hongyan, aged 47, has served as General Manager of Project Management Department of the Company since June 2012. Mr. Gong subsequently held various positions, such as a Supervisor of CNPC Daqing Linyuan Fibre Factory, Supervisor of the Audit Centre of CNPC Daqing Refining & Chemical Company, and the Person-in-Charge of the CNPC (Project) Joint Supervision Office. He is an Engineer with a master’s degree in engineering management. He was awarded with the title of “Advanced Individual for the Price Management of CNPC Projects (中石油工程造價管理先進個人)”, and the “First Prize for Progress in Daqing Science and Technology (大慶科學技術進步一等獎)”.

Mr. Fan Wenzheng, aged 52, has served as Deputy General Manager of the Company since August 2015 and General Manager of Operation Management Department of the Company since February 2011. For details of Mr. Fan’s biography, please see “– Directors” above.

Mr. Yang Feng, aged 54, has served as Chief Financial Officer of the Company since August 2015. Mr. Yang subsequently held various positions, such as the Financial Supervisor of PKU Huayi Group Co., Ltd. and SMI Corporation Limited and the Chief Financial Officer of Thinkforge Digital Media Technology Co., Ltd.. He was a university graduate.

Mr. Duan Chongjun, aged 45, has served as Chief Economist of the Company since July 2011. Mr. Duan subsequently held various positions, such as the Chief Financial Officer of both Tianjin Pengxiang Co., Ltd. and Tianjin Zhongji Group, Vice President of China Tianma Group, and Chief Financial Officer of CNPC Emerging Energy Industry Group Co., Ltd.. He is a Senior Accountant and was a university graduate with a master’s degree in management.

Ms. Yu Xue, aged 35, has served as General Manager of Risk Management Department of the Company since February 2011. Ms. Yu is also the General Manager of the Risk Management Department of the Company. For details of Ms. Yu’s biography, please see “– Directors” above.

Mr. Wang Jinzhou, aged 48, has served as General Manager of Capital Strategy and Financial Management Department of the Company since January 2015. For details of Mr. Wang’s biography, please see “– Directors” above.

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

CURRENT ACCOUNT ITEMS

Under the applicable PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, PBOC, Ministry of Finance (MOF), MOFCOM, the General Administration of Customs, SAT and the China Banking Regulatory Commission (CBRC) jointly promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知) (the “**Circular**”), pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover 20 provinces and cities, and (iii) the restriction on designated offshore districts has been uplifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle imports and exports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by approved pilot enterprises in designated pilot districts in the PRC. In July 2011, PBOC, MOF, MOFCOM, the General Administration of Customs, SAT and CBRC jointly promulgated the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) to further expand Renminbi cross-border trade settlement nationwide.

On 3 February 2012, the PBOC, MOF, MOFCOM, the General Administration of Customs, SAT and CBRC promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC promulgated the *Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures* (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the “**2013 PBOC Circular**”), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank’s verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross border remittance).

On 20 January 2015, the SAFE issued Notice on the Pilot Scheme of Cross-border Foreign Exchange Payment Services Provided by Payment Institutions (關於開展支付機構跨境外匯支付業務試點的通知), which facilitates domestic institutions and individuals to carry out e-commerce trade through the internet, standardizes the cross-border foreign exchange payment services provided by payment institutions, and prevents the risk of cross-border capital flows through the internet channel.

As new regulations, the Circulars and the 2013 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circulars and the 2013 PBOC Circular and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under the applicable PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval or registration of the relevant PRC authorities.

Settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may grant approval or registration for a foreign entity to make a capital contribution or a shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may be required to complete a registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 7 April 2011, SAFE promulgated the Circular on Issues Concerning the Capital Account Items in connection with Cross-Border Renminbi (國家外匯管理局綜合司關於規範跨境人民幣資本項目業務操作有關問題的通知) (the “**SAFE Circular**”), which became effective on 1 May 2011. According to the SAFE Circular, in the event that foreign investors intend to use cross-border Renminbi (including offshore Renminbi and onshore Renminbi held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make payment for the transfer of equity interest of an onshore enterprise by a PRC resident, such onshore enterprise shall be required to submit the relevant MOFCOM's prior written consent to the relevant local branches of SAFE of such onshore enterprise and register for a foreign invested enterprise status. Further, the SAFE Circular clarifies that the foreign debts borrowed, and the external guarantee provided by onshore entities (including financial institutions) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and external guarantee regime.

On 13 October 2011, PBOC promulgated the Measures for Administration of RMB Settlement Business in Relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (“**The PBOC Measures**”), which was amended on 5 June 2015, pursuant to The PBOC Measures, PBOC special approval for Renminbi FDI and shareholder loans which was required by the PBOC Notice concerning Clarification of Certain Issues on Cross-border Renminbi Settlement (中國人民幣銀行關於明確跨境人民幣業務相關問題的通知) (the “**PBOC Notice**”) promulgated on 3 June 2011 is no longer necessary. The PBOC Renminbi FDI Measures provide that, among others, foreign invested enterprises are required to conduct registrations with the local branch of PBOC within ten working days after obtaining the business licences for the purpose of Renminbi settlement. Under the

measures, a foreign investor is allowed to open a Renminbi preliminary expense account (人民幣前期費用專用存款賬戶) to reimburse some expenses before the establishment of a foreign invested enterprise and the balance in such an account can be transferred to the Renminbi capital account (人民幣資本金專用存款賬戶) of such foreign invested enterprise when it is established. Commercial banks can remit a foreign investor's Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries out of the PRC after reviewing certain requisite documents. If a foreign investor intends to use its Renminbi proceeds from distribution (dividends or otherwise) by its PRC subsidiaries, the foreign investor may open a Renminbi re-investment account (人民幣再投資專用賬戶) to pool the Renminbi proceeds, and the PRC parties selling stock in domestic enterprises to foreign investors can open Renminbi accounts and receive the purchase price in Renminbi paid by foreign investors. The PBOC Renminbi FDI Measures also state that the foreign debt quota of a foreign invested enterprise constitutes its Renminbi debt and foreign currency debt from its offshore shareholders, offshore affiliates and offshore financial institutions, and a foreign invested enterprise may open a Renminbi account (人民幣一般存款賬戶) to receive its Renminbi proceeds borrowed offshore by submitting the Renminbi loan contract to the commercial bank and make repayments of principal of and interest on such debt in Renminbi by submitting certain documents as required to the commercial bank.

On 14 June 2012, the PBOC promulgated the Notice concerning Clarification of Renminbi Settlement in relation to Foreign Direct Investment (關於明確外商直接投資人民幣結算業務操作細則的通知) (the “**PBOC Notice 2012**”) and amended it on 5 June 2015, which provides more detailed requirements with respect to all accounts concerning capital injection, payment of purchase price in the merger and acquisition of PRC domestic enterprises, remittance of dividends and distribution, as well as Renminbi denominated cross-border loans. Foreign investors, foreign enterprises and domestic shareholders must check and clarify all the existing Renminbi accounts and provide supplementary documents to open an account or modify the information within three months after the promulgation of the PBOC Notice 2012. For those who have more than one preliminary expense account (前期費用專用存款賬戶), capital account (資本金專用存款賬戶), merger and acquisition account (併購專用存款賬戶) or equity transfer account (股權轉讓專用存款賬戶), they are required to choose one of them and close all of the other accounts. The funds in the accounts for Renminbi capital and Renminbi denominated cross-border loan (資本金專用存款賬戶及人民幣境外借款一般存款賬戶) shall not be used for investment in securities, financial derivatives, entrusted loans, financial products or properties of non-self use. In addition, the foreign-invested non-investment enterprises shall not use the funds in the Renminbi capital account and Renminbi denominated cross-border loan account (資本金專用存款賬戶及人民幣境外借款一般存款賬戶) for reinvestment in the PRC.

On 19 November 2012, the SAFE promulgated the Circular on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the “**SAFE Circular on DI**”), which became effective on 17 December 2012 and was amended on 4 May 2015. According to the SAFE Circular on DI, the SAFE removes or adjusts certain administrative licensing items with regard to foreign exchange administration over direct investments to promote investment, including, but not limited to, the abrogation of SAFE approval for opening of and payment into foreign exchange accounts under direct investment accounts, the abrogation of SAFE approval for reinvestment with legal income generated within China of foreign investors, the simplification of the administration of foreign exchange reinvestments by foreign investment companies, and the abrogation of SAFE approval for purchase and external payment of foreign exchange under direct investment accounts.

On 11 May 2013, SAFE promulgated the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China (外國投資者境內直接投資外匯管理規定) (the “**SAFE Provisions**”), which became effective on 13 May 2013. According to the SAFE Provisions, a Foreign invested Enterprise that needs to remit funds abroad due to capital reduction, liquidation, advance recovery of investment, profit distribution, etc. may purchase foreign exchange and make external payment with the relevant bank after going through corresponding registration.

On 3 December 2013, the MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the “**MOFCOM Circular**”), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify “Renminbi Foreign Direct Investment” and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

ISSUANCE OF FOREIGN DEBT

On 14 September 2015, the NDRC promulgated the Circular of the National Development and Reform Commission on Promoting the Administrative Reform of the Record-filing and Registration System for the Issuance of Foreign Debts by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) (the “**Circular**”), which became effective immediately on the same day. According to the Circular, the issuance amount of foreign debt by onshore enterprises and offshore enterprises or branches under their control is no longer subject to the approval of competent authorities. Instead, the enterprises need to conduct the record-filing procedure before issuing the debt and report the issuance information within ten working days after the issuance.

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

This section summarises the main PRC laws and regulations which are relevant to the Group's major business and operations. As this is a summary, it does not contain a detailed analysis of relevant laws and regulations.

OVERVIEW

China's oil and gas industry is subject to extensive regulation by the PRC government with respect to a number of aspects of exploration, production, transmission and marketing of crude oil and natural gas as well as the production, transportation and marketing of refined products and chemical products. The following central government authorities exercise control over various aspects of China's oil and gas industry:

- The Ministry of Land and Resources has the authority for granting, examining and approving oil and gas exploration and exploitation licences as well as the administration of registration and transfer of exploration and exploitation licences.
- The Ministry of Commerce:
 - sets the import and export volume quota for crude oil and refined products according to the overall supply and demand for crude oil and refined products in China as well as the World Trade Organisation (WTO) requirements for China;
 - issues import and export licences for crude oil and refined products to oil and gas companies that have obtained import and export quota; and
 - examines and approves production sharing contracts in relation to oil and CSG and Sino-foreign equity and cooperative joint venture contracts.
- The NDRC:
 - has the industry administration and policy coordination authority over China's oil and gas industry;
 - determines mandatory minimum volumes and applicable prices of natural gas to be supplied to certain fertilizer producers;
 - publishes guidance prices for natural gas and retail median guidance prices for certain refined products, including gasoline and diesel;
 - approves significant petroleum, natural gas, oil refinery and chemical projects set forth under the Catalogues of Investment Projects Approved by the central government;
 - oil and gas reserve management, supervision and management of commercial oil and gas reserves by National Energy Administration (subordinated agency of NDRC); and
 - approves Sino-foreign equity and cooperative projects exceeding certain capital amounts.

- State Administration of Work Safety:
 - Examines and approves certification of dangerous chemicals business; and
 - Comprehensive supervision and management of national production safety.

PRODUCTION AND MARKETING

Crude Oil

Each year, the NDRC publishes the projected target for the production and sale of crude oil by PetroChina, Sinopec and CNOOC, based on the domestic consumption estimates submitted by domestic producers, including PetroChina, Sinopec and CNOOC, the production of these companies as well as the forecast of international crude oil prices. The actual production levels are determined by the producers themselves and may vary from the submitted estimates. Since 1 January 2007, when the *Measures on the Administration of the Crude Oil Market* promulgated by the Ministry of Commerce became effective, qualified domestic producers are permitted to engage in the sale and storage of crude oil. Foreign companies are also allowed to establish and invest in enterprises to conduct crude oil business.

Refined Products

Before 11 December 2006, only CNPC, Sinopec and joint ventures established by the two companies had the permission to conduct the gasoline and diesel wholesale business. Other companies, including foreign invested companies, were not allowed to engage in wholesale selling of gasoline and diesel in China's domestic market. In general, only domestic companies, including Sino-foreign joint venture companies, were permitted to engage in retail selling of gasoline and diesel. Since 11 December 2004, wholly foreign-owned enterprises are permitted to conduct refined oil retail business. Since 11 December 2006, according to China's WTO commitments, the wholesale business of refined oil has been opened up. Since 1 January 2007, when the *Measures on the Administration of the Refined Oil Market* became effective, all entities meeting certain requirements are allowed to submit applications to the Ministry of Commerce or competent department of commerce of provincial government to conduct refined oil products wholesale, retail and storage businesses.

Natural Gas

The NDRC publishes each year the production targets for natural gas producers based on the annual production target prepared on the basis of consumption estimates submitted by all natural gas producers such as PetroChina. The NDRC also formulates the annual natural gas guidance supply plan, which requires natural gas producers to distribute a specified amount of natural gas to specified fertilizer producers, municipal governments and enterprises.

However, the NDRC abrogates the examination and approval of the plan on allocation of the commercial volume of natural gas according to the *Decision of the State Council on Cancelling Non-administrative Licensing Examination and Approval Items* promulgated on 10 May 2015.

IMPORT AND EXPORT

Since 1 January 2002, state-owned trading companies have been allowed to import crude oil under an automatic licensing system. Non-state-owned trading companies have been allowed to import crude oil and refine products subject to quota controls. The export of crude oil and refined oil products by both state-owned trading companies and non-state-owned trading companies is subject to quota control.

PRICING

Crude Oil

CNPC/PetroChina and Sinopec set their crude oil median prices each month based on the average Singapore market Free on Board (“**FOB**”) prices for crude oil of different grades in the previous month. In addition, CNPC/PetroChina and Sinopec negotiate a premium or discount to reflect transportation costs, the differences in oil quality and market supply and demand. The NDRC will mediate if CNPC/PetroChina and Sinopec cannot agree on the amount of premium or discount.

Refined Products

Since October 2001, CNPC and PetroChina have set retail prices within an 8 per cent. floating range of the published retail median guidance prices of gasoline and diesel published by the NDRC (but after 26 March 2006, the price of diesel for fishing vessels has been set in line with the published retail base price, with no upward adjustment for the time being). These retail median guidance prices of gasoline and diesel vary in each distribution region at provincial level. From October 2001 to early 2006, the NDRC published the retail median guidance prices of gasoline and diesel from time to time based on the weighted average FOB Singapore, Rotterdam and New York trading prices for diesel and gasoline plus transportation costs and taxes. Generally, adjustments were made only if the weighted average prices fluctuated beyond 8 per cent. of the previously published retail median guidance price. In 2006, the PRC government, under its macro-economic controls, introduced a mechanism for determining the prices of refined products.

On 18 December 2008, the PRC government further improved the pricing mechanism. The domestic prices of refined oil products continue to be indirectly linked to the international market. Under the improved mechanism, the domestic selling price of the refined oil products are determined on the basis of the corresponding international crude oil prices, with allowances for the average domestic processing cost, tax, selling expenses and appropriate profit margin. The prices of diesel and gasoline continue to follow the government set prices and the government guiding prices. The retail prices of diesel and gasoline are subject to the highest retail prices set by the government. The highest retail price is determined on the basis of the ex-works price and the profit margin for retailing activities.

On 7 May 2009, the NDRC promulgated and implemented the *Measures for Administration of Petroleum Price* (on trial) (the “**Oil Price Measures**”). The Oil Price Measures specify the relevant conditions and mechanisms for the adjustment of the prices of China’s domestic refined oil products. Under the Oil Price Measures, when the change in the average price of crude oil on the international market for 22 consecutive days exceeds 4 per cent., prices of domestic refined oil products may be adjusted accordingly. When the price of crude oil on the international market becomes lower than US\$80 per barrel, the prices of domestic refined oil products shall be computed on the basis of normal profit margin for processing. On the other hand, when the price of crude oil on the international market is higher than US\$80 per barrel, the profit margin for processing shall be reduced until it reaches zero. When the price of crude oil becomes higher than US\$130 per barrel, appropriate financial and tax policies shall be adopted to ensure the production and supply of refined oil products and the stability of the domestic gasoline and diesel prices. Retailers of refined oil products may set the retail prices freely as long as their retail prices are not higher than the highest retail prices of gasoline and diesel set by the government. On 26 March 2013, the NDRC issued a *Notice on Further*

Improving the Pricing Mechanism for Refined Oil products. The Notice shortened the period from 22 consecutive days to 10 days and eliminated the percentage limit. The Oil Price Measures was amended accordingly. On 20 August 2013, the Oil Price Measures was abolished by the NDRC Catalogue of the Regulations and Normative Documents Decided to be Abolished and Amended.

Chemical Products

CNPC/PetroChina determines the prices of all of its chemical products.

Natural Gas

The price of natural gas has two components: ex-works price and pipeline transportation tariff. Prior to 26 December 2005, ex-works prices varied depending on whether or not the natural gas sold was within the government-formulated natural gas supply plan. For natural gas sold within the government-formulated supply plan, the NDRC fixed ex-works prices according to the nature of the customers. Most of these customers were fertilizer producers. For natural gas sold to customers not subject to the government-formulated supply plan, the NDRC published median guidance ex-works prices, and allowed natural gas producers to adjust prices upward or downward within a margin of 10 per cent..

On 26 December 2005, the NDRC reformed the mechanism for setting the ex-works prices of domestic natural gas by using governmental guidance prices, and dividing domestic natural gas into two categories. On the basis of the ex-works price set by the government, subject to the negotiations between the seller and the buyer, the actual ex-works price of the first category may float upward or downward within a margin of 10 per cent.; the actual ex-works price of the second category may float upward up to 10 per cent., with no floor for downward adjustment. The price of the first category will be adjusted to align with the second category within three to five years. The NDRC does not allow CNPC/PetroChina and Sinopec to engage in price discrimination towards internal and external enterprises. On 10 November 2007, the NDRC increased the ex-works price of the natural gas for industrial use by RMB400 per thousand cubic metres.

On 1 June 2010, the NDRC raised the median ex-works prices of natural gas and as a result, the ex-works price of natural gas for non-residential use from all of the oil and gas fields in China increased by RMB0.23 per cubic metre. At the same time, the NDRC eliminated the ex-works price difference in the first-category and the second-category natural gas produced from the Dagang oilfield, Liaohe oilfield and Zhongyuan oilfield, ending the “dual-track natural gas pricing system” as described in the immediately previous paragraph for the oilfields. In addition, the NDRC expanded the floating range of the median ex-works price by allowing the median ex-works price to float upward to 10 per cent., with no floor for downward adjustment.

CNPC/PetroChina negotiates the actual ex-works price with natural gas users within the benchmark price and the adjustment range set by the government.

The NDRC sets the tariff for the natural gas transported by pipelines constructed prior to 1991. For natural gas transported by pipelines constructed after 1991, CNPC/PetroChina submits to the NDRC for examination and approval of the proposed pipeline transmission tariffs calculated on the basis of the capital investment made in the pipelines, the depreciation period for the pipeline, the payment ability of end users and PetroChina’s profit margin.

On 25 April 2010, the NDRC adjusted the flat pipeline transportation tariff. As a result of such adjustment, CNPC's average tariff for the natural gas transported by pipelines increased from RMB0.06 per cubic metre to RMB0.14 per cubic metre.

On 26 December 2011, the NDRC issued the *Circular on the Pilot Reform of Natural Gas Price Formation Mechanism in Guangdong Province and Guangxi Zhuang Autonomous Region*, which became effective in those areas as of the same date. This pilot reform aims to establish a dynamic price adjustment mechanism for the promotion of nationwide natural gas price reform. The NDRC's objective is to relax control of the ex-works price of natural gas and promote price formation by market competition, wherein the government will only manage pipeline transportation tariffs. The NDRC determined the gate station tariffs for natural gas by choosing the Shanghai market as a pricing reference point and establishing a price linkage mechanism between natural gas and alternative energy. In addition, the gate station price of natural gas shall be initially adjusted in accordance with price changes of alternative energy once per year and later on a semi-annual or quarterly basis. Under this approach, the gate station prices of natural gas in Guangdong Province and Guangxi Zhuang Autonomous Region shall not exceed RMB2.74 per cubic metre and RMB2.57 per cubic metre, respectively.

On 28 June 2013, the NDRC issued the *Notice Concerning the Adjustment of the Price of Natural Gas*, which was put into effect nationwide on 10 July 2013. The new programme is considered to be a key tool in the government's efforts to promote a healthy and sustainable natural gas industry and market in China. The new programme consists of (i) changing the mechanism administering the price of natural gas from ex-factory control to citygate control, and no longer differentiating the prices payable by the users in different provinces by reference to the difference in gas sources and transportation routes; (ii) establishing a mechanism whereby the citygate price of natural gas is linked to the price of alternative energy thereby achieving a completely market-driven pricing for natural gas; and (iii) adopting differential pricing approaches towards existing usage and incremental usage of natural gas so as to establish as soon as practicable a new pricing mechanism for natural gas while reducing the impact that the pricing reform will have on existing gas users. Under this programme, the adjustment to the price of the incremental usage will be implemented in one step while the adjustment to the price of the existing usage will be implemented in multiple steps and is targeted to be fully implemented by 2015, which will coincide with the end of the 12th Five-year Plan.

On 10 August 2014, the NDRC issued the *Circular on Adjusting the Prices of Reserve Natural Gas for Industrial Purposes* (國家發展改革委關於調整非居民用存量天然氣價格的通知) (Fa Gai Jia Ge 2014 No. 1835), which became effective on 1 September 2014. Under the Circular, on the condition that the price for incremental natural gas maintains unchanged, the adjustments to the price mechanism of existing natural gas consists of (i) increasing the city-gate price of the existing natural gas for industrial purpose by RMB0.4 yuan per cubic metre; (ii) maintaining the city-gate gas price for residential purpose unchanged; and (iii) further implementing the policies of releasing price control on imported LNG and ex-factory price policies for shale gas, coalbed gas, and coal gas.

On 18 November 2015, the NDRC issued the Circular on Lowering the Gate Station Prices of Natural Gas Used for Non-residential Purpose and Further Accelerating the Market-oriented Price Reform (國家發展改革委關於降低非居民用天然氣門站價格並進壹步推進價格市場化改革的通知)(Fa Gai Jia Ge 2015 No. 2688), which became effective on 20 November 2015. Under the circular, the upper limit of gate station prices of natural gas used for non-residential purposes shall be lowered by RMB0.7 yuan per cubic meter. However, the price for the natural gas used for fertilizer remains unchanged. In addition, according to the circular, the pricing mechanism of natural gas used for non-residential purposes shall be transformed into a market-oriented pricing system. The seller and buyer may negotiate the price with a limit on upward adjustment of 20 per cent. from the benchmark price and no limit on downward adjustment.

EXPLORATION LICENCES AND PRODUCTION LICENCES IN RELATION TO OIL AND GAS

The Mineral Resources Law authorises the Ministry of Land and Resources to exercise administrative authority over the exploration and exploitation of mineral resources, including oil and gas, within the PRC. *The Mineral Resources Law* and its supplementary regulations provide for the basic legal framework under which exploration licences and exploitation licences for oil and gas are granted. The Ministry of Land and Resources has the authority to issue exploration licences and exploitation licences. Applicants is required to submit the approval for setting up oil company or the approval documents for oil and gas exploration, and its qualification certification to be recognised as legal person.

Applicants for oil and gas exploration licences must first register with the Ministry of Land and Resources blocks in which they intend to engage in exploration activities. According to *The Administrative Measures for the Block Registration of Mineral Resource Prospecting* (礦產資源勘查區塊登記管理辦法), which was promulgated by the State Council on 12 February 1998, and amended on 29 July 2014, The holder of an exploration licence is obligated to make a progressively increasing annual minimum exploration investment relating to the exploration blocks for which the licence is issued. The minimum investments are RMB2,000 per square kilometre for the initial year and RMB5,000 per square kilometre for the second year. Starting from the third year, the minimum investment is RMB10,000 per square kilometre. In addition, the holder of an exploration licence is obligated to pay an annual exploration licence fee that is RMB100 per square kilometre for the first three years of explorations. Starting from the fourth year of exploration, the exploration licence fee shall increase by an additional RMB100 per square kilometre each year for subsequent years up to a maximum of RMB500 per square kilometre. With respect to any blocks of mineral reserves which have been explored by the PRC government at its own expenses, applicants for relevant exploration rights shall pay certain fees determined on the basis of an appraisal in addition to the exploration licence fee. The maximum term of an oil and natural gas exploration licence is seven years, with each renewal being up to two years. At the exploration stage, an applicant can also apply for a progressive exploration and production licence that allows the holder to test and develop reserves not yet fully proven. The maximum term of a progressive exploration and production licence is 15 years. However, upon the detection and confirmation of the quantity of reserves in a certain block, the holder must apply for a production licence based on economic evaluation, market conditions and development planning in order to shift into the production phase in a timely manner. In addition, the holder of an exploration licence needs to obtain the right to use that block of land. Generally, the holder of a full production licence must obtain a land use right certificate for industrial land use covering that block of land.

The Ministry of Land and Resources issues production licences to applicants on the basis of the reports on geological survey of the reserves approved by the relevant authorities. Production licence holders are required to pay an annual production right usage fee of RMB1,000 per square kilometre. With respect to any blocks of mineral reserves which have been explored by the PRC government at its own expenses and confirmed with the location of relevant mineral reserves, applicants for relevant production rights shall pay certain fees determined on the basis of an appraisal in addition to the production usage fee. Administrative rules issued by the PRC State Council provide that the maximum term of a production licence is 30 years. In accordance with a special approval from the PRC State Council, the Ministry of Land and Resources has issued production licences with terms coextensive with the projected productive life of the assessed proven reserves as discussed above. Each production licence is renewable upon the application by the licence holders 30 days prior to expiration.

FOREIGN INVESTMENTS

Cooperation in Exploration and Production with Foreign Companies

Sino-foreign cooperation projects and foreign parties in exploration and production of onshore oil and gas in China are generally selected through open bids and bilateral negotiations. Those projects are generally conducted through production sharing contracts within the areas approved by the PRC State Council for Sino-foreign cooperation of onshore petroleum. The cooperative exploitation contracts shall be approved by the Ministry of Commerce and other cooperative contracts shall be submitted to the Ministry of Commerce for filing.

Transportation and Refining

Since 1 December 2007, PRC regulations encourage foreign investment in the construction and operation of oil and gas pipelines and storage facilities but restrict foreign investment in refineries to an annual capacity of eight million tonnes or lower. The ethylene production projects with an annual production capacity exceeding 800,000 tonnes must be majority-owned by Chinese parties. Furthermore, construction of new refinery or ethylene facilities, expansion of existing refinery facilities and upgrading of existing ethylene facilities by increasing annual production capacity of more than 200,000 tonnes are subject to the approval of relevant government authorities.

On 30 January 2012, NDRC and MOFCOM implemented the *Revised Catalogue for the Guidance of Foreign Investment Industries (NDRC/MOFCOM 2011 No. 12)*. As a result, foreign investment is restricted if the annual production capacity in the areas of crude oil distillation refining, catalytic cracking, continuous restructuring (including aromatics extraction) and hydrocracking is under ten million tonnes, one and a half million tonnes, one million tonnes and one and a half million tonnes, respectively. At the same time, foreign investment in refineries with an annual capacity under eight million tonnes is no longer restricted. In addition, any ethylene production project with an annual production capacity of over 800,000 tonnes does not have to be majority-owned by Chinese parties.

On 10 March 2015, the NDRC and MOFCOM promulgated the newly revised *Catalogue for the Guidance of Foreign Investment Industries (NDRC/MOFCOM 2015 No.22)*, which became effective on 10 April 2015. As a result, foreign investments is no longer restricted for the annual production capacity in the areas of crude oil distillation refining, catalytic cracking, continuous restricting (including aromatics extraction) and hydrocracking which is under ten million tonnes, one and a half million tonnes, one million tonnes and one and a half million tonnes, respectively.

CAPITAL INVESTMENT AND FINANCING

Capital investments in exploration and production of crude oil and natural gas made by Chinese oil and gas companies are subject to approval by or filing with relevant government authorities. The following projects are subject to approval by the NDRC:

- projects of cross-border trunk pipeline networks or trunk pipeline networks(excluding gathering and transmission pipeline networks for oil fields) across multiple provinces (autonomous regions and municipalities directly under the Central Government);
- projects of cross-border trunk pipeline networks or trunk pipeline networks (excluding gathering and transmission pipeline networks for oil and gas fields) across multiple provinces (autonomous regions and municipalities directly under the Central Government);
- new oil refining projects and one-time expansion of refining projects;
- methanol to olefins projects with an annual output of over 500,000 tonnes and projects of coal-based methanol with an annual output of over 1 million tonnes.

TAXES, FEES AND ROYALTIES

The table below sets forth some of the taxes, fees and royalties payable by gas and oil companies in China.

<u>Tax Item</u>	<u>Tax Base</u>	<u>Tax Rate</u>
Enterprise income tax	Taxable income	Effective from 1 January 2008, the standard tax rate is rate 15% or 25%. 20% for small low-profit enterprise
Value-added tax	Turnover	13% for LNG, natural gas, liquefied petroleum gas and fertilizers and 17% for other items.
	Sales volume	5% for the Sino-foreign oil and gas exploration and production cooperative projects. However input value-added tax cannot be deducted.
Business tax	Income from transportation services or income from finance, insurance, services, etc.	3% or 5%
Consumption tax	Aggregate volume sold or self-consumed	Effective from 1 January 2009, the unit tax amount of the consumption tax for refined oil products was increased as follows: RMB1.0 per litre for unleaded gasoline. RMB0.8 per litre for diesel. RMB0.8 per litre for jet fuel. RMB1.0 per litre for naphtha, solvent naphtha and lubricants. RMB0.8 per litre for fuel oil.
Resource tax	Value sold	Effective from 1 November 2011 (on trial), resource tax applicable to crude oil and natural gas shall be collected based on the value sold at 5%-10%.

Tax Item	Tax Base	Tax Rate
Compensatory fee for mineral resources	Turnover	1% for crude oil and natural gas.
Crude oil special levy	Sales amount above specific threshold	Effective from 1 November 2011, levied on the domestic crude oil sold at or above US\$55 per barrel, with a five-level progressive tax rates, varying from 20% to 40%.
Exploration licence fee	Area	RMB100 to 500 per square kilometre per year.
Production licence fee	Area	RMB1,000 per square kilometre per year.
Royalty fee ⁽¹⁾	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	Total amount of value-added tax, consumption tax and business tax	1%, 5% and 7%.
Education surcharge and local education surcharge	Total amount of value-added tax, consumption tax and business tax	3% and 2%.

- (1) It is payable only by Sino-foreign oil and gas exploration and production cooperative projects in China. However, effective from 1 November 2011, royalty payable by new Sino-foreign oil and gas exploration and production cooperative projects was replaced by the resource tax, although cooperative projects under the contracts signed before 1 November 2011 continue to be subject to royalty until the contracts expire.

The PRC Highway Law, as amended on 27 August 2009, provides that the PRC government will collect funds for highway maintenance by imposing fuel taxes. On 18 December 2008, the PRC State Council promulgated the *Circular on Implementing the Reform of Refined Oil Product Pricing and Relevant Tax and Charge Collection*. According to this circular, effective 1 January 2009, the PRC government ceased to create and impose a new kind of fuel oil tax. Instead, as part of the reform of the refined oil product pricing, the government used the existing system of taxation, methods of tax collection and means of taxation administration to further improve the refined oil product pricing mechanism. As a result, the unit tax amount of the consumption tax for refined oil products was increased.

ENVIRONMENTAL REGULATIONS

China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water and disposal, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials.

The environmental regulations require a company, to register or file an environmental impact report with the relevant environmental bureau for approval before it undertakes any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that environmental equipment that meets the environmental protection requirements has been installed for the facility. A company that wishes to discharge pollutants, whether they are in the form of emission, water or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. After reviewing the pollutant discharge declaration, the relevant environmental bureau will determine the amount of discharge allowable under the law and will issue a pollutant discharge licence for that amount of discharge subject to the payment of discharge fees. If a company discharges more than is permitted in the pollutant discharge licence, the relevant environmental bureau is empowered to impose penalty on the company up to several times the discharge fees payable by the offending company for its allowable discharge, or require the offending company to cease operations to remedy the problem.

TAXATION

The following summary of certain British Virgin Islands, PRC, Hong Kong and EU tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of the PRC, British Virgin Islands and their country of citizenship, residence or domicile.

BRITISH VIRGIN ISLANDS

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. Payments of principal, premium or interest in respect of the Bonds to persons who are not resident in the British Virgin Islands are not subject to BVI tax or withholding tax.

Capital gains realised with respect to the Bonds by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Bonds.

In relation to the European Savings Directive of 2003 in respect of taxation of savings income in the form of interest payments, the Mutual Legal Assistance (Tax Matters) Act, 2003 (as amended) requires paying agents in the British Virgin Islands to report to the BVI International Tax Authority certain information, including information about interest payments made to certain beneficial owners resident in an EU Member State, which information the BVI International Tax Authority will exchange with the relevant tax authorities in the EU Member State where the beneficial owner is resident for tax purposes.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for the PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this “PRC Taxation” section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the Enterprise Income Tax Law of the PRC (the “**EIT Law**”) effective on 1 January 2008 and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25 per cent. in respect of their worldwide income. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside PRC.

As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, Bondholders will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of payments of interest, premium (if any) and repayments of principal by the Issuer.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC must pay enterprise income tax on PRC source income and such tax must be withheld by the PRC payer at source. Pursuant to the Individual Income Tax Law of the PRC (the “**IIT Law**”) effective on 1 September 2011 and relevant implementations, any individual who has no domicile and does not stay within the territory of China or who has no domicile but has stayed within the territory of China for less than one year must pay individual income tax for any income obtained from sources within the territory of China.

Accordingly, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer may be required to withhold tax from the payments of interest or redemption premium in respect of the Bonds to any non-PRC Bondholder and gain from the disposition of the Bonds may be subject to PRC tax if such income or gain is treated as PRC source. The tax rate is generally 10 per cent. for non-PRC enterprise Bondholders and 20 per cent. in the case of non-PRC individual Bondholders, subject to the provisions of any applicable tax treaty.

Subject to certain exceptions, the Issuer has agreed to pay additional amounts to Bondholders so that Bondholders would receive the full amount of the scheduled payment, as further set out in the Terms and Conditions. The requirement to pay additional amounts as a result of any such PRC withholding tax will increase the cost of servicing the debt and could have an adverse effect on the Issuer’s financial condition.

No PRC stamp duty will be imposed on non-resident holders either upon issuance of the Bonds or upon a subsequent transfer of Bonds.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal, premium or interest on the Bonds or in respect of any gains arising from the sale of the Bonds.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**Inland Revenue Ordinance**”) as it is currently applied, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong; or
- (c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person other than a company (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Bonds will be subject to profits tax.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The EU has adopted the EC Council Directive 2003/48/EC (the “**Saving Directive**”) regarding the taxation of savings income. The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise.

The Council of the European Union has adopted an EC Council Directive amending the above (the “**Amending Directive**”) which will, when implemented, amend and broaden the scope of the requirements described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017. However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The proposal also provides that, if it proceeds, Member States will not be required to apply the new requirements of the Amending Directive.

Investors who are in any doubt as to their position should consult their professional advisers.

THE PROPOSED FINANCIAL TRANSACTIONS TAX (THE “FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The Commission’s Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Bonds should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Issuer and the Company have entered into a subscription agreement with the Initial Purchasers dated 12 January 2016 (the “**Subscription Agreement**”) pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have agreed, severally and not jointly, to subscribe and pay for, the principal amount of the Bonds set forth opposite their names respectively.

Initial Purchasers	Principal Amount of the Bonds to be Subscribed
Barclays Bank PLC.	US\$125,000,000
Wing Lung Bank Limited	US\$125,000,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	US\$ 50,000,000
Haitong International Securities Company Limited.	US\$ 50,000,000
China Securities (International) Corporate Finance Company Limited	US\$ 50,000,000
Total.	US\$400,000,000

The Subscription Agreement provides that the Issuer and the Company will jointly and severally indemnify the Initial Purchasers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of Initial Purchasers are subject to certain conditions precedent and entitles the Initial Purchasers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and the Company, for which they received or will receive customary fees and expenses.

Each of the Issuer and the Company has agreement with the Initial Purchasers in the Subscription Agreement that, for a period of 60 days after the Closing Date, none of the Issuer, the Company nor any other subsidiary of the Company shall make any announcements of, or any issue or offering of debt securities (other than the Bonds) to the public or through a private placement in connection with which the Issuer, the Company or any member of the Group is the borrower, debtor, issuer or guarantor, directly or on their behalf, unless the Issuer and the Company have obtained the prior written consent of Barclays Bank PLC. Each of the Issuer and the Company represents and warrants and undertakes to the Initial Purchasers that, as at the date hereof and during the 60-day period referred to above, except with the consent of Barclays Bank PLC, it has not mandated and will not mandate any other party to arrange any issue or offering of debt securities in connection with which it is the issuer or guarantor.

The Initial Purchasers or their respective affiliates may purchase the Bonds and allocate the Bonds for asset management and/or proprietary purposes but not with a view to distribution. The Initial Purchasers or their respective affiliates may enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or

other securities of the Issuer or the Company or their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

In connection with the issue of the Bonds, the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) may over-allot the Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Such stabilisation shall be conducted in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Initial Purchasers.

GENERAL

The Bonds are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of, or any trading market for, the Bonds.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

UNITED STATES

The Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) with respect to anything done by it in relation to the Bonds in, from or otherwise involving, the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to them, the Issuer and the Company.

EUROPEAN ECONOMIC AREA

Each of the Initial Purchasers has, severally and not jointly, acknowledged that, in relation to each Member State of the European Economic Area which has implemented the EU Prospectus Directive (each, a “**Relevant Member State**”), the Bonds with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) have not been made and will not be offered to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the EU Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive), as permitted under the EU Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers to publish a prospectus pursuant to Article 3 of the EU Prospectus Directive.

For the purpose of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Relevant Member State by any measure implementing the EU Prospectus Directive in that Relevant Member State, the expression “EU Prospectus Directive” means Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

SINGAPORE

Each of the Initial Purchasers has, severally and not jointly, acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that it has not offered or sold any Bonds or caused such Bond to be made the subject of an

invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:
 - (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
 - (ii) where no consideration is or will be given for the transfer;
 - (iii) where the transfer is by operation of law;
 - (iv) as specified in Section 276(7) of the SFA; or
 - (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

HONG KONG

Each of the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under that Ordinance.

JAPAN

Each of the Initial Purchasers has, severally and not jointly, represented, warranted and undertaken that the Bonds have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “**Financial Instruments and Exchange Law**”) and that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and other applicable laws and regulations of Japan.

THE PRC

Each of the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

BRITISH VIRGIN ISLANDS

Each of the Initial Purchasers has, severally and not jointly, represented, warranted and agreed that no invitation has been or will be made to a natural person who is a British Virgin Islands resident or citizen or who is physically present in the British Virgin Islands or to the public in the British Virgin Islands to offer or sell the Bonds and the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by the British Virgin Islands laws.

This Offering Circular does not constitute, and there will not be, an offering of the Bonds to any person in the British Virgin Islands.

GENERAL INFORMATION

- (1) **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream. The securities codes for the Bonds are as follows:

Common Code: 132831572

ISIN: XS1328315723

- (2) **Authorisations:** The Issuer and the Company have obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds and the provision of the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking (as the case may be). The issue of the Bonds was authorised by resolutions of the sole director of the Issuer. The provision of the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking was authorised by resolutions of the Board of Directors of the Company.
- (3) **NDRC Registration:** With respect to the Bonds, registration has been completed by the Issuer and the Company in accordance with the NDRC Notice. After issuance of the Bonds, the Issuer and the Company shall report the issuance information to the NDRC within 10 business days after the completion of such issuance.
- (4) **No Material Adverse Change:** Save as disclosed in this Offering Circular, there has been no material adverse change, or any development reasonably likely to involve an adverse change, in the financial or trading position, prospects or results of operations of the Issuer, the Company or the Group since 30 June 2015.
- (5) **Litigation:** Save as disclosed in this Offering Circular, neither of the Issuer nor the Company is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Issuer or the Company aware that any such proceedings are pending or threatened. Each of the Issuer and the Company may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.
- (6) **Available Documents:** Copies of the Company's audited consolidated financial statements for the years ended 31 December 2013 and 2014 and Company's unaudited consolidated financial statements for the six months ended 30 June 2015, the Trust Deed, the Agency Agreement, the Keepwell Deed and the Deed of Equity Interest Purchase and Investment Undertaking will be available for inspection from the Issue Date at the specified office of the Issuer at Room 2408, 24th Floor, Windsor House, 311 Gloucester Road, Causeway Bay, Hong Kong, and upon prior written request at the specified office of the Principal Paying Agent (subject to the Principal Paying Agent having been provided with the same by the Issuer or the Company) during normal business hours, so long as any Bond is outstanding.
- (7) **Financial Statements:** The Company's audited consolidated financial statements as at and for the years ended 31 December 2013 and 2014, which are included elsewhere in this Offering Circular, have been audited by Beijing Eastlake CPA Co., Ltd. in accordance with PRC GAAP. Beijing Eastlake CPA Co., Ltd. has audited the financial statements of the Company and its subsidiaries, which comprise the consolidated balance sheet of the Company as at 31 December 2013 and 2014, the consolidated income statement of the Company for the years ended 31 December 2013 and 2014, the consolidated cash flow statement of the Company for the years ended 31 December 2013 and 2014 and notes to the financial statements.

The Company's unaudited consolidated financial statements as at and for the six months ended 30 June 2015, which are included elsewhere in this Offering Circular, have been reviewed by Beijing Eastlake CPA Co., Ltd. in accordance with PRC GAAP. Beijing Eastlake CPA Co., Ltd. has reviewed the financial statements of the Company and its subsidiaries, which comprise the consolidated balance sheet of the Company as at 30 June 2015, the consolidated income statement of the Company for the six months ended 30 June 2015, the consolidated cash flow statement of the Company for the six months ended 30 June 2015 and notes to the financial statements.

- (8) **Reliance by the Trustee:** The Trustee may rely without liability to the holders of the Bonds on any certificate signed by the authorised signatory of the Issuer and on, among other things, a certificate or report prepared by an internationally recognised firm of accountants pursuant to the Trust Deed, whether or not addressed to the Trustee and whether or not the internationally recognised firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded, and shall be obliged to do so where the Terms and Conditions of the Bonds or the Trust Deed so provides. If the Trustee relies on any such certificate or report, such certificate or report shall be conclusive and binding on the holders of the Bonds, the Issuer and the Company.
- (9) **Listing of Bonds:** Application has been made to the SGX-ST for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Company, their respective subsidiaries, their respective associated companies (if any), the Keepwell Deed, the Deed of Equity Interest Purchase and Investment Undertaking or the Bonds. Subject to the approval of the SGX-ST, the Bonds will be traded on the SGX-ST in a minimum board lot size of not less than US\$200,000 as long as any of the Bonds are listed on the SGX-ST.

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REVIEW REPORT

Eastlake Shen Zi (2015) No. 217

To China Energy Reserve and Chemicals Group Company Limited,

We have reviewed the accompanying financial statements of China Energy Reserve and Chemicals Group Company Limited (hereafter refers to the Company), which comprise the consolidated and parent company balance sheets as at 30 June 2015, and the consolidated and parent company income statements, the consolidated and parent company statements of cash flows for the period from January to June 2015, and the notes to the financial statements. Management of the Company is responsible for the preparation and fair presentation of the financial statements. Our responsibility is to give our review report on the financial statements based on our review.

We conducted our review in accordance with Standard on Review Engagements for Certified Public Accountants Registered in the PRC 2101 – Engagements to Review Financial Statements. The standard requires that we plan and perform the review to obtain limited assurance about whether the financial statements are free from material misstatement. A review is limited largely to making enquiries of relevant personnel of the Company and carrying out analysis procedures on the financial information and therefore provides a lower level of assurance than an audit. We did not perform audit and therefore no audit opinion.

Based on our review, we are not aware that the financial statements of the Company were not prepared in accordance with Accounting Standards for Business Enterprises in all material aspects, and not presented fairly the financial position of the Company as of 30 June 2015 and the results of its operations and its cash flows for the period from January to June 2015.

Beijing Eastlake CPA Co., Ltd

Chinese Certified Public Accountants: /s/

Chinese Certified Public Accountants: /s/

Beijing, the PRC

22 September 2015

CONSOLIDATED BALANCE SHEET

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Assets	Balance at the end of the period	Balance at the beginning of the year	Liabilities and owners' equity	Balance at the end of the period	Balance at the beginning of the year
CURRENT ASSETS:			CURRENT LIABILITIES:		
Monetary funds	3,063,816,931.35	789,225,896.62	Short-term borrowings	1,825,409,758.93	1,546,200,000.00
Held-for-trading financial assets	31,000,000.00	20,000,000.00	Held-for-trading financial liabilities		
Bills receivable	46,192,123.99	32,237,845.61	Bills payable	402,100,000.00	154,000,000.00
Accounts receivable	797,581,735.36	653,086,247.89	Accounts payable	51,440,717.24	131,874,952.45
Prepayment	1,761,607,609.12	1,083,575,070.80	Advance receipt	242,743,592.85	406,537,798.74
Interest receivable			Staff remuneration payables	1,588,336.12	1,674,076.03
Dividend receivable			Taxes payable	20,511,523.73	28,452,245.56
Other receivables	226,533,311.98	133,994,465.97	Interest payable		
Inventory	1,628,967,028.85	1,169,487,003.79	Dividend payable		
Non-current assets due within one year			Other payables	32,419,612.13	96,330,599.18
Other current assets			Non-current liabilities due within one year		
Total current assets	7,555,698,740.65	3,881,606,530.68	Other current liabilities		
NON-CURRENT ASSETS:			Total current liabilities	2,576,213,541.00	2,365,069,671.96
Available-for-sale financial assets			NON-CURRENT LIABILITIES:		
Held-to-maturity investments			Long-term borrowings	1,261,467,967.17	1,189,288,105.13
Long-term receivables			Bonds payable		
Long-term equity investments	654,945,383.97	654,945,383.97	Long-term payables	4,061,072,965.54	4,831,437.43
Investment properties			Special accounts payable	655,600.00	655,600.00
Fixed assets	3,495,631,727.41	2,803,148,794.56	Estimated liabilities		
Less: accumulated depreciation	548,502,797.06	407,469,020.68	Deferred income tax liabilities	37,715,274.87	38,945,255.13
Net value of fixed assets	2,947,128,930.35	2,395,679,773.88	Other non-current liabilities		
Less: impairment provision for fixed assets			Total non-current liabilities	5,360,911,807.58	1,233,720,397.69
Net fixed assets	2,947,128,930.35	2,395,679,773.88	TOTAL LIABILITIES	7,937,125,348.58	3,598,790,069.65
Construction in progress	2,204,397,645.27	1,681,672,549.73	OWNERS' EQUITY:		
Construction materials	181,943,708.61	85,404,848.02	Paid-in capital (or share capital)	1,725,000,000.00	1,725,000,000.00
Disposal of fixed assets			Capital reserves	339,437,580.51	339,437,580.51
Productive biological assets			Less: treasury shares		
Intangible assets	195,269,121.79	155,166,141.97	Special reserves		
Oil and gas assets			Surplus reserves		
Goodwill			Retained profit	2,995,273,767.15	2,485,569,176.43
Long-term prepaid expenses	9,804,216.07	17,776,731.56	Total equity attributable to the owner of parent company	5,059,711,347.66	4,550,006,756.94
Deferred income tax assets			Minority shareholders' equity (set out in the consolidated statements)	752,351,050.47	723,455,133.22
Other non-current assets			Total shareholders' equity	5,812,062,398.13	5,273,461,890.16
Total non-current assets	6,193,489,006.06	4,990,645,429.13	TOTAL LIABILITIES AND OWNERS' EQUITY	13,749,187,746.71	8,872,251,959.81
TOTAL ASSETS	13,749,187,746.71	8,872,251,959.81			

BALANCE SHEET

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Assets	Balance at the end of the period	Balance at the beginning of the year	Liabilities and owners' equity	Balance at the end of the period	Balance at the beginning of the year
CURRENT ASSETS:			CURRENT LIABILITIES:		
Monetary funds	351,802,145.50	194,157,755.18	Short-term borrowings	1,416,610,000.00	1,101,000,000.00
Held-for-trading financial assets			Held-for-trading financial liabilities		
Bills receivable	10,604,278.38		Bills payable	250,000,000.00	
Accounts receivable	172,657,143.99	168,101,516.82	Accounts payable	26,025,000.00	10,577,464.94
Prepayments	436,666,797.46	402,009,045.20	Advance receipt	53,854,943.78	
Interest receivable			Staff remuneration payable	896,660.81	
Dividend receivable			Taxes payable	9,444,034.66	6,077,962.71
Other receivables	97,756,985.66	105,688,640.40	Interest payable		
Inventory	401,785,740.19	386,048,131.14	Dividend payable		
Non-current assets due within one year			Other payables	5,227,094.80	4,938,538.20
Other current assets			Non-current liabilities due within one year		
Total current assets	1,471,273,091.18	1,256,005,088.74	Other current liabilities		
NON-CURRENT ASSETS:			Total current liabilities	1,762,057,734.05	1,122,593,965.85
Available-for-sale financial assets			NON-CURRENT LIABILITIES:		
Held-to-maturity investments			Long-term borrowings		
Long-term receivables			Bonds payable		
Long-term equity investments	2,919,015,000.00	2,311,370,000.00	Long-term payables		
Investment properties			Special accounts payable		
Fixed assets	18,936,306.01	18,815,453.10	Estimated liabilities		
Less: accumulated depreciation	10,323,394.53	8,641,401.51	Deferred income tax liabilities		
Net value of fixed assets	8,612,911.48	10,174,051.59	Other non-current liabilities		
Less: impairment provision for fixed assets			Total non-current liabilities	0.00	0.00
Net fixed assets	8,612,911.48	10,174,051.59	TOTAL LIABILITIES	1,762,057,734.05	1,122,593,965.85
Construction in progress			OWNERS' EQUITY:		
Construction materials			Paid-in capital (or share capital)	1,725,000,000.00	1,725,000,000.00
Disposal of fixed assets			Capital reserves	75,500,000.00	75,500,000.00
Productive biological assets			Less: treasury shares		
Intangible assets	777,500.95	64,018.13	Special reserves		
Oil and gas assets			Surplus reserves		
Goodwill			Retained profit	837,120,769.56	654,519,192.61
Long-term prepaid expenses			Total equity attributable to owners of parent company	2,637,620,769.56	2,455,019,192.61
Deferred income tax assets			Minority shareholders' equity (set out in the consolidated statements)		
Other non-current assets			Total shareholders' equity	2,637,620,769.56	2,455,019,192.61
Total non-current assets	2,928,405,412.43	2,321,608,069.72	TOTAL LIABILITIES AND OWNERS' EQUITY	4,399,678,503.61	3,577,613,158.46
TOTAL ASSETS	4,399,678,503.61	3,577,613,158.46			

CONSOLIDATED INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Items	Row	Amount accumulated in the year	Amount accumulated in the last year
I. Operating revenue	1	11,091,857,012.52	4,201,748,025.07
Less: operating cost	2	10,212,735,869.07	3,858,018,065.22
Business tax and surcharges	3	20,983,434.03	8,984,901.09
Selling expenses	4	22,087,432.00	24,109,801.56
Administrative expenses	5	53,285,297.32	51,039,183.24
Finance expenses	6	74,577,063.77	56,859,872.85
Loss on impairment of assets	7		0.00
Add: net gain from change of fair value	8		0.00
Net income from investment	9	1,289,474.28	495,205.64
II. Operating profit	10	709,477,390.61	203,231,406.75
Add: non-operating income	11	11,990,976.27	778,176.01
Less: non-operating expenses	12	3,011,050.46	
Including: net loss on disposal of non-current assets	13		
III. Total profit	14	718,457,316.42	204,009,582.76
Less: income tax	15	179,856,808.45	51,012,024.69
IV. Net profit	16	538,600,507.97	152,997,558.07
Net profit attributable to the owners of parent company (set out in the consolidated statement)	17	509,704,590.72	12,431,051.59
Minority shareholders' profit or loss (set out in the consolidated statements)	18	28,895,917.25	140,566,506.48
V. Earnings per share	19		
(i) Basic earnings per share	20		
(ii) Diluted earnings per share	21		
VI. Other comprehensive income	22		
VII. Total comprehensive income	23		
(I) Total comprehensive income attributable to the owners of parent company	24		
(II) Total comprehensive income attributable to minority shareholders	25		

INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Items	Row	Amount accumulated in the year	For the year of 2014
I. Operating revenue	1	4,542,199,143.94	1,841,057,970.89
Less: operating cost	2	4,226,331,687.81	1,700,585,247.71
Business tax and surcharges	3	7,341,822.84	3,785,045.37
Selling expenses	4	4,756,673.30	3,770,645.06
Administrative expenses	5	8,516,296.61	6,849,853.36
Finance expenses	6	48,797,725.62	19,230,374.75
Loss on impairment of assets	7		
Add: net gain from change of fair value	8		
Net income from investment	9	13,831.51	
II. Operating profit	10	246,468,769.27	106,836,804.64
Add: non-operating income	11		
Less: non-operating expenses	12	3,000,000.00	
Including: net loss on disposal of non-current assets	13		
III. Total profit	14	243,468,769.27	106,836,804.64
Less: income tax	15	60,867,192.32	26,709,201.16
IV. Net profit	16	182,601,576.95	80,127,603.48
Net profit attributable to the owners of parent company (set out in the consolidated statement)	17		
Minority shareholders' profit or loss (set out in the consolidated statements)	18		
V. Earnings per share	19		
(i) Basic earnings per share	20		
(ii) Diluted earnings per share	21		
VI. Other comprehensive income	22		
VII. Total comprehensive income	23		
(I) Total comprehensive income attributable to the owners of parent company	24		
(II) Total comprehensive income attributable to minority shareholders	25		

CONSOLIDATED CASH FLOW STATEMENT

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Items	Row	Amount accumulated for the year	Amount accumulated for the last year	Supplementary information	Amount accumulated for the year	Amount accumulated for the last year
I. Cash flows from operating activities:	1			1. Reconciliation of net profit as cash flows from operating activities:		
Cash received from sales of goods and rendering services	2	11,955,055,258.99	4,254,270,659.04	Net profit	538,600,507.97	152,997,558.07
Tax rebates received	3			Add: provision for impairment of assets		-
Cash received relating to other operating activities	4	22,337,420.31	50,892,228.56	Depreciation of fixed assets	141,033,776.38	50,998,378.80
Subtotal of cash inflows from operating activities	5	11,977,392,679.30	4,305,162,887.60	Amortisation of intangible assets	-40,102,979.82	1,558,414.27
Cash paid for goods and services	6	12,090,073,115.80	3,918,587,892.24	Amortisation of long-term prepaid expenses	7,972,515.49	3,353,976.66
Cash paid to and for employees	7	20,193,191.12	38,630,148.12	Loss on disposal of fixed assets, intangible assets and other long-term assets (less: revenue)		
Taxes and surcharges paid	8	97,944,730.83	71,867,517.58	Loss on retired fixed assets		
Cash paid relating to other operating activities	9	102,920,244.51	141,275,426.87	Loss on change of fair value (less: revenue)		
Subtotal of cash outflows from operating activities	10	12,311,131,282.26	4,170,360,984.81	Finance expenses	74,577,063.77	
Net cash flows from operating activities	11	-333,738,602.96	134,801,902.79	Investment loss (less: revenue)	-1,289,474.28	
II. Cash flows from investing activities:	12			Decrease in deferred income tax assets (less: increase)		
Cash received from investments	13			Increase in deferred tax liability (less: decrease)		
Cash received from investment income	14	13,831.51	495,205.64	Decrease in inventory (less: increase)	-459,480,025.06	-51,384,989.59
Net cash received for disposal of fixed assets, intangible assets and other long-term assets	15			Decrease in operating receivables (less: increase)	-929,021,150.18	-172,826,545.51
Net cash received from disposal of subsidiaries and other business units	16			Increase in operating payables (less: decrease)	333,971,162.77	150,105,110.09
Cash received relating to other investing activities	17			Others		
Subtotal of cash inflows from investing activities	18	13,831.51	495,205.64	Net cash flows from operating activities	-333,738,602.96	134,801,902.79
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	19	1,311,746,888.98	283,412,745.67	2. Investing and financing activities not involving cash settlements:		
Cash paid on investments	20			Capital converted from debts		
Net cash paid for acquisition of subsidiaries and other business units	21			Convertible bonds of the Company due within one year		
Cash paid relating to other investing activities	22			Finance leases of fixed assets		
Subtotal of cash outflows from investing activities	23	1,311,746,888.98	283,412,745.67			
Net cash flows from investing activities	24	-1,311,733,057.47	-282,917,540.03			
III. Cash flows from financing activities:	25					
Cash received from capital contribution	26	0.00				
Cash received from borrowings	27	5,153,369,758.93	270,000,000.00			
Cash received relating to other financing activities	28					
Subtotal of cash inflows from financing activities	29	5,153,369,758.93	270,000,000.00			
Cash repayments of amounts borrowed	30	1,158,730,000.00	185,000,000.00			
Cash paid for dividend and profit distribution or interest payment	31	74,577,063.77	56,859,872.80			
Cash paid relating to other financing activities	32					
Subtotal of cash outflows from financing activities	33	1,233,307,063.77	241,859,872.85	3. Net increase in cash and cash equivalents:		
Net cash flows from financing activities	34	3,920,062,695.16	28,140,127.15	Cash balance at the end of the period	3,063,816,931.35	987,609,194.42
IV. Effect of foreign exchange rate changes on cash	35			Less: cash balance at the beginning of the period	789,225,896.62	1,107,584,704.51
V. Net increase in cash and cash equivalents	36	2,274,591,034.73	-119,975,510.09	Add: balance of cash equivalents at the end of the period		
Add: balance of cash and cash equivalents as at the beginning of the period	37	789,225,896.62	1,107,584,704.51	Less: balance of cash equivalents at the beginning of the period		
VI. Balance of cash and cash equivalents as at the end of the period	38	3,063,816,931.35	987,609,194.42	Net increase in cash and cash equivalents	2,274,591,034.73	119,975,510.09

CASH FLOWS STATEMENT

Company: China Energy Reserve and Chemicals Group

30 June 2015

Unit: RMB

Items	Row	Accumulated amount for the year	Amount accumulated for the last year	Supplementary information	Amount accumulated for the year	Amount accumulated for the last year
I. Cash flows from operating activities:	1			1. Reconciliation of net profit as cash flows from operating activities:		
Cash received from sales of goods and rendering services	2	5,299,213,092.86	2,129,008,304.79	Net profit	182,601,576.95	80,127,603.48
Tax rebates received	3	0.00		Add: provision for impairment of assets		
Cash received relating to other operating activities	4	11,643,152.43	6,762,241.49	Depreciation of fixed assets	1,681,993.02	1,006,481.42
Subtotal of cash inflows from operating activities	5	5,310,856,245.29	2,135,770,546.28	Amortisation of intangible assets	15,571.12	2,520.00
Cash paid for goods and services	6	4,752,883,347.62	2,286,276,901.58	Amortisation of long-term prepaid expenses		
Cash paid to and for employees	7	9,575,042.84	6,066,969.71	Loss on disposal of fixed assets, intangible assets and other long-term assets (less: revenue)		
Taxes and surcharges paid	8	22,798,788.62	44,633,674.28	Loss on retired fixed assets		
Cash paid relating to other operating activities	9	26,285,874.93	203,272,265.81	Loss on change of fair value (less: revenue)		
Subtotal of net cash flows from operating activities	10	4,811,543,054.01	2,540,249,811.38	Finance expenses	48,797,725.62	
Net cash flows from operating activities	11	499,313,191.28	-404,479,265.10	Investment loss (less: revenue)	-13,831.51	
II. Cash flows from investing activities:	12			Decrease in deferred income tax assets (less: increase)		
Cash received from investments	13			Increase in deferred tax liability (less: decrease)		
Cash received from investment income	14	13,831.51		Decrease in inventories (less: increase)	-15,737,609.05	-25,763,005.09
Net cash on disposal of fixed assets, intangible assets and other long-term assets	15			Decrease in operating receivable (less : increase)	-41,886,003.07	-360,259,920.47
Net cash on disposal of subsidiaries and other business entities	16			Increase in operating payable (less : decrease)	323,853,768.20	-99,592,944.44
Cash received relating to other investing activities	17			Others		
Subtotal of cash inflows from investing activities	18	13,831.51		Net cash flows from operating activities	499,313,191.28	-404,479,265.10
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	19	849,906.85		2. Investing and financing activities not involving cash settlements:		
Cash paid on investments	20	607,645,000.00		Capital converted from debts		
Net cash paid for acquisition of subsidiaries and other business entities	21			Convertible bonds of the Company due within one year		
Cash paid relating to other investing activities	22			Finance leases of fixed assets		
Subtotal of cash outflows from investing activities	23	608,494,906.85		3. Net increase in cash and cash equivalents:		
Net cash flows from investing activities	24	-608,481,075.34		Cash balance at the end of the period	351,802,145.50	209,053,371.64
III. Cash flows from financing activities:	25			Less: cash balance at the beginning of the period	194,157,755.18	362,763,011.49
Cash received from capital contribution	26			Add: balance of cash equivalents at the end of the period		
Cash received from borrowings	27	1,029,140,000.00	380,000,000.00	Less: balance of cash equivalents at the beginning of the period		
Cash received relating to other financing activities	28			Net increase in cash and cash equivalents	157,644,390.32	-153,709,639.85
Subtotal of cash inflows from financing activities	29	1,029,140,000.00	380,000,000.00			
Cash repayments of amounts borrowed	30	713,530,000.00	110,000,000.00			
Cash paid for dividend and profit distribution or interest payment	31	48,797,725.62	19,230,374.75			
Cash paid relating to other financing activities	32					
Subtotal of cash outflows from financing activities	33	762,327,725.62	129,230,374.75			
Net cash flows from financing activities	34	266,812,274.38	250,769,625.25			
IV. Effect of foreign exchange rate changes on cash	35					
V. Net increase in cash and cash equivalents	36	157,644,390.32	-153,709,639.85			
Add: balance of cash and cash equivalents as at the beginning of the period	37	194,157,755.18	362,763,011.49			
VI. Cash and cash equivalents as at the end of the period	38	351,802,145.50	209,053,371.64			

**Notes to the Financial Statements of
China Energy Reserve and Chemicals Group
As at 30 June 2015**

I. BASIC INFORMATION OF THE COMPANY

China Energy Reserve and Chemicals Group (hereafter referred to as the “Company”) (formerly known as China Huaxing Mechanical and Electrical Equipment Company (中國華星機電設備公司)) was founded on 21 November 1981. The Company obtained the enterprise legal person business licence of No. 100000000042401 issued by the State Administration for Industry & Commerce of the People’s Republic of China. Its registered capital was RMB1,725 million, among which, China National Friend Industry Corporation contributed RMB517.5 million, representing 30% of the registered capital; Guoneng Natural Gas Import and Export (Beijing) Company Limited contributed RMB483 million, representing 28% of the registered capital; China Overseas Financial Holding Group Limited contributed RMB465.75 million, representing 27% of the registered capital; China Hualian International Trade Company contributed RMB258.75 million, representing 15% of the registered capital. The Company located at Unit 1203, 2/F Building 1, No.2 Yinhe South Street, Shijingshan District, Beijing, with registered capital of RMB1,725 million, and legal representative of which is Chen Yihe.

Business scope: licensed operation items: kerosene, natural gas [containing methane; liquefaction] (except for urban gas), natural gas [containing methane; compression] (except for urban gas), petroleum gas [liquefaction] (except for urban gas), petroleum gas (except for urban gas), naphtha, coal tar, non-drying alkyd resin, petroleum crude oil, petroleum ether, pine tar.

General operation items: battery manufacturing; energy investments; investment management; investment consultancy; development of energy and energy-saving technologies, technical consulting, technology transfer; technical service; electrical and mechanical equipment; sales of lubricating oil, fuel oil, chemical products (excluding dangerous chemicals); import and export business. Sales of other petroleum products (excluding refined oil); sales of metal ores, metal materials, non-metallic minerals and products; oil and gas exploration service; pipeline transportation; technical detection; machinery and equipment leasing; computer systems and integration, software development, data processing, equipment maintenance; project management; asset management; property management; house leasing; conference and exhibition service; warehouse management.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared on a going concern and actual transaction and event basis in accordance with the Accounting Standards for Business Enterprises-Basic Standard and 38 specific accounting standards issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as the “Accounting Standards for Business Enterprises”).

III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

These Financial Statements comply with the requirement of the Accounting Standards for Business Enterprises and give a true and fair view of the information related to the financial position of the Company as at 30 June 2015 and results of operations and cash flows in the first half of 2015.

IV. EXPLANATION OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting year

The accounting periods of the Company are classified as year and interim. Interim accounting period refers to a reporting period less than a full accounting year. The accounting period of the Company belongs to interim, beginning from 1 January and ended 30 June.

2. Reporting currency

Renminbi (“RMB”) is the currency in the primary economic environment in which the Company and its domestic subsidiaries operate and has been adopted by the Company and its domestic subsidiaries as its reporting currency in the preparation of these Financial Statements.

3. Basis of preparation and principle of measurement (nature of measurement)

According to relevant requirements under the Accounting Standards for Business Enterprises, the Company has adopted the accrual basis as its basis of accounting. Except for certain financial instruments, historical costs have been adopted as the basis of measurement in these Financial Statements. In the event that depreciation of assets occurred, a provision for impairment is made accordingly in accordance with the relevant regulations.

4. Calculation and translation of foreign currency transactions

(1) Translation of foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the foreign currency is translated into the reporting currency at the spot exchange rate on the transaction date, generally the middle rate quoted by the People's Bank of China on the same date, the same below. Transaction in foreign currency exchange or transaction involving foreign currency exchange shall be translated into the reporting currency at the actual exchange rate.

(2) Translation of foreign monetary items and foreign non-monetary items

On the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate on the balance sheet date and the arising difference shall be recorded in the current profit or loss, except: (1) exchange difference arising from foreign currency borrowings for the purchase and construction of assets qualified for capitalization shall be dealt with according to the principle of capitalization of loans; and (2) exchange difference arising from the change of balance in other carrying amount other than amortized cost of an available-for-sale foreign monetary item shall be recognized in other comprehensive income.

Foreign currency non-monetary items measured at the historical cost shall still be translated into the reporting currency at the spot exchange rate on the transaction date. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate on the date of fair value evaluation, and the translation difference between the reporting currency and the original currency, shall be accounted for as the change in fair value (including changes of exchange rate) and recorded in the current profit or loss or recognized as other comprehensive income and recorded in the capital reserve.

(3) Translation of financial statements denominated in foreign currency

Where the consolidated financial statements include foreign operation(s), if there are foreign currency monetary items substantially constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "translation differences arising on translation of financial statements denominated in foreign currency" in shareholder's equity, and in current profit or loss upon disposal of the foreign operation.

Financial statements of foreign operations denominated in foreign currency are translated into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; except for retained profits, all shareholders' equity items are translated at the spot exchange rates at the dates on which such items arose; revenue and expense in the income statement are translated at the spot exchange rate on the transaction date. The retained profits at the beginning of the year is the previous year's translated retained profits at the end of the year; the retained profits at the end of the year is calculated and presented on the basis of each translated profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items, is recognized as other comprehensive income and separately present under the shareholders' equity in the balance sheet as the exchange difference arising on translation of financial statements denominated in foreign currency. On disposal of and loss of control over the foreign operation, the exchange difference arising from translation of financial statements denominated in foreign currency presented under shareholders' equity items on the balance sheet in respect of such foreign operation is recorded in the current profit or loss in whole or in proportion of such foreign operation.

Cash flows arising from a transaction in foreign currency are translated at the spot exchange rate on the day on which the cash flows incur. The effect of exchange rate changes on cash is regarded as a reconciling item and presented separately in the cash flows statement.

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

5. Criteria for determination of cash and cash equivalents

Cash and cash equivalents of the Company comprise cash on hand, deposits readily available for payment and short-term highly liquid investments that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and have a short maturity of generally within three months since acquired.

6. Accounts receivable

Accounts receivable includes accounts receivable and other receivable, etc.

(1) Recognition criteria of bad debt provision

The Company carries out an inspection on the carrying amount of receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganizations; other objective evidences indicating that the accounts receivable are impaired.

(2) Measurement of bad debt provision

① Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable

Accounts receivable of more than RMB1 million is recognized as individually significant accounts receivable by the Company.

For accounts receivable that is individually significant, the Company assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk features and assessed for impairment. Accounts receivable for which an impairment loss is individually assessed and recognized are not included in a group of accounts receivable with similar credit risk features and assessed for impairment.

② Basis for recognition and measurement of bad debt provision for single item with insignificant accounts receivable but greater risks after arrival at by credit risk features

A. Basis for determining portfolio of credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Company classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

B. Measurement determined basing on credit risk feature portfolio

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted term), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

③ Aging analysis

Aging	Ratio of provision (%)	
	Accounts receivable	Other accounts receivable
Within 1 year (including 1 year, the same below)	0	0
1-2 years	5	5
2-3 years	10	10
3-4 years	20	20
4-5 years	50	50
Over 5 years	80	80

(3) Reversal of bad debt provision

If there are evidences indicating that the value of the account receivable is recovered and that recovery is objectively connected to the event subsequent to the recognition of the loss, the impairment loss previously recognized will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment provision has been made.

7. Inventory

(1) Classification of inventories

Inventories mainly include raw materials, work in progress and self-made semi-finished products, revolving supplementary materials, finished products, stored commodities etc.

(2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the first-in, first-out method.

Inventories are initially measured at cost. Inventories mainly include materials in stock, work in progress (development cost), finished products and developed products intended to sell but temporarily leased. Costs of products under development include payments for land acquisition, costs for infrastructure, construction and installation costs, borrowing costs capitalized before project is ready for intended use, and other relevant costs during development. When dispatched, actual cost will be calculated based on the first-in, first-out method.

(3) Recognition of net realizable value of inventory and provision for inventory impairment

Realizable net value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and relative tax in daily operation. The realizable net value of inventories shall be determined on the basis of obtained exact evidence and shall make consideration to the purpose of holding the inventories and effect of after-balance-sheet-date events.

At the balance sheet date, inventories are calculated at the lower of cost and net realizable value. Provision for inventory impairment is made when the realizable net value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single inventory exceeds its realizable net value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and resulted in the realizable net value of an inventory higher than its book value, an amount no more than the original provision for inventory impairment shall be transferred back and incorporated into the current profit or loss.

(4) The inventory taking system shall use permanent inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables are amortized by lump-sum when taken for use. Also, packaging materials are amortized by lump-sum when taken for use.

8. Long-term equity investments

(1) Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the sum of combination cost and respective direct related expenses of acquirer arising from business combination.

Equity investment other than long-term equity investment acquired through business combination shall be initially measured at its cost.

(2) Method for subsequent measurement and profit or loss recognition

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets.

In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

① Long-term equity investments accounted for using the cost method

Under the cost method, long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognized as the cash dividends or profits declared by the investee.

② Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to the current profit or loss, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss for the current period represents the Company's share of the net profits or losses made by the investee for the current year. The Company shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company.

The unrealized gain or loss from internal transactions entered into between the Company and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Company and investment profit or loss is recognized based on such basis. However, the unrealized loss from internal transactions entered into between the Company and the investee will not be set off if belongs to impairment loss on assets transferred according to regulations such as “Accounting Standards for Business Enterprises No. 8 “Assets impairment”. In respect of the other comprehensive income of investees, the carrying amount of long-term equity investments is accordingly adjusted and recognized as other comprehensive income and included in the capital reserves.

The Company’s share of net losses of the investee shall be recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor’s net investment in the investee are reduced to zero. In addition, if the Company has obligation to assume additional loss, the projected liability will be recognized basing on the estimated obligation assumed and charged to the investment loss for the period. Where the investee is making net profits in subsequent periods, the Company shall resume recognizing its share of profits after setting off against the share of unrecognized losses.

If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the new accounting standards by the Company on 1 January 2006, the amounts amortized over the original residual term using the straight-line method is included in the current profit or loss.

③ *Acquisition of minority interests*

During the preparation of the consolidated financial statements, the capital reserve shall be adjusted basing on the difference between the new long-term equity investment acquired as a result of the acquisition of minority interests and the net assets share which are measured basing on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares and an adjustment shall be made to retained earnings if the capital reserve insufficient to set off impairment.

④ *Disposal of long-term equity investments*

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and the net assets in the subsidiary responding to the disposal of long-term equity investments is charged to the owners’ equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be treated in accordance with the relevant accounting policies as described in Note VII. 1 “Preparation Method of the Consolidated Financial Statements”.

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is included in the current profit or loss. Where the equity method is adopted, other comprehensive income previously included in shareholders’ equity shall be transferred to the current profit or loss on a pro-rata basis. The remaining equity shall be recognized as the long-term equity investments or other relevant financial assets basing on the carrying amount and subsequently measured in accordance with the accounting policies of the foresaid long-term equity investments or financial assets. The retrospective adjustment shall be made in accordance with the relevant provisions if the remaining equity is accounted for using the equity method instead of the cost method.

(3) *Recognition of having joint control or significant influence over the investee*

The term “control” means that the Group has the power to decide an enterprise’s financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investor and other investee held) were taken into account.

(4) *Impairment test method and impairment provision*

The Company assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, a provision for impairment loss of the asset is recognized accordingly and charged to the current profit or loss.

An impairment loss recognized on long-term equity investments shall not be reversed in a subsequent period.

9. **Investment Property**

Investment property refers to real estate held to earn rentals or for capital appreciation, or both. Investment property of the Company include the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out.

(1) Recognition of investment properties

No investment property shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to this investment property are likely to flow into the enterprise;
- ② The cost of the investment property can be reliably measured.

(2) Initial measurement of the investment property

- ① The cost of a purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
- ② The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost of an investment property obtained by other means shall be recognized in accordance with relevant accounting standards.
- ④ Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits or losses upon occurrence.

(3) Subsequent measurement of the investment property

The cost method is adopted by the Company for subsequent measurement of investment property on the date of the balance sheet. According to relevant regulations of Accounting Standards for Business Enterprises No. 4 – Fixed Assets and Accounting Standard for Business Enterprises No. 6 – Intangible Assets, the Company shall make amortization basing on straight-line method over the expected useful life or make provision for investment property.

(4) Conversion of the investment property

Where the Company has well-established evidence indicating that the purpose of the property has changed, it shall convert the investment property to other assets or vice versa. The book value of the property prior to the conversion shall be entry value after conversion.

(5) Impairment provision of the investment property

Basis and method of calculation of impairment provision for investment property under cost model on subsequent measurement refer to Note IV. 14.

10. Fixed Assets

(1) Recognition of fixed assets

Fixed assets of the Company are tangible assets that are held for using in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year. No fixed asset shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;
- ② The cost of the fixed asset can be measured reliably.

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

- ① The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, installation fees and professional service fees and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the asset.

Where the payment for a fixed asset is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of fixed assets shall be recognized on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price shall be included in the current profits or losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs.

- ② The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
- ④ Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized basing on the amount incurred and charged to the current profit or loss. Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.
- ⑤ The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, business combinations, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards for Business Enterprises No. 7 – Exchange of Non-monetary Assets, Accounting Standards for Business Enterprises No. 12 – Debt Restructuring, Accounting Standards for Business Enterprises No. 20 – Business Combinations and Accounting Standards for Business Enterprises No. 21 – Leases.

(3) Categories of fixed assets

The fixed assets of the Company include buildings and supporting facilities, machine equipment, structures and other auxiliaries, transportation equipment, electronic equipment, pipe network and other equipment and furniture.

(4) Depreciation of fixed assets

- ① Recognition of the depreciation methods and estimated useful life, estimated net residual value and annual depreciation rate: Fixed assets shall be depreciated by equal annual installments. Annual depreciation rate determined based on the categories of fixed assets, estimated useful life, estimated net residual value are as follows:

Categories	Useful life	Residual value rate	Annual depreciation rate
	(year)	(%)	(%)
Buildings and structures	30	5	3.17
Special facilities	20	5	4.75
Special equipment	12	5	7.92
Transportation equipment	5-10	5	19.00-9.50
Office equipment	5	5	19.00

Depreciation method for fixed assets with provision for impairment: A fixed asset with provision for impairment is depreciated basing on its costs less estimated net residual value, the amount and remaining useful life after the provision of depreciation and impairment.

A fixed asset that has reached its intended use but before the final account for completed project is stated at cost and depreciated basing on estimated value, which will be adjusted basing on actual cost upon the final account for completed project without adjustment to the depreciation already made.

- ② Review of useful life, estimated net residual value and depreciation method for fixed assets: The Company reviews the useful life, estimated net residual value and depreciation of a fixed asset at least at each financial year-end. The useful life of fixed assets is subject to adjustment based on the change, if any, as compared to the original estimate. The estimated net residual value is subject to adjustment basing on the change, if any, as compared to the original estimate. The depreciation method applied is subject to change where there arises a significant change in the expected realization mode of economic benefit relating to the fixed assets. Any change in the useful life, estimated net residual value and depreciation method of a fixed asset shall be accounted for as a change in accounting estimate.

(5) Treatment of subsequent expenses related to fixed assets

Subsequent expenses related to fixed assets mainly include repair expense, renovation expense, repair costs, decoration expenses and so on that incur in the course of use of fixed assets. In accounting, subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are charged to the current profits or losses. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under “fixed assets”, and are depreciated separately by equal annual installments basis over the lower of the period between two decorations periods and the remaining useful life of fixed assets.

Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.

11. Construction in progress

- (1) Construction in progress of the Company includes infrastructure construction expenditures, installation expenditures and other construction expenditures, etc. Construction in progress is measured at its actual costs.
- (2) Timing for transferring construction in progress into fixed assets:

Construction in progress is transferred into fixed assets when it is ready for its intended use basing on the actual costs. For any completed fixed assets ready for intended use but with final account unsettled, they will be accounted for an estimated value. An adjustment shall be made upon actual value is determined.

12. Intangible assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset is measured initially at cost. The expenditures associated with intangible assets shall be included in the cost of intangible assets when it is probable that the relevant economic benefits will flow to the Company and its cost can be measured reliably. The expenditures on other projects shall be included in the current profits or losses as incurred.

The land use rights acquired are generally accounted for as intangible assets. For self-constructed plants and buildings, the relevant expenditures on land use rights and the cost of constructions shall be accounted for intangible assets and fixed assets respectively. For acquired buildings and structures, the relevant cost shall be allocated between the land use right and structures, and if it is impossible to be reasonably allocated, all the relevant cost shall be recognized as fixed assets.

When an intangible asset with finite useful life is available for use, its original cost less expected net residual value and any accrued accumulative amount of impairment provision is evenly amortized over its estimated useful life using straight-line method. An intangible asset with indefinite useful life shall not be amortized.

For an intangible asset with finite use life, the Company reviews the useful life and amortization method at the end of the period. Any changes of uselife and amortization method shall be taken as changes in accounting estimation. After reviewing useful life of intangible assets with indefinite useful life, if there is evidence indicating that economic benefit inflow term of an intangible asset is predictable, the Company shall estimate its useful life and make an amortization according to the amortization policy for intangible asset with finite use life.

(2) Research and development expenses

Expenses of an internal research and development project of the Company are classified into research expenses and development expenses.

Research expenses shall be included in the current profits or losses as incurred.

Development expenses that satisfy the following conditions simultaneously are recognized as intangible assets, while those that do not satisfy the following conditions are included in current profits or losses:

- ① It is technically feasible that the intangible asset can be used or sold upon completion;
- ② It is intend to complete, use or sell the intangible assets;

- ③ The way in which the intangible assets bring economic benefits shows that there is consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation;
- ④ There are sufficient technical, financial resources and other resources to complete the development of the intangible assets and the ability to make them available for use or sale;
- ⑤ The expenses attributable to such intangible assets can be measured reliably at the development stage.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all the research and development expenses incurred are accounted for in the current profits or losses.

13. Long-term prepaid expenses

Long-term prepaid expenses are various expenditures which have incurred but that shall be amortized over more than one year in the reporting period and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period.

14. Impairment of assets

(1) Impairment of assets referred herein mainly involve long-term equity investment (excluding the long-term equity investment which does not exercise joint control nor have significant influences on the investee, and has no quotation in the active market and whose fair value cannot be reliably measured), investment properties (excluding investment properties measured at fair value), fixed assets, construction in progress, construction materials, intangible assets (including capitalized development expenses), goodwill, a group of assets and portfolio of assets, etc.

(2) Recognition of assets that may be impaired

As at the balance sheet date, the Company assesses whether there is any signs to indicate that the assets may be impaired. Goodwill arising in a business combination and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there are any signs to indicate that the asset may be impaired. The indicators for impairment are as follows:

- ① the current market price of an asset declines substantially and the decline is obviously more than that as expected caused by passage of time or normal application;
- ② there are significant changes in the economic, technical or legal environment in which the Company operates and in the market where the asset is located in the current period or near future resulting in adverse impacts on the Company;
- ③ the market interest rate or rate of return of other investment has stood high in the period, affecting the discount rate used by the Company for the calculation of the present value of estimated cash flow which results in a substantial decline in the recoverable amount of the assets;
- ④ there is evidence to demonstrate that the asset has obsoleted or been physically damaged;
- ⑤ the asset has already been or will be left idle, ceased to be used, or planned to be early disposed;
- ⑥ there is evidence from the internal reports of the Company that the economic return of asset has been or will be lower than that as expected, such as the net cash flows generated or operating profit (or loss) realized from assets are much lower (or higher) than that as expected;
- ⑦ other signs indicating that the value of an asset may have already been impaired.

(3) Measurement of recoverable amount of assets

Where there is any indication that an asset is impaired, its recoverable amount should be estimated. The recoverable amount of an asset is determined by the higher of its fair value less costs of disposal and its present value of expected future cash flows.

(4) Recognition of asset impairment losses

Measurement result of the recoverable amount shows that if the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset will be reduced to its recoverable amount. The reduced amount is recognized in the current profit or loss as impairment loss. A provision for an impairment loss of the asset is recognized accordingly. After the impairment loss for an asset is recognized, the corresponding adjustment will be made to the depreciation or amortization

expenses on the impaired asset in subsequent periods, so as to amortize systematically the adjusted carrying amount (net of estimated net residual value) of the asset over its remaining useful lives. Once an impairment loss is recognized for an asset, it shall not be reversed in subsequent accounting periods.

(5) Recognition of asset groups and treatments of impairment

Where there is any evidence indicating a possible impairment of assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the asset groups on the basis of the asset group to which the asset belongs. The asset groups should be recognized in accordance with the main cash inflow generated by the asset groups which is whether independent of those by other assets or asset groups. Simultaneously, when recognizing an asset group, the Company shall take into consideration how its management manages the production and operation activities, and the ways of decision-making for the continuous use or disposal of the assets, etc.

Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter's assets and goodwill are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and goodwill that have been apportioned to), it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the carrying value of the goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

The charges against the carrying value of the assets above shall be treated as the impairment loss of the each single asset and recorded in current profit or loss. The carrying value of the each asset after charges shall not lower than the highest of the below: the net amount after the fair value of the asset less the disposal expense, the present value of the expected future cash flow of the asset and nil. The amount of the impairment loss unshared thereof shall be reallocated in proportion to the weight of other assets' carrying value in relevant asset group or combination of asset groups.

(6) Impairment of goodwill

For goodwill formed by combination, the Company shall carry out an impairment test at least at the end of each year. The goodwill shall, together with the related asset group or sets of asset group, be subject to the impairment test. For the purpose of impairment test of assets, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill, and treat them according to provisions of assets group impairment hereof.

15. Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised; and capitalization shall be discontinued when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognized as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be determined according to the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences related to a specific purpose borrowing denominated in foreign currency shall be fully capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in the current profit or loss.

Capitalisation qualifying assets are fixed assets, investment properties, inventories that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a capitalization qualifying asset is interrupted abnormally, and the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

16. Employee Benefits

Employee benefits of the Company mainly include salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds, non-monetary welfare, lay off welfare, early retirement and other expenditures incurred in exchange for service rendered by employees.

In the accounting period in which an employee has rendered services, the Company shall recognise the employee benefits payable as a liability.

The Company shall participate in social security systems operated by the government as required, including the basic pension insurance system, medical insurance, housing funds and other social security systems, relevant expenditures shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Company terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Company has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Company cannot unilaterally withdraw from the termination plan or the redundancy offer, an accrued compensation liability arising from the termination of employment relationship with employees should be recognized and charged to the current profit or loss.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Company during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in the current profit or loss when the recognition criteria for provisions are met (termination benefits).

17. Share-based Payments

(1) *The equity-settled share-based payments*

- ① The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
- ② As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
- ③ The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
- ④ On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

(2) *The cash-settled share-based payments*

- ① The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
- ② As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
- ③ As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
- ④ Subsequent measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.

- B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits or losses.

18. Accrued Liabilities

Obligations pertinent to the contingencies which satisfy the following conditions simultaneously are recognized as accrued liabilities: (1) the obligation is a current obligation borne by the Company; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; (3) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognized as asset separately, and compensation amount recognized shall not be more than the carrying amount of accrued liabilities.

19. Revenue

(1) Revenue from sales of goods

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs incurred or to be incurred.

(2) Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the measurement of completed work.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (1) the relevant amount of revenue can be reliably measured; (2) it is probable that the economic benefits will flow into the enterprise; (3) the completion schedule of the transaction can be reliably ascertained; (4) transaction costs incurred and to be incurred can be reliably measured.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognized as an expense for the current period. If the cost of rendering services is expected not to be compensated, no revenue shall be recognized.

When a contract or agreement signed by the Company with other enterprises includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognized respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured although can be differentiated, they will be recognized as sales of goods in full.

(3) Royalty revenue

Revenue is recognized on an accrual basis under the relevant contracts or agreements.

(4) Interest income

Interest income is measured based on the length of time for which the Company's cash is used by others and the effective interest rate.

20. Government grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in a nature of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in a nature of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in the current profit or loss.

A government grant related to an asset shall be recognized as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognized immediately in the current profit or loss.

For the repayment of a government grant already recognized, if there is any related deferred income balance, the repayment shall be set off against the carrying amount of the deferred income balance, and any excess shall be recognized in the current profit or loss; if there is no related deferred income balance, the repayment shall be recognized directly in the current profit or loss.

21. Construction Contract

- (1) If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized by the Company in light of the percentage-of-completion method on the date of the balance sheet. The term “percentage-of-completion method” means a method by which the contractor recognizes its revenues and costs in the light of the schedule of the contracted project. The Company ascertained the completion schedule of a contract project according to the proportion of the actual accrued contract costs incurred against the expected total contract costs.

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: ① the total contract revenue can be measured in a reliable way; ② the economic benefits pertinent to the contract are likely flow into the Company immediately; ③ the actual contract costs incurred can be clearly distinguished and measured reliably; ④ both the schedule of the contracted project and the contract costs needed to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: ① the economic benefits pertinent to the contract are likely flow into the Company; ② the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

- (2) If the outcome of a construction contract cannot be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: ① if the contract costs can be recovered, the contract revenue shall be recognized in accordance with actual contract costs that can be recovered and the contract costs shall be recognized as contract expenses in the current period when they are incurred; ② if the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

22. Exchange of Non-monetary Assets

- (1) For exchange of non-monetary assets, the fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the current profit or loss.
 - ① Non-monetary assets shall be recognized and measured, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature;
 - B. The fair value of the assets received or surrendered can be measured reliably.
 - ② Selection of fair value: if the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.
 - ③ Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the current profit or loss; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the current profit or loss.
- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant taxes payable of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

Where a boot is caused when the Company treat the carrying value of the surrendered assets and the relevant payable taxes as the cost of the received assets, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall treat the result of the carrying value of the assets surrendered plus the paid boot and relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized. The Company, which receives the boot, shall treat the result of the carrying value of the assets surrendered minus the received boot and plus relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized.

23. Debt Restructuring

(1) Definition and scope of debt restructuring

The term “debt restructuring” refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

(2) Accounting treatment of debtors

- ① When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profit or loss. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profit or loss. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profit or loss. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as share capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the share capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profit or loss.
- ② Where other terms of a debt are modified, the debtor shall regard the post modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profit or loss. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other conditions of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of a debt concern any contingent payment and if the contingent payment meets the conditions for the recognition of expected liabilities as prescribed in contingencies, the debtor shall recognize the contingent sum payable as expected liability, and shall include the difference between the book value of the debt to be restructured and the aggregate amount of the entry value of the restructured debt and the expected amount of liability in the current profit or loss.

(3) Accounting treatments of the creditor

- ① When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received into the current profit or loss. If the creditor has made provision for the impairment of the credit, he or she shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profit or loss. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.
- ② When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the difference between the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of the debt concern any contingent sum receivable, the creditor shall not recognize the contingent sum receivable, nor he include it in the book value of the restructured debt.

24. Accounting Treatment of Income Tax

(1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

(2) Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognized for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company will not recognise the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, if the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Except above exceptional circumstances, the Company recognizes all other taxable deferred tax liabilities arising from the temporary difference.

Deferred income tax assets are not recognized for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

(3) Income tax expense

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense or income and deferred income tax expense or income are included in the current profit or loss, except for those recognized as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognized in other comprehensive income or owners' equity, which are recognized directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

(4) Offset of income tax

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Company, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Company was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Company records the net amount after offsetting its current income tax assets and current income tax liabilities.

(5) Settlement of income tax

The Company will settle its income tax by prepayment on quarterly basis as approved by the competent Taxation Authority. During the final settlement, the shortage part of the income tax will be paid in the next year, while the overpaid part will be treated as partial settlement in the next year.

25. Accounting treatment of business combination

A business combination refers to the transaction or event to combine two or more separate entities into a single reporting entity. Business combination is classified into business combination under common control and business combination not under common control.

(1) Business combination under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Assets and liabilities obtained by the absorbing party are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the capital reserve (share capital premium). If the capital reserve (share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquiree plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included in their initial recognized costs. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognized as contingent consideration. Subsequent adjustments will impact on the goodwill. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost. When the business combination is achieved in stages through a number of exchange transactions, the Company re-measures its previously held equity interest in the acquiree on the acquisition date, and the difference between the fair value and the net book value is recognized as investment income for the period in the consolidated financial statements of the Company, in the meanwhile, the other comprehensive income related to the equity interest of acquiree held before the acquisition date is transferred to investment income for the period. The cost of combination is the sum of the fair value of the equity interest of the acquiree as at the acquisition date which held before the acquisition date and the fair value of the equity interest of the acquiree as at the acquisition date which additional acquired on the acquisition date.

The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If the cost of combination after such reassessment is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

The acquiree's deductible temporary difference acquired by the acquirer, which is still not yet recognized as it does not satisfy the recognition conditions of the deferred income tax assets on the acquisition date. If new or addition information proves that the relevant circumstances have already existed on the acquisition date within twelve months after the acquisition

date, which estimates that the economic benefits incurred from the deductible temporary difference at the acquisition date of acquirer can be realised, then the relevant deferred income tax assets will be recognized, and the goodwill will be reduced at the same time, if the goodwill is not sufficient to be absorbed, any excess shall be recognized as the profit or loss for the period. Except as disclosed above, the deferred income tax assets related to the business combination are included in the current profit or loss.

V. ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATE AND CORRECTION TO PREVIOUS MATERIAL ERRORS AND STATEMENT OF OTHER EVENTS' ADJUSTMENT

There is no disclosable accounting policies, change in accounting estimate and correction to previous material errors of the Company during 2014.

VI. TAXATION

1. Main Tax Types and Tax Rates

<u>Tax type</u>	<u>Detailed tax rate</u>
Value added tax	The Group's taxable revenue is subject to output tax at tax rates of [6]%, [13]% and 17%, and the VAT payable is provided by the difference after net of deductible input VAT of the period.
Business tax	Calculated and levied by [3]% of the taxable turnover.
Urban maintenance and construction tax . . .	Calculated and levied by [7]% of the circulation tax actually paid.
Education surtax	Calculated and levied by [3]% of the circulation tax actually paid.
Local education surtax	Calculated and levied by [2]% of the circulation tax actually paid.
Enterprise income tax.	Calculated and levied by [25]% of the taxable income.

2. Tax Incentives and Approvals

Nil.

3. Other Statement

Nil.

VII. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for Preparation of Consolidated Financial Statements

(1) Principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term of "control" means that the Company has the power to decide an investee's financial and operating policy, pursuant to which the Company can get the power to obtain benefits from its operating activities. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is a business or entity controlled by the Company.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Company obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flows statements; for disposal of subsidiaries during the period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flows statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flows statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For subsidiaries acquired from business combination not under common control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets on the acquisition date.

All intra-group significant balances, transactions and unrealised profit are eliminated when preparing the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period that is not attributable to the Company are presented separately under shareholders' equity and net profit in the consolidated financial statements as minority Shareholders' equity and profit or loss. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interests.

2. Basic condition of the subsidiaries included in the consolidated financial statements during the year

No.	Name of enterprises	Percent age of	Percentage of	Registered capital	Investment amount
		shareholding	the voting		
		(%)	(%)		
1	Shanghai CERCG Co., Ltd. (上海國儲能源集團有限公司)	100.00%	100.00%	RMB300,000,000.00	RMB500,000,000.00
2	CERCG Properties Co., Ltd. (國能置業有限公司)	95.00%	95.00%	RMB87,000,000.00	RMB282,650,000.00
3	Guoneng Financial Guarantee Co., Ltd. (國能融資擔保股份公司)	93.33%	93.33%	RMB300,000,000.00	RMB280,000,000.00
4	Zhangjiakou CERCG LNP Co., Ltd. (張家口國儲液化天然氣有限公司)	100.00%	100.00%	RMB100,000,000.00	RMB205,000,000.00
5	CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	80.00%	80.00%	RMB120,000,000.00	RMB118,500,000.00
6	Leiyang CERCG Gas Co., Ltd. (未陽國儲能源燃氣有限公司)	100.00%	100.00%	RMB76,670,000.00	RMB84,170,000.00
7	Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd (深圳市前海國儲能源石化供應鏈管理有限公司)	51.00%	51.00%	RMB100,000,000.00	RMB51,000,000.00
8	Shenzhen Qianhai CERCG Co., Ltd (深圳市前海國儲能源化工有限公司)	100.00%	100.00%	RMB300,000,000.00	RMB300,000,000.00
9	CERCG Investment Company (國儲能源投資有限公司)	100.00%	100.00%	RMB50,250,000.00	RMB50,250,000.00
10	Zhangjiakou CERCG Logistics Co., Ltd. (張家口國儲能源物流有限公司)	100.00%	100.00%	RMB20,000,000.00	RMB20,000,000.00
11	Guangdong CERCG Investment Co., Ltd. (廣東國儲能源化工投資有限公司)	95.00%	95.00%	RMB20,000,000.00	RMB19,000,000.00
12	Zhangjiakou CERCG Water Supply Co., Ltd. (張家口國儲供水有限公司)	70.00%	70.00%	RMB18,000,000.00	RMB12,600,000.00
13	Liangcheng County CERCG Development Co., Ltd. (涼城縣國儲能源開發有限公司)	100.00%	100.00%	RMB10,000,000.00	RMB10,000,000.00
14	CERCG Xinganmeng Coal Logistics Management Co., Ltd. (國儲興安盟煤炭物流管理有限公司)	51.00%	51.00%	RMB10,000,000.00	RMB5,100,000.00
15	CERCG Heilongjiang Investment Co., Ltd (國儲能源化工集團黑龍江投資有限公司)	100.00%	100.00%	RMB5,100,000.00	RMB5,100,000.00
16	Beijing CERCG Information and Consultancy Co., Ltd. (北京國儲信息諮詢有限公司)	100.00%	100.00%	RMB2,000,000.00	RMB2,000,000.00
17	Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司)	100.00%	100.00%	RMB50,000,000.00	RMB50,000,000.00
18	Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	70.00%	70.00%	RMB70,000,000.00	RMB70,000,000.00
19	China CERCG Inner Mongolia Co., Ltd. (中國國儲能源化工集團內蒙古有限公司)	100.00%	100.00%	RMB50,000,000.00	RMB50,000,000.00
20	Tianjin CERCG New Energy Development Co., Ltd. (天津國儲新能源開發有限公司)	50.00%	50.00%	RMB25,000,000.00	RMB50,000,000.00

No.	Name of enterprises	Percent age of shareholding	Percentage of the voting right	Registered capital	Investment amount
		(%)	(%)		
21	CERCG (Xuanhua) Logistics & Trade Co., Ltd. (國儲能源化工集團宜化物貿有限公司)	100.00%	100.00%	RMB4,600,000.00	RMB4,600,000.00
22	Energy Reserve And Chemicals Group (H.K.) Company Limited	100.00%	100.00%	HKD1,000,000,000.00	HKD1,000,000,000.00
23	China Energy Reserve and Chemicals Trading Company Limited (中國國儲能源化工貿易有限公司)	100.00%	100.00%	HKD500,000,000.00	HKD500,000,000.00
24	China Energy Reserve and Chemicals Group Overseas Company Limited	100.00%	100.00%	US\$50,000.00	US\$50,000.00
25	China Energy Reserve and Chemicals Group Overseas Capital Company Limited	100.00%	100.00%	US\$50,000.00	US\$50,000.00

3. Changes in scope of combination during the year and reasons

No.	Name of enterprises	Obtained channels
1	Energy Reserve and Chemicals Group (H.K.) Company Limited (中國國儲能源化工集團(香港)有限公司)	newly established or invested
2	China Energy Reserve and Chemicals Trading Company Limited (中國國儲能源化工貿易有限公司)	newly established or invested
3	China Energy Reserve and Chemicals Group Overseas Company Limited	newly established or invested
4	China Energy Reserve and Chemicals Group Overseas Capital Company Limited	newly established or invested

VIII. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, amounts in the following notes are denominated in RMB. The terms “at the beginning of the year” and “at the end of the year” refer to 1 January 2015 and 30 June 2015 respectively, and the terms “previous period” and “the period” refer to the first half of 2014 and the first half of 2015 respectively.

1. Monetary funds

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	972,896.04	673,128.16
Bank deposit	3,012,844,035.31	788,552,768.46
Others monetary funds	50,000,000.00	
Total	3,063,816,931.35	789,225,896.62

2. Held-for trading financial assets

Items	Balance at the end of the period	Balance at the beginning of the year
Short-term investment	31,000,000.00	20,000,000.00
Total	31,000,000.00	20,000,000.00

3. Bills receivable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	46,192,123.99	32,237,845.61
Commercial acceptance		
Total	46,192,123.99	32,237,845.61

4. Accounts receivable

(1) Categories of accounts receivable

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis).	797,581,735.36		653,086,247.89	
Total	<u>797,581,735.36</u>	<u>0.00</u>	<u>653,086,247.89</u>	<u>0.00</u>

(2) Accounts receivable provided as bad debt provision by aging analysis

Items	Closing balance		Opening balance	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	797,581,735.36		653,086,247.89	
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>797,581,735.36</u>	<u>0.00</u>	<u>653,086,247.89</u>	<u>0.00</u>

(3) The principal debtors in the closing balance of accounts receivable are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Shaanxi Dongda Petrochemical Co., Ltd. (陝西東大石油化工有限公司)	Non-related party	163,080,000.00	Within 1 year	20.45%
Suzhou Jinxiang Petrochemical Co., LTD. (蘇州金翔石油化工有限公司)	Non-related party	134,780,200.00	Within 1 year	16.90%
Zhangjiakou Chenhai Mining Co., Ltd. (張家口辰海礦業有限公司)	Non-related party	108,089,835.32	Within 1 year	13.55%
Shagang (Beijing) International Investment Co., LTD. (沙鋼(北京)國際投資有限公司)	Non-related party	66,461,527.89	Within 1 year	8.33%
Shanghai Fanggong Trade Co., Ltd. (上海昉拱貿易有限公司)	Non-related party	64,193,195.94	Within 1 year	8.05%
Nanjing Runze Fuel Oil Co., Ltd. (南京潤澤燃油有限公司)	Non-related party	63,027,714.20	Within 1 year	7.90%
Funing Dongao Oil Processing Co., Ltd. (撫寧東奧石油煉化有限公司)	Non-related party	43,943,998.05	Within 1 year	5.51%
Total		<u>643,576,471.40</u>		<u>80.69%</u>

- (4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (5) There is no amount due from the related party during the reporting period.

5. Prepayment

(1) Prepayments stated according to aging analysis

Aging	Balance at the end of the period	Balance at the beginning of the year
Within 1 year (including 1 year)	1,611,607,609.12	933,575,070.80
1-2 years (including 2 years)		150,000,000.00
2-3 years (including 3 years)	150,000,000.00	
Over 3 years		
Total	<u>1,761,607,609.12</u>	<u>1,083,575,070.80</u>

- (2) The principal debtors in the closing balance of prepayments are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Sichuan Air Separation Plant (Group) Co., Ltd (四川空分設備有限責任公司)	Non-related party	263,217,194.00	Within 1 year	14.94%
Pan Jin Sheng Teng Petrochemical Co., Ltd. (盤錦晟騰石油化工有限公司)	Non-related party	186,131,722.05	Within 1 year	10.57%
China Labour & Social Security Publishing House (中國勞動社會保障出版社)	Non-related party	150,000,000.00	Within 3 years	8.51%
Nanjing Lanyan Petrochemical Storage & Transportation Industrial Limited Company (南京藍燕石化儲運實業有限公司)	Non-related party	150,000,000.00	Within 1 year	8.51%
Hebei Xinwang Petrochemical Co., Ltd. (河北鑫旺石油化工有限公司)	Non-related party	118,296,114.00	Within 1 year	6.72%
Sichuan Tiankun Commerce Corporate Limited (四川天堃商貿有限公司)	Non-related party	96,060,002.02	Within 1 year	5.45%
Dalian Shengfeng Petrochemical Co., LTD. (大連晟豐石油化工有限公司)	Non-related party	84,496,152.60	Within 1 year	4.80%
Lankao Shengda Chemical Plant (蘭考盛達化工總廠)	Non-related party	72,000,000.00	Within 1 year	4.09%
Guangzhou Mingfan Oil., Ltd. (廣州名番石油有限公司)	Non-related party	66,248,094.00	Within 1 year	3.76%
Total		<u>1,186,449,278.67</u>		<u>67.35%</u>

- (3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (4) There is no prepayment due to related parties during the reporting period.

6. Other receivables

(1) Categories of other receivables

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Other receivables provided as bad debt provision on an individual basis	226,533,311.98		133,994,465.97	
Other receivables provided as bad debt provision by combo test (aging analysis).				
Total	<u>226,533,311.98</u>	<u>0.00</u>	<u>133,994,465.97</u>	<u>0.00</u>

(2) Other receivables provided as bad debt provision by aging analysis

Items	Balance at the end of the period		Balance at the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	215,833,311.98		123,294,465.97	
1-2 years (including 2 years).			10,700,000.00	
2-3 years (including 3 years).	10,700,000.00			
Over 3 years.				
Total	<u>226,533,311.98</u>	<u>0.00</u>	<u>133,994,465.97</u>	<u>0.00</u>

(3) Top 5 debtors in the closing balance of other receivables are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Beijing Liang Gao Law Firm (北京市兩高律師事務所)	Non-related party	51,850,000.00	Within 1 year	22.89%
Xinxing Guoneng (Beijing) Technology & Trading Co., LTD (新興國能(北京)科貿有限公司) . . .	Non-related party	41,900,000.00	Within 1 year	18.50%
Xinyu Zhongxun Investment Management Co., Ltd. (新余中訊投資管理有限公司)	Non-related party	37,140,000.00	Within 1 year	16.39%
Zhangjiakou Feiteng Traffic Engineering Co., Ltd. (張家口飛騰交通工程有限公司) . . .	Non-related party	26,000,000.00	Within 1 year	11.48%
Petrochina Hongli Asset Management Co., Ltd. (中油鴻力資產管理有限公司)	Non-related party	20,540,759.88	Within 1 year	9.07%
Total		<u>177,430,759.88</u>		<u>78.32%</u>

(4) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no other amount due from the related party during the reporting period.

7. Inventory

Items	Book balance at the beginning of the year	Increase for the period	Decrease for the period	Book balance at the end of the period
Raw material (including the obtaining of land use right) . .				0.00
Semi-finished products and work in progress	446,985,437.66	29,860,235.48	43,511,432.22	433,334,240.92
Inventory (finished goods) . . .	722,501,566.13	8,731,580,528.51	8,258,449,306.71	1,195,632,787.93
Revolving materials (packing materials and consumables) . .				0.00
Consumable biological assets . .				0.00
Construction (completed but not settlement).				0.00
Total	1,169,487,003.79	8,761,440,763.99	8,301,960,738.93	1,628,967,028.85

8. Long-term equity investments

(1) Categories of long term equity investments

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Investment in joint venture . . .				0.00
Investment in associate enterprises	649,125,383.97			649,125,383.97
Investment in other enterprises	5,820,000.00			5,820,000.00
Subtotal	654,945,383.97			654,945,383.97
Less: impairment provision for long term equity investments.	0.00			0.00
Total	654,945,383.97	0.00	0.00	654,945,383.97

(2) Details of long-term equity investments

Investee	Accounting method	Book value of investment	Investment Proportion
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Cost method	60,709,556.22	40%
Inner Mongolia CERCG Xinneng Venture Capital Center (limited partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Cost method	51,015,476.16	20%
Inner Mongolia Qinggang Runhe Gas Utilization Co., Ltd (內蒙古慶港潤禾天然氣綜合利用有限公司)	Cost method	40,000,000.00	40.00%
Jiangsu Honghai Energy Co., Ltd (江蘇泓海能源有限公司)	Cost method	39,855,250.52	40%
Zhongshu Dingsheng Construction & Culture Communication Co., Ltd. (中數鼎盛城建文化傳播有限公司).	Cost method	24,500,000.00	49%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司).	Cost method	35,391,437.30	48%
Xiangtan Kunlun Energy Co., Ltd (湘潭昆侖能源有限公司)	Cost method	14,514,842.55	24%
Rizhao Zhongneng Gas Co., Ltd. (日照中能燃氣有限公司)	Cost method	9,928,893.08	29%

Investee	Accounting method	Book value of investment	Investment Proportion
Anping Yanzhong Gas Co., Ltd. (安平縣燕中燃氣有限公司)	Cost method	8,879,385.90	30.00%
Shanghai Jinjie Energy Co., Ltd. (上海金捷能源有限公司)	Cost method	6,074,668.62	49%
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%
Huizhou Yunfeng CERCG Management Co., Ltd. (惠州云峰國儲能源管理有限公司).	Cost method	2,447,465.23	49%
Hengyang Nanyue Guoao Automotive Energy Co., Ltd. (衡陽南岳國澳車用能源有限公司).	Cost method	500,000.00	20.00%
Shanghai Defeng Yacht Club Co., Ltd. (上海德峰游艇俱樂部有限公司)	Cost method	128,408.39	20.00%
Huizhou Dalong CERCG Co., Ltd. (惠州大隆國儲能源化工有限公司).	Cost method	2,000,000.00	20.00%
Shanghai Shale Investment Co., Ltd. (上海頁岩投資有限公司)	Cost method	54,000,000.00	43.20%
Total		<u>654,945,383.97</u>	

9. Fixed Assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total cost	2,803,148,794.56	692,482,932.85	0.00	3,495,631,727.41
Including: buildings and structures	155,730,831.25			155,730,831.25
Special facilities	524,329,538.16	492,276,552.03		1,016,606,090.19
Special equipment	1,175,313,388.40	197,323,600.03		1,372,636,988.43
Transportation equipment . . .	606,781,939.51	1,917,177.12		608,699,116.63
Office facilities	340,993,097.24	965,603.67		341,958,700.91
II. Total accumulated depreciation	407,469,020.68	141,033,776.38	0.00	548,502,797.06
Including: Buildings and structures	39,797,297.85	3,364,247.56		43,161,545.41
Special facilities	78,590,091.37	43,605,515.71		122,195,607.08
Special equipment	83,843,815.99	42,900,942.60		126,744,758.59
Transportation equipment . . .	165,050,973.28	24,091,340.03		189,142,313.31
Office equipment	40,186,842.19	27,071,730.48		67,258,572.67
III. Total accumulated amount of provision for impairment . . .	0			0
IV. Total carrying amount	2,395,679,773.88			2,947,128,930.35
Including: buildings and structures	115,933,533.40			112,569,285.84
Special facilities	445,739,446.79			894,410,483.11
Special equipment	1,091,469,572.41			1,245,892,229.84
Transportation equipment . . .	441,730,966.23			419,556,803.32
Office equipment	300,806,255.05			274,700,128.24

10. Construction in progress

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
LNG storage and distribution station in Zhangjiakou	423,661,852.23	17,016,119.81	300,000,000.00	140,677,972.04
Pipe network in Xuancheng	448,239,253.80	114,892,145.36		563,131,399.16
Natural gas pipeline construction project in Leiyang	249,482,323.08	14,686,340.12	10,546,588.97	253,622,074.23
Oil storage project in Nangang, Tianjin	203,491,889.40	37,559,468.58		241,051,357.98
Shale gas project in Tongren City	294,081,525.14	472,798,200.44		766,879,725.58
Oil dock project in Ronglu, Yueyang	52,189,131.17	28,375,824.41	1,400.00	80,563,555.58
Biodiesel plant in Liuzhou	4,175,523.18			4,175,523.18
Natural gas refueling station project in Leiyang	1,130,000.00	1,300,000.00		2,430,000.00
Oil storage project in Dafeng Harbor, Jiangsu	4,384,456.68	2,614,159.68		6,998,616.36
Vehicle detective plant project	197,401.24			197,401.24
Petrochemical project in Wuhan, Hubei	639,193.81	91,133.39		730,327.20
Xuanhua Material Trading Logistics Park		8,199,697.50		8,199,697.50
Bao-Man Railway Project		1,613,379.00		1,613,379.00
Mingzeyuan Project		132,947,745.83		132,947,745.83
Alashankou Comprehensive Bonded Zone Project		1,178,870.39		1,178,870.39
Total	<u>1,681,672,549.73</u>	<u>833,273,084.51</u>	<u>310,547,988.97</u>	<u>2,204,397,645.27</u>

11. Construction materials

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Special materials	85,404,848.02	190,027,027.66	93,488,167.07	181,943,708.61
Total	<u>85,404,848.02</u>	<u>190,027,027.66</u>	<u>93,488,167.07</u>	<u>181,943,708.61</u>

12. Intangible assets

Items	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Land use rights	143,838,653.87	42,052,297.56	1,357,681.15	184,533,270.28
Non-patented technology	10,369,965.03		1,287,822.74	9,082,142.29
Franchise right	866,666.68		16,666.67	850,000.01
Software	90,856.39	729,053.94	16,201.12	803,709.21
Total	<u>155,166,141.97</u>	<u>42,781,351.50</u>	<u>2,678,371.68</u>	<u>195,269,121.79</u>

13. Long term prepaid expenses

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Deferred revenue on leaseback	15,395,235.53		15,395,235.53	0.00
Other	2,381,496.03	8,285,068.70	862,348.66	9,804,216.07
Total	17,776,731.56	8,285,068.70	16,257,584.19	9,804,216.07

14. Short-term borrowings

Items	Closing balance
China Everbright Bank, Beijing Jianguomen Branch (光大銀行北京建國門支行)	141,000,000.00
China Everbright Bank, Beijing Jianguomen Branch (光大銀行北京建國門支行)	150,000,000.00
Ping AN Bank, Shijingshan Branch (平安銀行石景山支行).	200,000,000.00
China Construction Bank, Shijingshan Branch (建設銀行石景山支行)	200,000,000.00
Bank of Hangzhou, Beijing Branch (杭州銀行北京分行)	90,000,000.00
Industrial Bank, Shijingshan Branch (興業銀行石景山支行)	475,000,000.00
Bank of Kunlun, Tuha Branch (昆侖銀行吐哈分行)	160,610,000.00
Bank Of Beijing, Tianjin Binhai Branch (北京銀行天津濱海支行)	20,000,000.00
China Zheshang Bank, Tianjin Branch (浙商銀行天津分行)	20,000,000.00
China Development Bank, Shanghai Branch (國家開發銀行上海分行)	95,000,000.00
Bank of Wenzhou, Shanghai Branch (溫州銀行上海分行).	49,799,758.93
Bank of Nanjing, Beijing Chaoyangmen Branch (南京銀行北京朝陽門支行)	17,000,000.00
Rural Commercial Bank, Wuhan Economic & Technological Development Zone Branch (農村商業銀行武漢開發區支行)	157,000,000.00
Ping AN Bank, Wuhan Jiangxia Branch (平安銀行武漢江夏支行).	50,000,000.00
Total	1,825,409,758.93

15. Bills payable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	402,100,000.00	154,000,000.00
Commercial acceptance	0.00	0.00
Total	402,100,000.00	154,000,000.00

16. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	51,440,717.24	100.00%	131,874,952.45	100.00%
1-2 years (including 2 years).		0.00%		0.00%
2-3 years (including 3 years).		0.00%		0.00%
Over 3 years.		0.00%		0.00%
Total	51,440,717.24	100.00%	131,874,952.45	100.00%

(2) Top 5 creditors in the closing balance of accounts payable are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Guangdong Fuel Company	Non-related party	13,902,400.00	Within 1 year	27.03%
Beijing Yonghengda Petrochemical Co., Ltd (北京永恆達化工有限公司)	Non-related party	13,013,700.00	Within 1 year	25.30%
Dongtai Huaheng Petrochemical Trading Co., Ltd. (東台市華恒石化貿易有限公司).	Non-related party	9,865,700.00	Within 1 year	19.18%
Anhui Xianchang Petrochemical Industrial Company Limited (安徽先昌石化實業有限公司).	Non-related party	4,185,167.70	Within 1 year	8.14%
Hengyang office of Jiangsu Tianmu Construction Group Co., Ltd. (江蘇天目建設集團有限公司衡陽辦事處) . .	Non-related party	3,906,767.84	Within 1 year	7.59%
Total		<u>44,873,735.54</u>		<u>87.23%</u>

17. Advance receipt

(1) *Categories of advance receipt*

<u>Aging</u>	<u>Book balance at the end of the period</u>		<u>Opening book balance</u>	
	<u>Amount</u>	<u>Proportion</u>	<u>Amount</u>	<u>Proportion</u>
		(%)		(%)
Within 1 year (including 1 year)	242,743,592.85	100.00%	406,537,798.74	100.00%
1-2 years (including 2 years).		0.00%		0.00%
2-3 years (including 3 years).		0.00%		0.00%
Over 3 years.		0.00%		0.00%
Total	<u>242,743,592.85</u>	<u>100.00%</u>	<u>406,537,798.74</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of advance receipt are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Advance receipts from individuals for house selling	Non-related party	169,203,744.18	Within 1 year	69.70%
CNOOC & CRM Oil Marketing Co., Ltd. (中海油中鐵油品銷售有限公司) . .	Non-related party	51,075,675.00	Within 1 year	21.04%
Huanyu Weiye (Xiamen) Petrochemical Co., Ltd. (寰宇偉業(廈門)石化有限公司) . .	Non-related party	8,000,000.00	Within 1 year	3.30%
Sichuan Limeng Trading Co., Ltd. (四川驪盟貿易有限公司)	Non-related party	6,648,891.00	Within 1 year	2.74%
Chuzhou Jinda Oil Co., Ltd. (滁州市金達石油有限公司).	Non-related party	4,781,456.60	Within 1 year	1.97%
Total		<u>239,709,766.78</u>		<u>98.75%</u>

18. Tax payable

Items	Book balance at the beginning of the year	Book balance at the end of the period
Value added tax	1,483,955.16	1,396,198.37
Business tax	84,227.80	85,170.32
Enterprise income tax	26,463,617.76	18,707,653.63
Individual income tax	191,493.01	159,604.48
Other tax	228,951.83	162,896.93
Total	28,452,245.56	20,511,523.73

19. Staff remuneration payables

Items	Balance at the beginning of the period	Balance at the end of the period
I. Salaries, bonuses, allowance and subsidies.	1,674,076.03	1,588,336.12
II. Staff welfare		
III. Social insurance premiums		
IV. Union operation costs and employee education costs		
Total	1,674,076.03	1,588,336.12

20. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	32,419,612.13	100.00%	96,330,599.18	100.00%
1-2 years (including 2 years).		0.00%		0.00%
2-3 years (including 3 years).		0.00%		0.00%
Over 3 years.		0.00%		0.00%
Total	32,419,612.13	100.00%	96,330,599.18	100.00%

(2) Top 5 creditors in the closing balance of other payables are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Jining Longjin Investment Management Co., Ltd. (濟寧隆金投資管理有限公司)	Non-Related party	11,000,000.00	Within 1 year	33.93%
Zhangjiakou Huafu Caitong Investment Management Co., Ltd. (張家口華富財通投資管理有限公司).	Non-Related party	6,961,336.11	Within 1 year	21.47%
Tianjin Gaotai Development & Construction Co., Ltd. (天津高泰開發建設有限公司)	Non-Related party	4,000,000.00	Within 1 year	12.34%
Guangdong Dalong Group Co., Ltd. (廣東大隆企業集團公司)	Non-Related party	3,100,000.00	Within 1 year	9.56%
Nanjing Petrochemical Group Co., Ltd. (南京石化集團有限公司)	Non-Related party	3,000,000.00	Within 1 year	9.25%
Total		28,061,336.11		86.56%

21. Long-term borrowings

Items	Closing balance
China Development Bank, Beijing Branch	316,210,000.00
Zhangjiakou City Commercial Bank	198,790,000.00
Agricultural Bank of China, Leiyang Branch	135,000,000.00
Postal Savings Bank of China, Zhangjiakou Branch	1,947,967.17
Agricultural Bank of China, Yueyang Branch	80,000,000.00
The Export-Import Bank of China, Shanghai Branch	489,520,000.00
China Development Bank, Shanghai Branch	40,000,000.00
Total	<u>1,261,467,967.17</u>

22. Long-term payables

Items	Closing balance
Off-shore bond issuance	3,739,430,000.00
Financial leasing	321,642,965.54
Total	<u>4,061,072,965.54</u>

23. Special payables

Items	Closing balance
Special amount for High-Tech	655,600.00
Total	<u>655,600.00</u>

24. Other Long-term payables

Items	Closing balance
Deferred revenue	37,715,274.87
Total	<u>37,715,274.87</u>

25. Paid-in capital

Investee	Book balance at the beginning of the year		Increase or decrease for the period	Book balance at the end of the period	
	Investment amount	Proportion (%)		Investment amount	Proportion (%)
Total	1,725,000,000.00	100.00%	0.00	1,725,000,000.00	100.00%
China Flader Industrial Co., LTD.	517,500,000.00	30.00%		517,500,000.00	30.00%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd.	483,000,000.00	28.00%		483,000,000.00	28.00%
China Overseas Holding Group Co., Ltd.			465,750,000.00	465,750,000.00	27.00%
Bright Dynasty International Ltd	431,250,000.00	25.00%	-431,250,000.00	0.00	0.00%
China Hualian International Commercial CO., LTD.	258,750,000.00	15.00%		258,750,000.00	15.00%
Shenzhen Bai Zhao Investment & Consultant CO., LTD.	34,500,000.00	2.00%	-34,500,000.00	0.00	0.00%

26. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves			
(1) Other equity change in the invested entity			
(2) Share-based payment for non-exercised			
(3) Changes in the fair value of financial assets held-for-sale.			
(4) Balance on the changes in fair value of investment property			
(5) Profit or loss on cash-flow hedges			
(6) Profit or loss on hedges of a net investment in a foreign operation.			
(7) Income tax effect relating to items included into owners' equity			
(8) Others	263,937,580.51		263,937,580.51
3. Transfer of capital surplus recognized under the previous accounting system			
Total	339,437,580.51		339,437,580.51

27. Retained profit

Items	Amount
Balance at the beginning of the year	2,485,569,176.43
Increase for the period	509,704,590.72
Including: net profit transferred into in the year	509,704,590.72
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	2,995,273,767.15

28. Minority shareholders' interest

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Minority shareholders' interest	723,455,133.22	28,895,917.25		752,351,050.47
Total	723,455,133.22	28,895,917.25	0.00	752,351,050.47

29. Operating revenue and operating cost

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Sub-total of revenue on main business	11,091,857,012.52	10,212,735,869.07	4,201,748,025.07	3,858,018,065.22
Total	11,091,857,012.52	10,212,735,869.07	4,201,748,025.07	3,858,018,065.22

30. Business taxes and surcharges

Items	Amount for the period	Amount for the previous period
Business taxes and surcharges	20,983,434.03	8,984,901.09
Total	20,983,434.03	8,984,901.09

31. Cost of sales

Items	Amount for the period	Amount for the previous period
Sales expenses	22,087,432.00	24,109,801.56
Total	22,087,432.00	24,109,801.56

32. Management fees

Items	Amount for the period	Amount for the previous period
Management fees	53,285,297.32	51,039,183.24
Total	53,285,297.32	51,039,183.24

33. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	74,577,063.77	56,859,872.85
Total	74,577,063.77	56,859,872.85

34. Investment income

Items	Amount for the period	Amount for the previous period
Investment income	1,289,474.28	495,205.64
Total	1,289,474.28	495,205.64

35. Non-operating income

Items	Amount for the period	Amount for the previous period
Non-operating income	11,990,976.27	778,176.01
Total	11,990,976.27	778,176.01

36. Non-operating expenses

Items	Amount for the period	Amount for the previous period
Non-operating expenses	3,011,050.46	0.00
Total	3,011,050.46	0.00

37. **Income tax expense**

Consistent of income tax expense (income)

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . . .	179,856,808.45	51,012,024.69
Adjustment for deferred income tax		0.00
Total	179,856,808.45	51,012,024.69

38. **Minority shareholders' profit or loss**

Items	Amount for the period	Amount for the previous period
Minority shareholders' profit or loss	28,895,917.25	12,431,051.59
Total	28,895,917.25	12,431,051.59

IX. NOTES TO THE MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. **Monetary funds**

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	53,910.91	39,102.60
Bank deposit	301,748,234.59	194,118,652.58
Other monetary funds	50,000,000.00	
Total	351,802,145.50	194,157,755.18

2. **Bills payable**

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	10,604,278.38	0.00
Commercial acceptance		
Total	10,604,278.38	0.00

3. **Accounts receivable**

(1) *Categories of accounts receivable*

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis)	172,657,143.99		168,101,516.82	
Total	172,657,143.99	0.00	168,101,516.82	0.00

(2) *Accounts receivable provided as bad debt provision by aging analysis*

Items	At the end of the period		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	172,657,143.99		168,101,516.82	
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>172,657,143.99</u>	<u>0.00</u>	<u>168,101,516.82</u>	<u>0.00</u>

(3) Major debtors in the closing balance of accounts receivable are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Shagang (Beijing) International Investment Co., LTD. (沙鋼(北京)國際投資有限公司)	Non-related party	66,461,527.89	Within 1 year	38.49%
Nanjing Runze Fuel oil Co., Ltd. (南京潤澤燃油有限公司)	Non-related party	52,188,616.10	Within 1 year	30.23%
Funing Dong'ao Oil Refinery and Petrochemical Co., Ltd. (撫寧東奧石油煉化有限公司)	Non-related party	43,943,998.05	Within 2 years	25.45%
Ningbo Keyuan Plastics Co., Ltd. (寧波科元塑料有限公司)	Non-related party	8,787,353.46	Within 1 year	5.09%
Total		<u>171,381,495.50</u>		<u>99.26%</u>

(4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

4. Prepayment

(1) *Prepayments stated according to aging analysis*

Aging	Balance at the end of the period	Balance at the beginning of the year
Within 1 year (including 1 year).	436,666,797.46	402,009,045.20
1-2 years (including 2 years).		
2-3 years (including 3 years).		
Over 3 years		
Total	<u>436,666,797.46</u>	<u>402,009,045.20</u>

(2) Major debtors in the closing balance of prepayments are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Pan Jin Sheng Teng Petrochemical Co., Ltd. (盤錦晟騰石油化工有限公司) . . .	Non-related party	126,131,722.05	Within 1 year	28.89%
Hebei Xinwang Petrochemical Co., Ltd. (河北鑫旺石油化工有限公司) . . .	Non-related party	118,296,114.00	Within 1 year	27.09%
Dalian Shengfeng Petrochemical Co., LTD.	Non-related party	54,496,152.60	Within 1 year	12.48%
Lankao Shengda Chemical Plant (蘭考盛達化工總廠)	Non-related party	52,000,000.00	Within 1 year	11.91%
Changshu Huihai Chemical Storage Co., LTD. (常熟匯海化工倉儲有限公司) . . .	Non-related party	46,063,701.80	Within 1 year	10.55%
Total		<u>396,987,690.45</u>		<u>90.91%</u>

(3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(4) There is no amount prepaid to the related party during the reporting period.

5. Other receivables

(1) Categories of other receivables

<u>Categories</u>	<u>Balance at the end of the period</u>		<u>Balance at the beginning of the year</u>	
	<u>Amount</u>	<u>Bad debt provision</u>	<u>Amount</u>	<u>Bad debt provision</u>
Other receivables provided as bad debt provision on an individual basis	97,756,985.66		105,688,640.40	
Other receivables provided as bad debt provision by combo test (aging analysis).				
Total	<u>97,756,985.66</u>	<u>0.00</u>	<u>105,688,640.40</u>	<u>0.00</u>

(2) Other receivables provided as bad debt provision by aging analysis

<u>Items</u>	<u>Balance at the end of the period</u>		<u>Balance at the beginning of the year</u>	
	<u>Book balance</u>	<u>Bad debt provision</u>	<u>Book balance</u>	<u>Bad debt provision</u>
Within 1 year (including 1 year)	97,756,985.66		105,688,640.40	
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>87,756,985.66</u>	<u>0.00</u>	<u>105,688,640.40</u>	<u>0.00</u>

(3) Major debtors in the closing balance of other receivables are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Beijing Liang Gao Law Firm (北京市兩高律師事務所)	Non-related party	51,850,000.00	Within 1 year	53.04%
Zhangjiakou Feiteng Traffic Engineering Co., Ltd. (張家口飛騰交通工程有限公司)	Non-related party	26,000,000.00	Within 1 year	26.60%
Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司)	Related party	3,629,884.85	Within 1 year	3.71%
Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	Related party	3,813,468.20	Within 1 year	3.90%
Total		<u>85,293,353.05</u>		<u>87.25%</u>

(4) There is no outstanding amount within other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

6. Inventory

<u>Items</u>	<u>Book balance at the beginning of the year</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>Book Balance at the end of the period</u>
Raw material (including the obtaining of land use right)				0.00
Semi-finished products and work in progress				0.00
Inventory (finished goods)	386,048,131.14	4,242,069,296.86	4,226,331,687.81	401,785,740.19
Revolving materials (packing materials and consumables)				0.00
Consumable biological assets				0.00
Construction (completed but not settlement)				0.00
Total	<u>386,048,131.14</u>	<u>4,242,069,296.86</u>	<u>4,226,331,687.81</u>	<u>401,785,740.19</u>

7. Long-term equity investments

(1) *Categories of long-term equity investments*

<u>Items</u>	<u>Balance at the beginning of the year</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>Balance at the end of the period</u>
Investment in subsidiaries	1,853,970,000.00	607,645,000.00		2,461,615,000.00
Investment in joint venture				0.00
Investment in associate enterprises	457,400,000.00			457,400,000.00
Investment in other enterprises				0.00
Sub-total	<u>2,311,370,000.00</u>	<u>607,645,000.00</u>	<u>0.00</u>	<u>2,919,015,000.00</u>
Less: impairment provision for long term equity investments				0.00
Total	<u>2,311,370,000.00</u>	<u>607,645,000.00</u>	<u>0.00</u>	<u>2,919,015,000.00</u>

(2) Details of long-term equity investments

Investee	Accounting method	Balance at the end of the period	Investment Proportion
Shanghai CERCG Co., Ltd. (上海國儲能源集團有限公司)	Cost method	800,000,000.00	100%
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
CERCG Properties Co., Ltd. (國能置業有限公司)	Cost method	282,650,000.00	95%
Guoneng Guarantee Co., Ltd. (國能擔保股份有限公司)	Cost method	280,000,000.00	93.33%
Zhangjiakou CERCG LNP Co., Ltd. (張家口國儲液化天然氣有限公司)	Cost method	205,000,000.00	100%
CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	Cost method	118,500,000.00	80%
Leiyang CERCG Gas Co., Ltd. (耒陽國儲能源燃氣有限公司)	Cost method	84,170,000.00	100%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Cost method	63,000,000.00	40%
Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd. (深圳市前海國儲能源石化供應鏈管理有限公司)	Cost method	51,000,000.00	51%
Inner Mongolia CERCG Xinneng Venture Capital Center (limited partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Cost method	51,000,000.00	20.40%
CERCG Investment Company (國儲能源投資有限公司)	Cost method	50,250,000.00	100%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司)	Cost method	38,400,000.00	48%
Zhangjiakou CERCG Logistics Co., Ltd. (張家口國儲能源物流有限公司)	Cost method	20,000,000.00	100%
Guangdong CERCG Investment Co., Ltd. (廣東國儲能源化工投資有限公司)	Cost method	19,000,000.00	90%
Zhangjiakou CERCG Water Supply Co., Ltd. (張家口國儲供水有限公司)	Cost method	12,600,000.00	70%
Liangcheng County CERCG Development Co., Ltd. (涼城縣國儲能源開發有限公司)	Cost method	10,000,000.00	100%
CERCG Jiangsu Co., Ltd. (國儲能源化工江蘇有限公司)	Cost method	9,000,000.00	30%
CERCG Xinganmeng Coal Logistics Management Co., Ltd. (國儲興安盟煤炭物流管理有限公司)	Cost method	5,100,000.00	51%
CERCG Heilongjiang Investment Co., Ltd. (國儲能源化工集團黑龍江投資有限公司)	Cost method	5,100,000.00	100%
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%
Beijing CERCG Information and Consultancy Co., Ltd. (北京國儲信息諮詢有限公司)	Cost method	2,000,000.00	100%
Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司)	Cost method	50,000,000.00	100%
Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	Cost method	70,000,000.00	70%
Shenzhen Qianhai CERCG Co., Ltd. (深圳市前海國儲能源化工有限公司)	Cost method	231,900,000.00	100%
China CERCG Inner Mongolia Co., Ltd. (中國國儲能源化工集團內蒙古有限公司)	Cost method	120,000,000.00	100%
Tianjin CERCG New Energy Development Co., Ltd. (天津國儲新能源開發有限公司)	Cost method	25,000,000.00	50%
CERCG (Xuanhua) Logistics & Trade Co., Ltd. (國儲能源化工集團宣化物貿有限公司)	Cost method	4,600,000.00	100%
CERCG Xinjiang Alashankou Bonded Energy Chemical Investment Co., Ltd. (國儲新疆阿拉山口保稅能源化工投資有限公司)	Cost method	5,745,000.00	100%
Total		<u>2,919,015,000.00</u>	

8. Fixed assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total original value	18,815,453.10	120,852.91	0.00	18,936,306.01
Including: office equipment . . .	9,163,503.63	120,852.91		9,284,356.54
Transportation equipment . . .	9,651,949.47			9,651,949.47
II. Total accumulated depreciation	6,575,735.28	1,681,993.02	0.00	10,323,394.53
Including: office equipment . . .	5,281,259.85	881,862.54		6,163,122.39
Transportation equipment . . .	3,360,141.66	800,130.48		4,160,272.14
III. Total accumulated amount of provision for impairment				0.00
IV. Total carrying amount	10,174,051.59			8,612,911.48
Including: office equipment . . .	3,882,243.78			3,121,234.15
Transportation equipment . . .	6,291,807.81			6,530,715.32

9. Intangible asset

Items	Book balance at the beginning of the period	Increase for the period	Decrease for the period	Book balance at the end of period
Software	64,018.13	729,053.94	15,571.12	777,500.95
Total	64,018.13	729,053.94	15,571.12	777,500.95

10. Short-term borrowings

Items	Closing balance
China Everbright Bank, Beijing Jianguomen Branch (光大銀行北京建國門支行)	141,000,000.00
China Everbright Bank, Beijing Jianguomen Branch (光大銀行北京建國門支行)	150,000,000.00
Ping AN Bank, Shijingshan Branch (平安銀行石景山支行)	200,000,000.00
China Construction Bank, Shijingshan Branch (建設銀行石景山支行)	200,000,000.00
Hangzhou Bank, Beijing Branch (杭州銀行北京分行)	90,000,000.00
Industrial Bank, Shijingshan Branch (興業銀行石景山支行)	475,000,000.00
Bank of Kunlun, Tuha Branch (昆侖銀行吐哈分行)	160,610,000.00
Total	1,416,610,000.00

11. Bills payable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	250,000,000.00	0.00
Commercial acceptance	0.00	0.00
Total	250,000,000.00	0.00

12. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	26,025,000.00	100.00%	10,577,464.94	100.00%
1-2 years (including 2 years)		0.00%		0.00%
2-3 years (including 3 years)		0.00%		0.00%
Over 3 years		0.00%		0.00%
Total	26,025,000.00	100.00%	10,577,464.94	100.00%

(2) Major creditors in the closing balance of accounts payable are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Guangdong Fuel Company (廣東省燃料公司)	Non-related party	13,902,400.00	Within 1 year	53.42%
Dongtai Huaheng Petrochemical Trading Co., Ltd. (東台市華恒石化貿易有限公司) . .	Non-related party	9,865,700.00	Within 1 year	37.91%
Panjin Luxiang Asphalt Co., Ltd. (盤錦路祥瀝青有限公司)	Non-related party	1,816,236.51	Within 1 year	6.98%
Total		<u>25,584,336.51</u>		<u>98.31%</u>

13. Advance receipt

(1) *Categories of advance receipt*

<u>Aging</u>	<u>Book balance at the end of the period</u>		<u>Book balance at the beginning of the year</u>	
	<u>Amount</u>	<u>Proportion</u> (%)	<u>Amount</u>	<u>Proportion</u> (%)
Within 1 year (including 1 year)	53,854,943.78	1.89%		
1-2 years (including 2 years).		0.00%		
2-3 years (including 3 years).		0.00%		
Over 3 years.		0.00%		
Total	<u>53,854,943.78</u>	<u>1.89%</u>	<u>0.00</u>	<u>0.00%</u>

(2) Major debtors in the closing balance of advance receipt are set out as follows

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
CNOOC & CRM Oil Marketing Co., Ltd. (中海油中鐵油品銷售有限公司) . .	Non-related party	51,075,675.00	Within 1 year	94.84%
Zibo Zhongyu Petrochemical Co., Ltd (淄博中譽石油化工有限公司) . . .	Non-related party	2,703,923.05	Within 1 year	5.02%
Total		<u>53,779,598.05</u>		<u>99.86%</u>

14. Staff remuneration payables

<u>Items</u>	<u>Balance at the beginning of the period</u>	<u>Balance at the end of the period</u>
I. Salaries, bonuses, allowance and subsidies	0.00	896,660.81
II. Staff welfare		
III. Social insurance premiums		
IV. Union operation costs and employee education costs		
Total	<u>0.00</u>	<u>896,660.81</u>

15. Tax payable

<u>Items</u>	<u>Balance at the beginning of the year</u>	<u>Balance at the end of the period</u>
Value added tax	1,510,399.51	1,631,738.18
Enterprise income tax	4,252,926.88	7,487,763.02
Individual income tax	133,388.38	130,822.48
Other tax	181,247.94	193,710.98
Total	<u>6,077,962.71</u>	<u>9,444,034.66</u>

16. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	5,227,094.80	100.00%	4,938,538.20	100.00%
1-2 years (including 2 years).		0.00%		0.00%
2-3 years (including 3 years).		0.00%		0.00%
Over 3 years.		0.00%		0.00%
Total	<u>5,227,094.80</u>	<u>100.00%</u>	<u>4,938,538.20</u>	<u>100.00%</u>

(2) Major creditors in the closing balance of other payable are set out as follows

Name of company	Relationship with the Company	Amount	Aging	Proportion
Nanjing Petrochemical Group Co., Ltd. (南京石化集團有限公司)	Non-related party	3,000,000.00	Within 1 year	57.39%
Zhangjiakou Huafu Caitong Investment Management Co., Ltd. (張家口華富財通投資管理有限公司).	Non-related party	<u>2,115,294.80</u>	Within 1 year	<u>40.47%</u>
Total		<u>5,115,294.80</u>		<u>97.86%</u>

17. Paid-in capital

Investee	Book balance at the beginning of the year		Increase and decrease for the period	Book balance at the end of the period	
	Investment amount	Proportion (%)		Investment amount	Proportion (%)
Total.	1,725,000,000.00	100.00%	0.00	1,725,000,000.00	100.00%
China Flader Industrial Co., LTD (中國富萊德實業公司).	517,500,000.00	30.00%		517,500,000.00	30.00%
Guoneng Natural Gas IMP.& EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	483,000,000.00	28.00%		483,000,000.00	28.00%
China Overseas Holding Group Co., Ltd. (中國海外控股集團有限公司)			465,750,000.00	465,750,000.00	27.00%
Bright Dynasty International Ltd (新能國際投資有限公司)	431,250,000.00	25.00%	-431,250,000.00	0.00	0.00%
China Hualian International Commercial CO., LTD. (中國華聯國際貿易公司)	258,750,000.00	15.00%		258,750,000.00	15.00%
Shenzhen Bai Zhao Investment & Consultant CO., LTD. (深圳市百墨投資顧問有限公司).	34,500,000.00	2.00%	-34,500,000.00	0.00	0.00%

18. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves.			
(1) Other equity change in the invested entity			
(2) Share-based payment for non-exercised.			
(3) Changes in the fair value of financial assets held-for-sale			
(4) Balance on the changes in fair value of investment property.			
(5) Profit or loss on cash-flow hedges.			
(6) Profit or loss on hedges of a net investment in a foreign operation			
(7) Income tax effect relating to items included into owners' equity			
(8) Others			
3. Transfer of capital surplus recognized under the previous accounting system.			
Total.	75,500,000.00		75,500,000.00

19. Retained profit

Items	Amount
Balance at the beginning of the year	654,519,192.61
Increase for the period.	182,601,576.95
Including: net profit transferred into in the year	182,601,576.95
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	837,120,769.56

20. Operating revenue and operating cost

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Sub-total on main business	4,542,199,143.94	4,226,331,687.81	1,841,057,970.89	1,700,585,247.71
Total	4,542,199,143.94	4,226,331,687.81	1,841,057,970.89	1,700,585,247.71

21. Business taxes and surcharges

Items	Amount for the period	Amount for the previous period
Business taxes and surcharges	7,341,822.84	3,785,045.37
Total.	7,341,822.84	3,785,045.37

22. Cost of sales

Items	Amount for the period	Amount for the previous period
Sales expenses	4,756,673.30	3,770,645.06
Total	4,756,673.30	3,770,645.06

23. Management fees

Items	Amount for the period	Amount for the previous period
Management fees	8,516,296.61	6,849,853.36
Total	8,516,296.61	6,849,853.36

24. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	48,797,725.62	19,230,374.75
Total	48,797,725.62	19,230,374.75

25. Investment income

Items	Amount for the period	Amount for the previous period
Investment income	13,831.51	0.00
Total	13,831.51	0.00

26. Non-operating expenses

Items	Amount for the period	Amount for the previous period
Non-operating expenses	3,000,000.00	0.00
Total	3,000,000.00	0.00

27. Income tax expense*Component of income tax expense (income)*

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . . .	60,867,192.32	26,709,201.16
Adjustment for deferred income tax	0.00	0.00
Total	60,867,192.32	26,709,201.16

X. CONTINGENCIES

The Company did not have material contingent issues required to be disclosed.

XI. NON-ADJUSTING POST BALANCE SHEET EVENTS

The Company did not have any post balance sheet day event required to be disclosed.

XII. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS RELATIONSHIP

(I) Related party

1. Criteria on related party

The company's criteria on related party is: when a party control, jointly control or exercise significant influence over another party, or when two or more parties are under control, jointly control or significant influence of the same party, the related party relationship are constituted.

2. Investors of the Company

<u>Name of related parties</u>	<u>Place of registry</u>	<u>Percentage of shareholding</u>
China National Friend Industry Corporation (中國富萊德實業公司) . . .	Beijing	30%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	Beijing	28%
China Overseas Holding Group Co., Ltd. (中國海外控股集團有限公司)	Beijing	27%
China Hualian International Commercial CO., LTD. (中國華聯國際貿易公司)	Beijing	15%

(II) Pricing policy

Pricing for connected transactions arrived at by market principles.

(III) Transactions with related parties

There is no transaction with related parties from January to June during 2015.

XIII. OTHER SIGNIFICANT MATTERS

1. Exchange of non-monetary assets

The Company has no significant exchange of non-monetary asset required to be disclosed during the reporting period.

2. Debt Restructuring

The Company has no significant debt restructuring required to be disclosed during the reporting period.

3. Discontinued operations

The Company and its subsidiaries have no operations intended to be discontinued.

4. Significant displacement, transfer and disposal of assets

The Company did not have significant displacement, transfer and disposal matters during the reporting period.

XIV. APPROVAL FOR THE FINANCIAL STATEMENTS

The financial statements have been approved by the Company as at 12 August 2015.

AUDITORS' REPORT

Eastlake Shen Zi (2015) No. 201

To All Shareholders of China Energy Reserve and Chemicals Group Company Limited,

We have audited the accompanying consolidated and parent company financial statements of China Energy Reserve and Chemicals Group Company Limited (hereafter refers to the Company), which comprise the consolidated and parent company balance sheets as at 31 December 2014, and the consolidated and parent company income statements, the consolidated and parent company statements of cash flows for the year of 2014, and the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements. The responsibilities include: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining necessary internal control to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

II. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. OPINION

In our opinion, the financial statements of the Company were prepared in accordance with Accounting Standards for Business Enterprises, and presented fairly, in all material aspects, the financial position of the Company as of 31 December 2014 and the results of its operations and its cash flows for the year of 2014.

Beijing Eastlake CPA Co., Ltd

Chinese Certified Public Accountants: /s/

Chinese Certified Public Accountants: /s/

Beijing, PRC

25 January 2015

CONSOLIDATED BALANCE SHEET

Company: China Energy Reserve and Chemicals Group

31 December 2014

Unit: RMB

Assets	Balance at the end of the period	Balance at the beginning of the year	Liabilities and owners' equity	Balance at the end of the period	Balance at the beginning of the year
CURRENT ASSETS:			CURRENT LIABILITIES:		
Monetary funds	789,225,896.62	1,107,584,704.51	Short-term borrowings	1,546,200,000.00	841,060,000.00
Held-for-trading financial assets	20,000,000.00	2,400,000.00	Held-for-trading financial liabilities		
Bills receivable	32,237,845.61	7,800,000.00	Bills payable	154,000,000.00	
Accounts receivable	653,086,247.89	346,754,195.07	Accounts payable	131,874,952.45	90,090,899.77
Prepayment	1,083,575,070.80	858,229,688.33	Advance receipt	406,537,798.74	139,533,405.53
Interest receivable			Staff remuneration payables	1,674,076.03	1,089,842.08
Dividend receivable			Taxes payable	28,452,245.56	30,349,022.08
Other receivables	133,994,465.97	120,021,861.55	Interest payable		
Inventory	1,169,487,003.79	487,972,977.24	Dividend payable		
Non-current assets due within one year			Other payables	96,330,599.18	102,462,870.51
Other current assets			Non-current liabilities due within one year		
Total current assets	3,881,606,530.68	2,930,763,426.70	Other current liabilities		
NON-CURRENT ASSETS:			Total current liabilities	2,365,069,671.96	1,204,586,039.97
Available-for-sale financial assets			NON-CURRENT LIABILITIES:		
Held-to-maturity investments			Long-term borrowings	1,189,288,105.13	763,074,989.16
Long-term receivables			Bonds payable		
Long-term equity investments	654,945,383.97	584,545,383.97	Long-term payables	4,831,437.43	52,016,014.66
Investment properties			Special accounts payable	655,600.00	655,600.00
Fixed assets	2,803,148,794.56	1,721,217,515.86	Estimated liabilities		
Less: accumulated depreciation	407,469,020.68	301,432,263.08	Deferred income tax liabilities	38,945,255.13	37,404,252.65
Net value of fixed assets	2,395,679,773.88	1,419,785,252.78	Other non-current liabilities		
Less: impairment provision for fixed assets			Total non-current liabilities	1,233,720,397.69	853,150,856.47
Net fixed assets	2,395,679,773.88	1,419,785,252.78	TOTAL LIABILITIES	3,598,790,069.65	2,057,736,896.44
Construction in progress	1,681,672,549.73	1,411,971,211.33	OWNERS' EQUITY:		
Construction materials	85,404,848.02	43,188,335.97	Paid-in capital (or share capital)	1,725,000,000.00	1,725,000,000.00
Disposal of fixed assets			Capital reserves	339,437,580.51	339,437,580.51
Productive biological assets			Less: treasury shares		
Intangible assets	155,166,141.97	142,511,539.58	Special reserves		
Oil and gas assets			Surplus reserves		
Goodwill			Retained profit	2,485,569,176.43	1,858,734,495.99
Long-term prepaid expenses	17,776,731.56	20,547,837.06	Total equity attributable to the owner of parent company	4,550,006,756.94	3,923,172,076.50
Deferred income tax assets			Minority shareholders' equity (set out in the consolidated statements)	723,455,133.22	572,404,014.45
Other non-current assets			Total shareholders' equity	5,273,461,890.16	4,495,576,090.95
Total non-current assets	4,990,645,429.13	3,622,549,560.69	TOTAL LIABILITIES AND OWNERS' EQUITY	8,872,251,959.81	6,553,312,987.39
TOTAL ASSETS	8,872,251,959.81	6,553,312,987.39			

BALANCE SHEET

Company: China Energy Reserve and Chemicals Group

31 December 2014

Unit: RMB

Assets	Balance at the end of the period	Balance at the beginning of the year	Liabilities and owners' equity	Balance at the end of the period	Balance at the beginning of the year
CURRENT ASSETS:			CURRENT LIABILITIES:		
Monetary funds	194,157,755.18	362,763,011.49	Short-term borrowings	1,101,000,000.00	450,000,000.00
Held-for-trading financial assets			Held-for-trading financial liabilities		
Bills receivable			Bills payable		
Accounts receivable	168,101,516.82	69,719,816.10	Accounts payable	10,577,464.94	17,700,834.20
Prepayments	402,009,045.20	197,599,297.50	Advance receipt		
Interest receivable			Staff remuneration payable		
Dividend receivable			Taxes payable	6,077,962.71	9,921,111.75
Other receivables	105,688,640.40	5,903,088.40	Interest payable		
Inventory	386,048,131.14	46,258,024.87	Dividend payable		
Non-current assets due within one year			Other payables	4,938,538.20	89,915,774.38
Other current assets			Non-current liabilities due within one year		
Total current assets	1,256,005,088.74	682,243,238.36	Other current liabilities		
NON-CURRENT ASSETS:			Total current liabilities	1,122,593,965.85	567,537,720.33
Available-for-sale financial assets			NON-CURRENT LIABILITIES:		
Held-to-maturity investments			Long-term borrowings		
Long-term receivables			Bonds payable		
Long-term equity investments	2,311,370,000.00	2,109,870,000.00	Long-term payables		
Investment properties			Special accounts payable		
Fixed assets	18,815,453.10	10,305,379.00	Estimated liabilities		
Less: accumulated depreciation	8,641,401.51	6,575,735.28	Deferred income tax liabilities		
Net value of fixed assets	10,174,051.59	3,729,643.72	Other non-current liabilities		
Less: impairment provision for fixed assets			Total non-current liabilities		
Net fixed assets	10,174,051.59	3,729,643.72	TOTAL LIABILITIES	1,122,593,965.85	567,537,720.33
Construction in progress			OWNERS' EQUITY:		
Construction materials			Paid-in capital (or share capital)	1,725,000,000.00	1,725,000,000.00
Disposal of fixed assets			Capital reserves	75,500,000.00	75,500,000.00
Productive biological assets			Less: treasury shares		
Intangible assets	64,018.13		Special reserves		
Oil and gas assets			Surplus reserves		
Goodwill			Retained profit	654,519,192.61	427,805,161.75
Long-term prepaid expenses			Total equity attributable to owners of parent company	2,455,019,192.61	2,228,305,161.75
Deferred income tax assets			Minority shareholders' equity (set out in the consolidated statements)		
Other non-current assets			Total shareholders' equity	2,455,019,192.61	2,228,305,161.75
Total non-current assets	2,321,608,069.72	2,113,599,643.72	TOTAL LIABILITIES AND OWNERS' EQUITY	3,577,613,158.46	2,795,842,882.08
TOTAL ASSETS	3,577,613,158.46	2,795,842,882.08			

CONSOLIDATED INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

31 December 2014

Unit: RMB

Items	Row	Amount accumulated in the year	For the year of 2013
I. Operating revenue	1	13,027,837,790.78	8,980,445,497.38
Less: operating cost	2	11,650,220,659.79	7,756,698,647.24
Business tax and surcharges	3	30,952,844.96	27,233,176.69
Selling expenses	4	57,163,649.43	50,018,152.54
Administrative expenses	5	110,203,668.70	94,506,023.91
Finance expenses	6	153,313,810.57	42,982,149.41
Loss on impairment of assets	7	0.00	0.00
Add: net gain from change of fair value	8	0.00	0.00
Net income from investment	9	646,455.49	-3,257,664.38
II. Operating profit	10	1,026,629,612.82	1,005,749,683.21
Add: non-operating income	11	7,787,923.65	528,132.38
Less: non-operating expenses	12	110,500.67	14,531,501.91
Including: net loss on disposal of non-current assets	13		
III. Total profit	14	1,034,307,035.80	991,746,313.68
Less: income tax	15	256,421,236.59	251,806,706.82
IV. Net profit	16	777,885,799.21	739,939,606.86
Net profit attributable to the owners of parent company (set out in the consolidated statement)	17	626,834,680.44	676,933,453.93
Minority shareholders' profit or loss (set out in the consolidated statements)	18	151,051,118.77	63,006,152.93
V. Earnings per share	19		
(i) Basic earnings per share	20		
(ii) Diluted earnings per share	21		
VI. Other comprehensive income	22		
VII. Total comprehensive income	23		
(I) Total comprehensive income attributable to the owners of parent company	24		
(II) Total comprehensive income attributable to minority shareholders	25		

INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

31 December 2014

Unit: RMB

Items	Row	Amounts accumulated in the year	For the year of 2013
I. Operating revenue	1	4,002,915,211.60	2,507,942,107.72
Less: operating cost	2	3,590,451,773.05	2,183,385,016.85
Business tax and surcharges	3	6,531,532.13	6,620,964.65
Selling expenses	4	9,211,195.56	9,090,325.74
Administrative expenses	5	16,576,513.01	15,102,689.88
Finance expenses	6	78,147,674.14	11,984,992.72
Loss on impairment of assets	7		
Add: net gain from change of fair value	8		
Net income from investment	9	288,850.77	
II. Operating profit	10	302,285,374.48	281,758,117.88
Add: non-operating income	11		
Less: non-operating expenses	12		
Including: net loss on disposal of non-current assets	13		
III. Total profit	14	302,285,374.48	281,758,117.88
Less: income tax	15	75,571,343.62	70,439,529.47
IV. Net profit	16	226,714,030.86	211,318,588.41
Net profit attributable to the owners of parent company (set out in the consolidated statement)	17		
Minority shareholders' profit or loss (set out in the consolidated statements)	18		
V. Earnings per share	19		
(I) Basic earnings per share	20		
(II) Diluted earnings per share	21		
VI. Other comprehensive income	22		
VII. Total comprehensive income	23		
(I) Total comprehensive income attributable to the owners of parent company	24		
(II) Total comprehensive income attributable to minority shareholders	25		

CONSOLIDATED CASH FLOW STATEMENT

Company: China Energy Reserve and Chemicals Group		31 December 2014		Unit: RMB
Items	Row	Amounts	Supplementary information	Amounts
I. Cash flows from operating activities:	1		1. Reconciliation of net profit as cash flows from operating activities:	
Cash received from sales of goods and rendering services	2	15,146,521,634.90	Net profit	777,885,799.21
Tax rebates received	3		Add: provision for impairment of assets	
Cash received relating to other operating activities	4	89,333,379.70	Depreciation of fixed assets	106,036,757.60
Subtotal of cash inflows from operating activities.	5	15,235,855,014.60	Amortisation of intangible assets . . .	4,777,954.97
Cash paid for goods and services	6	14,220,690,912.81	Amortisation of long-term prepaid expenses	3,834,489.53
Cash paid to and for employees	7	75,842,971.33	Loss on disposal of fixed assets, intangible assets and other long-term assets (less: revenue)	
Taxes and surcharges paid	8	297,138,795.39	Loss on retired fixed assets	
Cash paid relating to other operating activities	9	425,811,646.77	Loss on change of fair value (less: revenue)	
Subtotal of cash outflows from operating activities.	10	15,019,484,326.30	Finance expenses	119,447,511.38
Net cash flows from operating activities	11	216,370,688.30	Investment loss (less: revenue)	646,455.49
II. Cash flows from investing activities:	12		Decrease in deferred income tax assets (less: increase)	
Cash received from investments	13		Increase in deferred tax liability (less: decrease)	
Cash received from investment income	14	646,455.49	Decrease in inventory (less: increase) . .	-681,514,026.55
Net cash received for disposal of fixed assets, intangible assets and other long-term assets	15		Decrease in operating receivables (less: increase)	-570,087,885.32
Net cash received from disposal of subsidiaries and other business units . .	16		Increase in operating payables (less: decrease)	455,343,631.99
Cash received relating to other investing activities	17		Others	-
Subtotal of cash inflows from investing activities	18	646,455.49	Net cash flows from operating activities	216,370,688.30
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	19	1,337,557,285.43	2. Investing and financing activities not involving cash settlements:	
Cash paid on investments	20	70,400,000.00	Capital converted from debts	
Net cash paid for acquisition of subsidiaries and other business units . .	21		Convertible bonds of the Company due within one year	
Cash paid relating to other investing activities	22		Finance leases of fixed assets	
Subtotal of cash outflows from investing activities	23	1,407,957,285.43	3. Net increase in cash and cash equivalents:	
Net cash flows from investing activities	24	-1,407,310,829.94	Cash balance at the end of the period . .	789,225,896.62
III. Cash flows from financing activities:	25		Less: cash balance at the beginning of the period	1,107,584,704.51
Cash received from capital contribution .	26		Add: balance of cash equivalents at the end of the period	
Cash received from borrowings	27	1,913,720,000.00	Less: balance of cash equivalents at the beginning of the period	
Cash received relating to other financing activities	28		Net increase in cash and cash equivalents	-318,358,807.89
Subtotal of cash inflows from financing activities	29	1,913,720,000.00		
Cash repayments of amounts borrowed . .	30	882,366,884.03		
Cash paid for dividend and profit distribution or interest payment	31	158,771,782.22		
Cash paid relating to other financing activities	32			
Subtotal of cash outflows from financing activities	33	1,041,138,666.25		
Net cash flows from financing activities	34	872,581,333.75		
IV. Effect of foreign exchange rate changes on cash.	35			
V. Net increase in cash and cash equivalents	36	-318,358,807.89		
Add: balance of cash and cash equivalents as at the beginning of the period	37	1,107,584,704.51		
VI. Balance of cash and cash equivalents as at the end of the period	38	789,225,896.62		

CASH FLOWS STATEMENT

Company: China Energy Reserve and Chemicals Group

31 December 2014

Unit: RMB

Items	Row	Accumulated amount for the year	Supplementary information	Amount
I. Cash flows from operating activities:	1		1. Reconciliation of net profit as cash flows from operating activities:	
Cash received from sales of goods and rendering services	2	4,579,819,251.91	Net profit	226,714,030.86
Tax rebates received	3		Add: provision for impairment of assets	
Cash received relating to other operating activities	4	10,225,405.88	Depreciation of fixed assets	2,065,666.23
Subtotal of cash inflows from operating activities	5	4,590,044,657.79	Amortisation of intangible assets	6,552.81
Cash paid for goods and services	6	4,786,516,115.76	Amortisation of long-term prepaid expenses	
Cash paid to and for employees	7	12,596,681.94	Loss on disposal of fixed assets, intangible assets and other long-term assets (less: revenue)	
Taxes and surcharges paid	8	88,939,616.72	Loss on retired fixed assets	
Cash paid relating to other operating activities	9	238,649,596.38	Loss on change of fair value (less: revenue)	
Subtotal of net cash flows from operating activities	10	5,126,702,010.80	Finance expenses	72,867,258.26
Net cash flows from operating activities	11	-536,657,353.01	Investment loss (less: revenue)	
II. Cash flows from investing activities:	12		Decrease in deferred income tax assets (less: increase)	
Cash received from investments	13		Increase in deferred tax liability (less: decrease)	
Cash received from investment income	14		Decrease in inventories (less: increase)	-339,790,106.27
Net cash on disposal of fixed assets, intangible assets and other long-term assets	15		Decrease in operating receivable (less: increase)	-402,577,000.42
Net cash on disposal of subsidiaries and other business entities	16		Increase in operating payable (less: decrease)	-95,285,755.67
Cash received relating to other investing activities	17		Others	
Subtotal of cash inflows from investing activities	18		Net cash flows from operating activities	-535,999,354.20
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	19	8,510,074.10	2. Investing and financing activities not involving cash settlements:	
Cash paid on investments	20	201,500,000.00	Capital converted from debts	
Net cash paid for acquisition of subsidiaries and other business entities	21		Convertible bonds of the Company due within one year	
Cash paid relating to other investing activities	22		Finance leases of fixed assets	
Subtotal of cash outflows from investing activities	23	210,010,074.10	3. Net increase in cash and cash equivalents:	
Net cash flows from investing activities	24	-210,010,074.10	Cash balance at the end of the period	194,157,755.18
III. Cash flows from financing activities:	25		Less: cash balance at the beginning of the period	362,763,011.49
Cash received from capital contribution	26		Add: balance of cash equivalents at the end of the period	
Cash received from borrowings	27	1,101,000,000.00	Less: balance of cash equivalents at the beginning of the period	
Cash received relating to other financing activities	28		Net increase in cash and cash equivalents	-168,605,256.31
Subtotal of cash inflows from financing activities	29	1,101,000,000.00		
Cash repayments of amounts borrowed	30	450,000,000.00		
Cash paid for dividend and profit distribution or interest payment	31	72,937,829.20		
Cash paid relating to other financing activities	32			
Subtotal of cash outflows from financing activities	33	522,937,829.20		
Net cash flows from financing activities	34	578,062,170.80		
IV. Effect of foreign exchange rate changes on cash	35			
V. Net increase in cash and cash equivalents	36	-168,605,256.31		
Add: balance of cash and cash equivalents as at the beginning of the period	37	362,763,011.49		
VI. Cash and cash equivalents as at the end of the period	38	194,157,755.18		

**Notes to the Financial Statements of
China Energy Reserve and Chemicals Group
As at 31 December 2014**

I. BASIC INFORMATION OF THE COMPANY

China Energy Reserve and Chemicals Group (hereafter referred to as the “Company”) (formerly known as China Huaxing Mechanical and Electrical Equipment Company (中國華星機電設備公司)) was founded on 21 November 1981. The Company obtained the enterprise legal person business licence of No. 100000000042401 issued by the State Administration for Industry & Commerce of the People’s Republic of China. Its registered capital was RMB172.5 million, among which, China National Friend Industry Corporation (中國富萊德實業公司) contributed RMB517.5 million, representing 30% of the registered capital; Guoneng Natural Gas Import and Export (Beijing) Company Limited (國能天然氣進出口(北京)有限公司) contributed RMB483 million, representing 28% of the registered capital; Xinneng International Investment Co. Ltd. (新能國際投資有限公司) contributed RMB431.25 million, representing 25% of the registered capital; China Hualian International Trade Company (中國華聯國際貿易公司) contributed RMB258.75 million, representing 15% of the registered capital; Shenzhen Baizhao Investment & Consultant Company Limited (深圳市百墨投資顧問有限公司) contributed RMB34.5 million, representing 2% of the registered capital. The Company located at Room 202, 2nd Floor, Unit 1, Building No. 1, No. 2 Yinhe South street, District Shijingshan, Beijing with registered capital of RMB1,725 million, and legal representative of which is Chen Yihe.

Business scope: licensed operation items: kerosene, natural gas [containing methane; liquefaction] (except for urban natural gas), natural gas [containing methane; compression] (except for urban gas), petroleum gas (except urban gas), petroleum gas (except for urban gas), naphtha, coal tar, non-drying alkyd resin, petroleum crude oil, petroleum ether, pine tar.

General business scope: battery manufacturing; energy investments; investment management; investment advisory service; development of energy and energy-saving technologies, technical consulting, technology transfer; technical service; sales of electrical and mechanical equipment, lubricating oil, fuel oil, chemical products (excluding dangerous chemicals); import and export business. Sales of other petroleum products (excluding refined oil); sales of metal ores, metal materials, non-metallic minerals and products; oil and gas exploration service; pipeline transportation; technical detection; machinery and equipment leasing; computer systems and integration, software development, data processing, equipment maintenance; project management; asset management; property management; house leasing; conference and exhibition service; warehouse management.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared on a going concern and actual transaction and event basis in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued and revised thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises”).

III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

These Financial Statements comply with the Accounting Standards for Business Enterprises and give a true and fair view of information related to the Company, including its financial position as at 31 December 2014 and results of operations and cash flows for the year of 2014.

IV. EXPLANATION OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**1. Accounting year**

The accounting periods of the Company are classified as year and interim. Interim accounting period refers to a reporting period less than a full accounting year. The Company adopts the Gregorian calendar year as its accounting year, beginning from 1 January and ended 31 December each year.

2. Reporting currency

Renminbi (“RMB”) is the currency in the primary economic environment in which the Company and its domestic subsidiaries operate and has been adopted by the Company and its domestic subsidiaries as its reporting currency in the preparation of these financial statements.

3. Basis of preparation and principle of measurement (nature of measurement)

According to relevant requirements under the Accounting Standards for Business Enterprises, the Company has adopted the accrual basis as its basis of accounting. Except for certain financial instruments, historical costs have been adopted as the basis of measurement in these Financial Statements. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

4. Calculation and translation of foreign currency transactions

(1) Translation of foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the foreign currency is translated into the reporting currency at the spot exchange rate at the transaction date. (Generally, a spot exchange rate is the middle rate quoted by the People's Bank of China on the day of transaction). Transaction in foreign currency exchange or transaction involving foreign currency exchange shall be translated into the reporting currency at the actual exchange rate.

(2) Translation of foreign monetary items and foreign non-monetary items

On the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate on the balance sheet date and the arising difference shall be recorded in the current profit or loss, except: (1) exchange difference arising from foreign currency borrowings for the purchase and construction of assets qualified for capitalization shall be dealt with according to the principle of capitalization of loans; and (2) exchange difference arising from the change of balance in the carrying amount other than amortized cost of an available-for-sale foreign monetary item shall be recognized in other comprehensive income.

Foreign currency non-monetary items measured at the historical cost shall still be translated into the reporting currency at the spot exchange rate at the transaction date. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate at the date of fair value evaluation, and the translation difference between the reporting currency and the original currency, shall be accounted for as the change in fair value (including changes of exchange rate) and recorded in the current profit or loss or recognized as other comprehensive income and recorded in the capital reserve.

(3) Translation of financial statements denominated in foreign currency

Where the consolidated financial statements include foreign operation(s), if there is foreign currency monetary substantially item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "translation differences arising on translation of financial statements denominated in foreign currency" in shareholder's equity, and in current profit or loss upon disposal of the foreign operation.

Financial statements of foreign operations denominated in foreign currency are translated into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items except for retained profits are translated at the spot exchange rates at the dates on which such items arose; revenue and expense in the income statement are translated at the spot exchange rate on the transaction date; the retained profits at the beginning of the year is the translated previous year's retained profits at the end of the year; the retained profits at the end of the year is calculated and presented on the basis of each translated profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items, as the exchange difference arising on translation of financial statements denominated in foreign currency, is separately recognized as other comprehensive income under the shareholders' equity in the balance sheet. On disposal of and loss of control over the foreign operation, the exchange difference arising from translation of financial statements denominated in foreign currency presented under shareholders' equity items on the balance sheet in respect of such foreign operation is recorded in the current profit or loss in whole or in proportion of such foreign operation.

Cash flows arising from a transaction in foreign currency are translated at the spot exchange on the day on which the cash flows incur. The effect of exchange rate changes on cash is regarded as a reconciling item and presented separately in the cash flows statement.

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

5. Criteria for determination of cash and cash equivalents

Cash and cash equivalents of the Company comprise cash on hand, deposits readily available for payment and short-term highly liquid investments that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and have a short maturity of generally within three months since acquired.

6. Accounts receivable

Accounts receivable includes accounts receivable and other receivable, etc.

(1) Recognition of bad debt provision

The Company carries out an overall inspection on the carrying amount of receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganizations; ④ other objective evidences indicating that the accounts receivable are impaired.

(2) Measurement of bad debt provision

① *Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable*

Accounts receivable of more than RMB1 million is recognized as individually significant accounts receivable by the Company.

For accounts receivable that is individually significant, the Company assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk features and collectively assessed for impairment. Accounts receivable for which an impairment loss is individually recognized are not included in a group of accounts receivable with similar credit risk features and collectively assessed for impairment.

② *Basis for recognition and measurement of bad debt provision for single item with insignificant accounts receivable but greater risks after arrival at by credit risk features*

A. Basis for determining portfolio of credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Company classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

B. Measurement determined basing on credit risk feature portfolio

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

③ *Aging analysis*

Aging	Ratio of provision (%)	
	Accounts receivable	Other accounts receivable
Within 1 year (including 1 year, the same below)	0	0
1-2 years	5	5
2-3 years	10	10
3-4 years	20	20
4-5 years	50	50
Over 5 years	80	80

(3) Reversal of bad debt provision

If there are evidences indicating that the value of the account receivable is recovered and that recovery is objectively connected to the event subsequent to the recognition of the loss, the impairment loss previously recognized will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment provision has been made.

7. Inventory

(1) Classification of inventories

Inventories mainly include raw materials, work in progress and semi-finished products, revolving supplementary materials, finished products, stored commodities etc.

(2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the first-in, first-out method.

Inventories are initially measured at cost. Inventories mainly include materials in stock, work in progress (development cost), finished products and developed products intended to sell but temporarily leased. Costs of products under development include payments for land acquisition, costs for infrastructure, construction and installation costs, borrowing costs capitalized before project is ready for intended use, and other relevant costs during development. When dispatched, actual cost will be calculated based on the first-in, first-out method.

(3) Recognition of net realizable value of inventory and provision for inventory impairment

Net realizable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and relative tax in daily operation. The realizable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

At the balance sheet date, inventories are calculated at the lower of cost and net realizable value. Provision for inventory impairment is made when the net realizable value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single inventory exceeds its net realizable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realizable value of an inventory is higher than its book value, an amount no more than the original provision for inventory impairment shall be transferred back and incorporated into the current profit or loss.

(4) The inventory taking system shall use permanent inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables are amortized by lump-sum when taken for use. Also, packaging materials are amortized by lump-sum when taken for use.

8. Long-term equity investments

(1) Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the sum of combination cost and respective direct related expenses of acquirer arising from business combination.

Equity investment other than long-term equity investment acquired through business combination shall be initially measured at its cost.

(2) Method for subsequent measurement and profit or loss recognition

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets.

In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

① Long-term equity investments accounted for using the cost method

Under the cost method, long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognized as the cash dividends or profits declared by the investee.

② Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to the current profit or loss, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss for the current period represents the Company's share of the net profits or losses made by the investee for the current year. The Company shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company. The unrealized gain or loss from internal transactions entered into between the Company and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Company and investment profit or loss is recognized based on such basis. However, the unrealized loss from internal transactions entered into between the Company and the investee will not be set off if belongs to impairment loss on assets transferred according to regulations such as "Accounting Standards for Business Enterprises No. 8 "Assets impairment". In respect of the other comprehensive income of investees, the carrying amount of long-term equity investments is accordingly adjusted and recognized as other comprehensive income and included in the capital reserves.

The Company's share of net losses of the investee shall be recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Company has obligation to assume additional loss, the projected liability will be recognized basing on the estimated obligation assumed and charged to the investment loss for the period. Where the investee is making net profits in subsequent periods, the Company shall resume recognizing its share of profits after setting off against the share of unrecognized losses.

If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the New Accounting Standards for Business Enterprises by the Company on 1 January 2006, the amounts amortized over the original residual term using the straight-line method is included in the current profit or loss.

③ *Acquisition of minority interests*

During the preparation of the consolidated financial statements, the capital reserve shall be adjusted basing on the difference between the new long-term equity investment acquired as a result of the acquisition of minority interests and the net assets share which are measured basing on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares and an adjustment shall be made to retained earnings if the capital reserve insufficient to set off impairment.

④ *Disposal of long-term equity investments*

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and the net assets in the subsidiary responding to the disposal of long-term equity investments is charged to the owners' equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be treated in accordance with the relevant accounting policies as described in Note VII. 1 "Preparation Method of the Consolidated Financial Statements".

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is included in the current profit or loss. Where the equity method is adopted, other comprehensive income previously included in shareholders' equity shall be transferred to the current profit or loss on a pro-rata basis. The remaining equity shall be recognized as the long-term equity investments or other relevant financial assets basing on the carrying amount and subsequently measured in accordance with the accounting policies of the foresaid long-term equity investments or financial assets. The retrospective adjustment shall be made in accordance with the relevant provisions if the remaining equity is accounted for using the equity method instead of the cost method.

(3) *Recognition of having joint control or significant influence over the investee*

The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investor and other investee held) were taken into account.

(4) *Impairment test method and impairment provision*

The Company assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, a provision for impairment loss of the asset is recognized accordingly and charged to the current profit or loss.

An impairment loss recognized on long-term equity investments shall not be reversed in a subsequent period.

9. Investment Property

Investment property refer to real estate held to earn rentals or for capital appreciation, or both. Investment property of the Company include the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out.

(1) Recognition of investment properties

No investment property shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to this investment property are likely to flow into the enterprise;
- ② The cost of the investment property can be reliably measured.

(2) Initial measurement of the investment property

- ① The cost of a purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
- ② The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost of an investment property obtained by other means shall be recognized in accordance with relevant accounting standards.
- ④ Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits or losses upon occurrence.

(3) Subsequent measurement of the investment property

The cost method is adopted by the Company for subsequent measurement of investment property on the date of the balance sheet. According to relevant regulations of Accounting Standards for Business Enterprises No. 4 – Fixed Assets and Accounting Standard for Business Enterprises No. 6 – Intangible Assets, the Company shall make amortization basing on straight-line method over the expected useful life or make provision for investment property.

(4) Conversion of the investment property

Where the Company has well-established evidence indicating that the purpose of the property has changed, it shall convert the investment property to other assets or visa versa. The book value of the property prior to the conversion shall be entry value after conversion.

(5) Impairment provision of the investment property

Basis and method of calculation of impairment provision for investment property under cost model on subsequent measurement refer to Note IV. 14.

10. Fixed Assets

(1) Recognition of fixed assets

Fixed assets of the Company are tangible assets that are held for using in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year. No fixed asset shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;
- ② The cost of the fixed asset can be measured reliably.

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

- ① The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, installation fees and professional service fees and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the asset.

Where the payment for a fixed asset is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of fixed assets shall be recognized on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price shall be included in the current profits or losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs.

- ② The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
- ④ Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized basing on the amount incurred and charged to the current profit or loss. Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.
- ⑤ The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, business combinations, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards for Business Enterprises No. 7 – Exchange of Non-monetary Assets, Accounting Standards for Business Enterprises No. 12 – Debt Restructuring, Accounting Standards for Business Enterprises No. 20 – Business Combinations and Accounting Standards for Business Enterprises No. 21 – Leases.

(3) Categories of fixed assets

The fixed assets of the Company include buildings and supporting facilities, machine equipment, structures and other auxiliaries, transportation equipment, electronic equipment, pipe network and other equipment and furniture.

(4) Depreciation of fixed assets

- ① Recognition of the depreciation methods and estimated net useful life, estimated residual value and annual depreciation rate: Fixed assets shall be depreciated by straight-line method. Annual depreciation rate determined based on the categories of fixed assets, useful life, estimated net residual value are as follows:

Categories	Useful life	Residual value	Annual depreciation rate
	(year)	(%)	(%)
Buildings and structures	30	5	3.17
Special facilities	20	5	4.75
Special equipments	12	5	7.92
Transportation equipment	5-10	5	19.00-9.50
Office equipment	5	5	19.00

Depreciation method for fixed assets with provision for impairment: A fixed asset with provision for impairment is depreciated basing on its costs less estimated net residual value, the provision depreciation for and impairment and its remaining useful life.

A fixed asset that has reached its intended use but before the final account for completed project is stated at cost and depreciated basing on estimated value, which will be adjusted basing on actual cost upon the final account for completed project without adjustment to the depreciation already made.

- ② Review of useful life, estimated net residual value and depreciation method for fixed assets: The Company reviews the useful life, estimated net residual value and depreciation of a fixed asset at least at each financial year-end. The useful life of fixed assets is subject to adjustment based on the change, if any, as compared to the original estimate. The estimated net residual value is subject to adjustment basing on the change, if any, as compared to the original estimate. The depreciation method applied is subject to change where there arises a significant change in the expected realization mode of economic benefit relating to the fixed assets. Any change in the useful life, estimated net residual value and depreciation method of a fixed asset shall be accounted for as a change in accounting estimate.

(5) Treatment of subsequent expenses related to fixed assets

Subsequent expenses related to fixed assets mainly include repair expense, renovation expense, repair costs, decoration expenses and so on that incur in the course of use of fixed assets. In accounting, subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are charged to the current profits or losses. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under “fixed assets”, and are depreciated separately on a straight-line basis over the lower of the period between two decorations and the remaining useful life of fixed assets.

Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.

11. Construction in progress

- (1) Construction in progress of the Company include infrastructure construction expenditures, installation expenditures and other construction expenditures. Construction in progress is measured at its actual costs.
- (2) Timing for transferring construction in progress into fixed assets:

Construction in progress is transferred into fixed assets when it is ready for its intended use basing on the actual costs. For any completed fixed assets ready for intended use but with final account unsettled, they will be accounted for at estimated value. An adjustment shall be made upon actual value is determined.

12. Intangible assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset is measured initially at cost. The expenditures associated with intangible assets shall be included in the cost of intangible assets when it is probable that the relevant economic benefits will flow to the Company and its cost can be measured reliably. The expenditures on other projects shall be included in the current profits or losses as incurred.

The land use rights acquired are generally accounted for as intangible assets. For self-constructed plants and buildings, the relevant expenditures on land use rights and the cost of constructions shall be accounted for intangible assets and fixed assets respectively. For acquired buildings and structures, the relevant cost shall be allocated between the land use right and structures, and if it is impossible to be reasonably allocated, all the relevant cost shall be recognized as fixed assets.

When an intangible asset with finite useful life is available for use, its original cost less expected net residual value and any accumulative amount of impairment provision is amortized over its estimated useful life using straight-line method. An intangible asset with indefinite useful life shall not be amortized.

For an intangible asset with finite use life, the Company reviews the useful life and amortization method at the end of the period. Any changes of uselife and amortization method shall be taken as changes in accounting estimation. After reviewing useful life of intangible assets with indefinite useful life, if there is evidence indicating that economic benefit inflow term of an intangible asset is predictable, the Company shall estimate its useful life and make an amortization according to the amortization policy for fixed asset with finite use life.

(2) Research and development expenses

Expenses of an internal research and development project of the Company are classified into research expenses and development expenses.

Research expenses shall be included in the current profits or losses as incurred.

Development expenses that satisfy the following conditions simultaneously are recognized as intangible assets, while those that do not satisfy the following conditions are included in current profits or losses:

- ① It is technically feasible that the intangible asset can be used or sold upon completion;
- ② It is intend to complete, use or sell the intangible assets;

- ③ The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation;
- ④ There are sufficient technical, financial resources and other resources to complete the development of the intangible assets and the ability to make them available for use or sale;
- ⑤ The expenses attributable to such intangible assets can be measured reliably at the development stage.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all the research and development expenses incurred are accounted for in the current profits or losses.

13. Long-term prepaid expenses

Long-term prepaid expenses are various expenditures which have incurred but that shall be amortized over more than one year in the reporting period and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period.

14. Impairment of assets

(1) Impairment of assets referred herein mainly involve long-term equity investment (excluding the long-term equity investment which does not exercise joint control nor have significant influences on the investee, and has no quotation in the active market and whose fair value cannot be reliably measured), investment properties (excluding investment properties measured at fair value), fixed assets, construction in progress, construction materials, intangible assets (including capitalized development expenses), goodwill, a group of assets and portfolio of assets, etc.

(2) Recognition of assets that may be impaired

As at the balance sheet date, the Company assesses whether there is any signs to indicate that the assets may be impaired. Goodwill arising in a business combination and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there are any signs to indicate that the asset may be impaired. The indicators for impairment are as follows:

- ① the current market price of an asset declines substantially and the decline is obviously more than that as expected caused by passage of time or normal application;
- ② there are significant changes in the economic, technical or legal environment in which the Company operates and in the market where the asset is located in the current period or near future resulting in adverse impacts on the Company;
- ③ the market interest rate or rate of return of other investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of estimated cash flow which results in a substantial decline in the recoverable amount of the assets;
- ④ there is evidence to demonstrate that the asset has obsoleted or been physically damaged;
- ⑤ the asset has already been or will be left idle, ceased to be used, or planned to be early disposed;
- ⑥ there is evidence from the internal reports of the Company that the economic return of asset such as the net cash flows generated or operating profit (or loss) realised, has been or will be lower (or higher) than that as expected;
- ⑦ other signs indicating that the value of an asset may have already been impaired.

(3) Measurement of recoverable amount of assets

Where there is any indication that an asset is impaired, its recoverable amount should be estimated. The recoverable amount of an asset is determined by the higher of its fair value less costs of disposal and its present value of expected future cash flows.

(4) Recognition of asset impairment losses

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset will be reduced to its recoverable amount. Impairment losses are recognized in the current profit or loss. A provision for an impairment loss of the asset is recognized accordingly. After the impairment loss for an asset is recognized, the corresponding adjustment will be made to the depreciation or amortization expenses on the impaired asset in subsequent periods, so as to amortize systematically the adjusted carrying amount (net of estimated net residual value) of the asset over its remaining useful lives. Once an impairment loss is recognized for an asset, it shall not be reversed in subsequent accounting periods.

(5) Recognition of asset groups and treatments of impairment

Where there is any evidence indicating a possible impairment of assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the asset groups on the basis of the asset group to which the asset belongs. The asset groups should be recognized in accordance with the main cash inflow generated by the asset groups which is whether independent of those by other assets or asset groups. Simultaneously, when recognizing an asset group, the Company shall take into consideration how its management manage the production and business activities, and the ways of decision-making for the continuous use or disposal of the assets, etc.

Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter' assets and goodwill are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and goodwill that have been apportioned to), it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the carrying value of the goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

The charges against the carrying value of the assets above shall be treated as the impairment loss of the each single asset and recorded as current profit or loss. The carrying value of the each asset after charges shall not lower than the highest of the below: the net amount after the fair value of the asset less the disposal expense, the present value of the expected future cash flow of the asset and nil. The amount of the impairment loss unshared thereof shall be reallocated in proportion to the weight of other assets' carrying value in relevant asset group or combination of asset groups.

(6) Impairment of goodwill

For goodwill formed by combination, the Company shall carry out an impairment test at least at the end of each year. The goodwill shall, together with the related asset group or sets of asset group, be subject to the impairment test. For the purpose of impairment test of assets, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill, and treat them according to provisions of assets group impairment hereof.

15. Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised; and capitalization shall be discontinued when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognized as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be determined according to the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences related to a specific purpose borrowing denominated in foreign currency shall be fully capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in the current profit or loss.

Qualifying assets are assets, such as fixed assets, investment properties, inventories, etc that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, and the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

16. Employee Benefits

Employee benefits of the Company mainly include salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds, non-monetary welfare, lay off welfare, early retirement and other expenditures incurred in exchange for service rendered by employees.

In the accounting period in which an employee has rendered services, the Company shall recognise the employee benefits payable as a liability.

The Company shall participate in social security systems operated by the government as required, including the basic pension insurance system, medical insurance, housing funds and other social security systems, relevant expenditures shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Company terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Company has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Company cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the current profit or loss.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Company during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in the current profit or loss when the recognition criteria for provisions are met (termination benefits).

17. Share-based Payments

(1) *The equity-settled share-based payments*

- ① The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
- ② As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
- ③ The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
- ④ On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

(2) *The cash-settled share-based payments*

- ① The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
- ② As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
- ③ As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
- ④ Subsequent measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits or losses.

18. Accrued Liabilities

Obligations pertinent to the contingencies which satisfy the following conditions are recognized as accrued liabilities: (1) the obligation is a current obligation borne by the Company; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; (3) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognized as asset separately, and compensation amount recognized shall not be more than the carrying amount of accrued liabilities.

19. Revenue

(1) Revenue from sales of goods

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

(2) Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the measurement of completed work.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (1) the relevant amount of revenue can be reliably measured; (2) it is probable that the economic benefits will flow into the enterprise; (3) the completion schedule of the transaction can be reliably ascertained; (4) transaction costs incurred and to be incurred can be reliably measured.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognized as an expense for the current period. If the cost of rendering services is expected not to be compensated, no revenue shall be recognized.

When a contract or agreement signed by the Company with other enterprise includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognized respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognized as sales of goods in full.

(3) Royalty revenue

Revenue is recognized on an accrual basis under the relevant contracts or agreements.

(4) Interest income

Interest income is measured based on the length of time for which the Company's cash is used by others and the effective interest rate.

20. Government grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in the current profit or loss.

A government grant related to an asset shall be recognized as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognized immediately in the current profit or loss.

For the repayment of a government grant already recognized, if there is any related deferred income, the repayment shall be set off against the carrying amount of the deferred income, and any excess shall be recognized in the current profit or loss; if there is no related deferred income, the repayment shall be recognized immediately in the current profit or loss.

21. Construction Contract

- (1) If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized by the Company in light of the percentage-of-completion method on the date of the balance sheet. The term “percentage-of-completion method” means a method by which the contractor recognizes its revenues and costs in the light of the schedule of the contracted project. The Company ascertained the completion schedule of a contract project according to the proportion of the actual accrued contract costs incurred against the expected total contract costs.

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: ① the total contract revenue can be measured in a reliable way; ② the economic benefits pertinent to the contract are likely flow into the Company; ③ the actual contract costs incurred can be clearly distinguished and measured reliably; ④ both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: ① the economic benefits pertinent to the contract are likely flow into the Company; ② the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: ① if the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be recognized as contract expenses in the current period when they are incurred; ② if the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

22. Exchange of Non-monetary Assets

- (1) For exchange of non-monetary assets, the fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the current profit or loss.
 - ① Non-monetary assets shall be recognized and measured, where a non-monetary assets transaction satisfies the following conditions at the same time:
 - A. The transaction is commercial in nature;
 - B. The fair value of the assets received or surrendered can be measured reliably.
 - ② Selection of fair value: if the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.
 - ③ Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the current profit or loss; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the current profit or loss.
- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant taxes payable of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

Where a boot is caused when the Company treat the carrying value of the surrendered assets and the relevant payable taxes as the cost of the received assets, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall treat the result of the carrying value of the assets surrendered plus the paid boot and relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized. The Company, which receives the boot, shall treat the result of the carrying value of the assets surrendered minus the received boot and plus relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized.

23. Debt Restructuring

(1) Definition and scope of debt restructuring

The term “debt restructuring” refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

(2) Accounting treatment of debtors

- ① When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profit or loss. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profit or loss. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profit or loss. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as share capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the share capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profit or loss.
- ② Where other terms of a debt are modified, the debtor shall regard the post modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profit or loss. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other conditions of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of a debt concern any contingent payment and if the contingent payment meets the conditions for the recognition of expected liabilities as prescribed in contingencies, the debtor shall recognize the contingent sum payable as expected liability, and shall include the difference between the book value of the debt to be restructured and the aggregate amount of the entry value of the restructured debt and the expected amount of liability in the current profit or loss.

(3) Accounting treatments of the creditor

- ① When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received into the current profit or loss. If the creditor has made provision for the impairment of the credit, he or she shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profit or loss. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.
- ② When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of the debt concern any contingent sum receivable, the creditor shall not recognize the contingent sum receivable, nor he include it in the book value of the restructured debt.

24. Accounting Treatment of Income Tax

(1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

(2) Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognized for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Company able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognized for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

(3) Income tax expense

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense or income and deferred income tax expense or income are included in the current profit or loss, except for those recognized as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognized in other comprehensive income or owners' equity, which are recognized directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

(4) Offset of income tax

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Company, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Company was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Company records the net amount after offsetting its current income tax assets and current income tax liabilities.

(5) Settlement of income tax

The Company will settle its income tax by prepayment on quarterly basis as approved by the competent Taxation Authority. During the final settlement, the shortage part of the income tax will be paid in the next year, while the overpaid part will be treated as partial settlement in the next year.

25. Accounting treatment of business combination

A business combination refers to the transaction or event to combine two or more separate entities into a single reporting entity. Business combination is classified into business combination under common control and business combination not under common control.

(1) Business combination under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Assets and liabilities obtained by the absorbing party are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the capital reserve (share capital premium). If the capital reserve (share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquiree plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial recognized costs. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognized as contingent consideration. Subsequent adjustments will impact on the goodwill. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost. When the business combination is achieved in stages through a number of exchange transactions, the Company re-measures its previously held equity interest in the acquiree on the acquisition date, and the difference between the fair value and the net book value is recognized as investment income for the period in the consolidated financial statements of the Company, in the meanwhile, the other comprehensive income related to the equity interest of acquiree held before the acquisition date is transferred to investment income for the period. The cost of combination is the sum of the fair value of the equity interest of the acquiree as at the acquisition date which held before the acquisition date and the fair value of the equity interest of the acquiree as at the acquisition date which additional acquired on the acquisition date.

The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

The acquiree's deductible temporary difference acquired by the acquirer, which is still not yet recognized as it does not satisfy the recognition conditions of the deferred income tax assets on the acquisition date. If new or addition information proves that the relevant circumstances have already existed on the acquisition date within twelve months after the acquisition date, which estimates that the economic benefits incurred from the deductible temporary difference at the acquisition date of acquirer can be realised, then the relevant deferred income tax assets will be recognized, and the goodwill will be reduced at the same time, if the goodwill is not sufficient be absorbed, any excess shall be recognized as the profit or loss for the period. Except as disclosed above, the deferred income tax assets related to the business combination are included in the current profit or loss.

V. ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATE AND CORRECTION TO PREVIOUS MATERIAL ERRORS AND STATEMENT OF OTHER EVENTS' ADJUSTMENT

There is no disclosable accounting policies, change in accounting estimate and correction to previous material errors of the Company during 2014.

VI. TAXATION

1. Main Tax Types and Tax Rates

Tax type	Detailed tax rate
Value added tax	The Group's taxable revenue is subject to output tax at tax rates of [6]%, [13]% and [17]%, and the VAT payable is provided by the difference after net of deductible input VAT of the period.
Business tax	Calculated and levied by [3]% of the taxable turnover.
Urban maintenance and construction tax . . .	Calculated and levied by [7]% of the circulation tax actually paid.
Education surtax	Calculated and levied by [3]% of the circulation tax actually paid.
Local education surtax	Calculated and levied by [2]% of the circulation tax actually paid.
Enterprise income tax	Calculated and levied by [25]% of the taxable income.

2. Tax Incentives and Approvals

Nil.

3. Other Statement

Nil.

VII. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for Preparation of Consolidated Financial Statements

(1) Principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term "control" means that the Company has the power to decide an investee's financial and operating policy pursuant to which, the Company can get the power to obtain benefits from its operating activities. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is a business or entity controlled by the Company.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Company obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flows statements; for disposal of subsidiaries during the period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flows statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flows statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For subsidiaries acquired from business combination not under common control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets.

All intra-group significant balances, transactions and unrealised profit are eliminated in the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period that is not attributable to the Company are presented separately under shareholders' equity and net profit in the consolidated financial statements as minority Shareholders' equity and profit or loss. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interests.

2. Basic condition of the subsidiaries included in the consolidated financial statements during the year

No.	Name of enterprises	Percentage of shareholding (%)	Percentage of the voting right (%)	Registered capital	Investment amount
1	Shanghai CERCG Co., Ltd. (上海國儲能源集團有限公司)	100.00%	100.00%	300,000,000.00	500,000,000.00
2	CERCG Properties Co., Ltd. (國能置業有限公司)	95.00%	95.00%	87,000,000.00	282,650,000.00
3	Zhangjiakou CERCG LNP Co., Ltd. (張家口國儲液化天然氣有限公司)	100.00%	100.00%	100,000,000.00	205,000,000.00
4	CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	80.00%	80.00%	120,000,000.00	118,500,000.00
5	Leiyang CERCG Gas Co., Ltd. (未陽國儲能源燃氣有限公司)	100.00%	100.00%	76,670,000.00	84,170,000.00
6	CERCG Investment Company (國儲能源投資有限公司)	100.00%	100.00%	50,250,000.00	50,250,000.00
7	Zhangjiakou CERCG Logistics Co., Ltd. (張家口國儲能源物流有限公司)	100.00%	100.00%	20,000,000.00	20,000,000.00
8	Guangdong CERCG Investment Co., Ltd. (廣東國儲能源化工投資有限公司)	95.00%	95.00%	20,000,000.00	19,000,000.00
9	Beijing CERCG Information and Consultancy Co., Ltd. (北京國儲信息諮詢有限公司)	100.00%	100.00%	2,000,000.00	2,000,000.00
10	Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司)	100.00%	100.00%	50,000,000.00	50,000,000.00
11	Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	70.00%	70.00%	70,000,000.00	70,000,000.00
12	China CERCG Inner Mongolia Co., Ltd. (中國國儲能源化工集團內蒙古有限公司)	100.00%	100.00%	50,000,000.00	50,000,000.00

3. Changes in scope of combination during the year and reasons

Subsidiaries newly included in the scope of combination during the year

No.	Name of enterprises	Obtained channels
1	Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司)	newly established or invested
2	Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	newly established or invested
3	China CERCG Inner Mongolia Co., Ltd. (中國國儲能源化工集團內蒙古有限公司)	newly established or invested
4	Tianjin CERCG New Energy Development Co., Ltd. (天津國儲新能源開發有限公司)	newly established or invested

VIII. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, amounts in the following notes to major items will be denominated in RMB. The terms “at the beginning of the year” and “at the end of the year” refer to 1 January 2014 and 31 December 2014 respectively, and the terms “previous period” and “the period” refer to the year of 2013 and the year of 2014 respectively.

1. Monetary funds

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	673,128.16	2,125,694.65
Bank deposit	788,552,768.46	1,105,459,009.86
Others monetary funds		
Total	789,225,896.62	1,107,584,704.51

2. Held-for trading financial assets

Items	Balance at the end of the period	Balance at the beginning of the year
Short-term investment	20,000,000.00	2,400,000.00
Total	20,000,000.00	2,400,000.00

3. Bills receivable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	32,237,845.61	7,800,000.00
Commercial acceptance		
Total	32,237,845.61	7,800,000.00

4. Accounts receivable

(1) Categories of accounts receivable

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis)	653,086,247.89		346,754,195.07	
Total	653,086,247.89	0.00	346,754,195.07	0.00

(2) Accounts receivable provided as bad debt provision by aging analysis

Items	Closing balance		Opening balance	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	653,086,247.89		339,168,557.59	
1-2 years (including 2 years)			7,582,637.48	
2-3 years (including 3 years)			3,000.00	
Over 3 years				
Total	653,086,247.89	0.00	346,754,195.07	0.00

(3) Top 5 debtors in the closing balance of accounts receivable are set out as follows:

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Jiangsu Zhuohe Materials Co., Ltd. (江蘇卓和物資有限公司)	Non-related party	59,990,800.00	Within 1 year	9.19%
Zhangjiakou Chenhai Mining Co., Ltd. (張家口辰海礦業有限公司)	Non-related party	43,270,000.00	Within 1 year	6.63%
Sinopec fuel oil sales Co., Ltd. (Liaoning Branch) (中國石化燃料油銷售有限公司遼寧分公司)	Non-related party	42,163,876.88	Within 1 year	6.46%
Suzhou Jinxiang Petrochemical Co., LTD. (蘇州金翔石油化工有限公司)	Non-related party	34,724,516.00	Within 1 year	5.32%
Shagang (Beijing) International Investment Co., LTD. (沙鋼(北京)國際投資有限公司)	Non-related party	33,385,402.32	Within 1 year	5.11%
Total		<u>213,534,595.20</u>		<u>32.70%</u>

(4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

5. Prepayment

(1) *Prepayments stated according to aging analysis*

<u>Aging</u>	<u>Balance at the end of the period</u>	<u>Balance at the beginning of the year</u>
Within 1 year (including 1 year)	933,575,070.80	850,884,197.61
1-2 years (including 2 years)	150,000,000.00	7,345,490.72
2-3 years (including 3 years)		
Over 3 years		
Total	<u>1,083,575,070.80</u>	<u>858,229,688.33</u>

(2) Top 5 debtors in the closing balance of prepayments are set out as follows:

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
CSSC International Trading Co., LTD. (中船國際貿易有限公司)	Non-related party	194,821,348.60	Within 1 year	17.98%
China Labour & Social Security Publishing House (中國勞動社會保障出版社)	Non-related party	150,000,000.00	Within 2 years	13.84%
China National Civil Aircraft Development Co., LTD. (中國民用飛機開發公司)	Non-related party	108,763,476.78	Within 1 year	10.04%
Changshu Huihai Chemical Storage Co., LTD. (常熟匯海化工倉儲有限公司)	Non-related party	72,813,565.50	Within 1 year	6.72%
Dalian Shengfeng Petrochemical Co., LTD. (大連晟豐石油化工有限公司)	Non-related party	50,482,505.65	Within 1 year	4.66%
Total		<u>576,880,896.53</u>		<u>53.24%</u>

(3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(4) There is no prepayment due to related parties during the reporting period.

6. Other receivables

(1) Categories of other receivables

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Other receivables provided as bad debt provision on an individual basis	133,994,465.97		120,021,861.55	
Other receivables provided as bad debt provision by combo test (aging analysis).				
Total	<u>133,994,465.97</u>	<u>0.00</u>	<u>120,021,861.55</u>	<u>0.00</u>

(2) Other receivables provided as bad debt provision by aging analysis

Items	Balance at the end of the period		Balance at the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	123,294,465.97		115,246,513.13	
1-2 years (including 2 years).	10,700,000.00		4,775,348.42	
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>133,994,465.97</u>	<u>0.00</u>	<u>120,021,861.55</u>	<u>0.00</u>

(3) Top 5 debtors in the closing balance of other receivables are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Beijing Liang Gao Law Firm (北京市兩高律師事務所)	Non-related party	52,000,000.00	Within 1 years	38.81%
Guorong Xinxing Holdings Co., Ltd (國融新興控股有限公司)	Non-related party	25,520,000.00	Within 1 year	19.05%
Beijing Zepule Investment Co., Ltd. (北京擇普樂投資有限公司)	Non-related party	15,000,000.00	Within 1 year	11.19%
Refundable deposits	Non-related party	10,700,000.00	Within 2 years	7.99%
Beijing Zhongrun Hengfeng High-tech Co., Ltd (北京中潤恒豐高新技術有限公司).	Non-related party	8,000,000.00	Within 1 year	5.97%
Total		<u>111,220,000.00</u>		<u>83.00%</u>

(4) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no other amount due from the related party during the reporting period.

7. Inventory

Items	Book balance at the beginning of the year	Increase for the period	Decrease for the period	Book balance at the end of the period
Raw material (including the obtaining of land use right) . . .				
Semi-finished products and work in progress	247,072,398.69	225,654,749.94	25,741,710.97	446,985,437.66
Inventory (finished goods)	240,900,578.55	9,800,842,256.18	9,319,241,268.60	722,501,566.13
Revolving materials (packing materials and consumables) . . .				0.00
Consumable biological assets . . .				0.00
Construction (completed but not settlement)				0.00
Total	487,972,977.24	10,026,497,006.12	9,344,982,979.57	1,169,487,003.79

8. Long-term equity investments

(1) Categories of long term equity investments

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Investment in joint venture				0.00
Investment in associate enterprises	578,725,383.97	70,400,000.00		649,125,383.97
Investment in other enterprises . .	5,820,000.00			5,820,000.00
Subtotal	584,545,383.97			654,945,383.97
Less: impairment provision for long term equity investments	0.00			0.00
Total	584,545,383.97	0.00	0.00	654,945,383.97

(2) Details of long-term equity investments

Investee	Accounting method	Book value of investment	Investment Proportion
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Equity method	60,709,556.22	40%
Inner Mongolia CERCG Xinneng Venture Capital Center (limited Partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Equity method	51,015,476.16	20%
Inner Mongolia Qinggang Runhe Co., Ltd (內蒙古慶港潤禾天然氣綜合利用有限公司)	Cost method	40,000,000.00	40.00%
Jiangsu Honghai Energy Co., Ltd (江蘇泓海能源有限公司)	Equity method	39,855,250.52	40%
Zhongshu Dingsheng Construction & Culture Communication Co., Ltd. (中數鼎盛城建文化傳播有限公司)	Cost method	24,500,000.00	49%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司)	Equity method	35,391,437.30	48%
Xiangtan Kunlun Energy Co., Ltd (湘潭昆侖能源有限公司)	Equity method	14,514,842.55	24%
Rizhao Zhongneng Gas Co., Ltd. (日照中能燃氣有限公司)	Equity method	9,928,893.08	29%
Anping Yanzhong Gas Co., Ltd. (安平縣燕中燃氣有限公司)	Equity method	8,879,385.90	30.00%
Shanghai Jinjie Energy Co., Ltd. (上海金捷能源有限公司)	Equity method	6,074,668.62	49%
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%

Investee	Accounting method	Book value of investment	Investment Proportion
Huizhou Yunfeng CERCG Management Co., Ltd. (惠州雲峰國儲能源管理有限公司)	Equity method	2,447,465.23	49%
Hengyang Nanyue Guoao Automotive Energy Co., Ltd. (衡陽南岳國澳車用能源有限公司)	Cost method	500,000.00	20.00%
Shanghai Defeng Yacht Club Co., Ltd. (上海德峰游艇俱樂部有限公司)	Equity method	128,408.39	20.00%
Huizhou Dalong CERCG Co., Ltd. (惠州大隆國儲能源化工有限公司)	Cost method	2,000,000.00	20.00%
Shanghai Shale Investment Co., Ltd. (上海葉巖投資有限公司)	Cost method	54,000,000.00	43.20%
Total		<u>654,945,383.97</u>	

9. Fixed Assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total cost	1,721,217,515.86	1,093,072,892.37	11,141,613.67	2,803,148,794.56
Including: buildings and structures	85,024,583.35	70,706,247.90		155,730,831.25
Special facilities	396,733,801.66	131,583,185.71	3,987,449.21	524,329,538.16
Special equipments	302,623,711.84	879,843,841.02	7,154,164.46	1,175,313,388.40
Transportation equipment . . .	599,625,567.39	7,156,372.12		606,781,939.51
Office facilities	337,209,851.62	3,783,245.62		340,993,097.24
II. Total accumulated depreciation	301,432,263.08	106,036,757.60	0.00	407,469,020.68
Including: Buildings and structures	33,068,802.73	6,728,495.12		39,797,297.85
Special facilities	76,914,187.57	1,675,903.80		78,590,091.37
Special equipments	37,755,262.78	46,088,553.21		83,843,815.99
Transportation equipment . . .	125,769,479.96	39,281,493.32		165,050,973.28
Office equipment	27,924,530.04	12,262,312.15		40,186,842.19
III. Total accumulated amount of provision for impairment . . .	0			0
IV. Total carrying amount	1,419,785,252.78			2,395,679,773.88
Including: buildings and structures	51,955,780.62			115,933,533.40
Special facilities	319,819,614.09			445,739,446.79
Special equipment	264,868,449.06			1,091,469,572.41
Transportation equipment . . .	473,856,087.43			441,730,966.23
Office equipment	309,285,321.58			300,806,255.05

10. Construction materials

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Special materials	43,188,335.97	63,635,894.15	21,419,382.10	85,404,848.02
Total	<u>43,188,335.97</u>	<u>63,635,894.15</u>	<u>21,419,382.10</u>	<u>85,404,848.02</u>

11. Construction in progress

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
LNG storage and distribution station in Zhangjiakou (張家口LNG儲配站)	805,828,117.84	367,677,575.41	749,843,841.02	423,661,852.23
Pipe network in Xuancheng (宣城城市管網)	190,444,187.29	353,432,728.47	95,637,661.96	448,239,253.80
Natural gas pipeline construction project in Leiyang (未陽天然氣管道施工項目)	164,236,801.65	85,245,521.43		249,482,323.08
Oil storage project in Nangang, Tianjin (天津南港儲備庫項目)	130,307,679.29	73,184,210.11		203,491,889.40
Sun Family Garden project (孫家花園項目)	65,270,359.85	5,435,888.05	70,706,247.90	0.00
Shale gas project in Tongren City (銅仁葉巖氣項目)	28,250,986.89	265,830,538.25		294,081,525.14
Oil dock project in Ronglu, Yueyang (岳陽榮鹿碼頭項目)	23,190,240.89	28,998,890.28		52,189,131.17
Biodiesel plant in Liuzhou (柳州生物柴油廠)	3,470,323.18	705,200.00		4,175,523.18
Natural gas refueling station project in Leiyang (未陽天然氣加氣站項目)	800,000.00	330,000.00		1,130,000.00
Oil storage project in Dafeng Harbor, Jiangsu (江蘇大豐港儲備庫項目)	58,113.21	4,326,343.47		4,384,456.68
Vehicle detective plant project (固鎮汽車檢測廠項目)	114,401.24	83,000.00		197,401.24
Petrochemical project in Wuhan, Hubei (湖北武漢石油化工項目)		639,193.81		639,193.81
Total	1,411,971,211.33	1,185,889,089.28	916,187,750.88	1,681,672,549.73

12. Intangible assets

Items	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Land use rights	128,655,849.07	17,341,183.00	2,158,378.20	143,838,653.87
Non-patented technology	12,945,610.50		2,575,645.47	10,369,965.03
Franchise right	900,000.01		33,333.33	866,666.68
Software	10,080.00	91,374.36	10,597.97	90,856.39
Total	142,511,539.58	17,432,557.36	4,777,954.97	155,166,141.97

13. Long term prepaid expenses

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Deferred revenue on leaseback	16,244,044.29		848,808.76	15,395,235.53
Other	4,303,792.77	1,063,384.03	2,985,680.77	2,381,496.03
Total	20,547,837.06	1,063,384.03	3,834,489.53	17,776,731.56

14. Short-term borrowings

Items	Closing balance
China Everbright Bank, Jianguomeng Branch Beijing (光大銀行北京建國門支行)	471,000,000.00
Ping AN Bank, Beijing Branch (平安銀行北京分行)	200,000,000.00
China Bohai Bank, Weigongcun Branch (渤海銀行魏公村支行)	30,000,000.00
China Minsheng Bank, Xiamen Branch (民生銀行廈門分行)	200,000,000.00
China Construction Bank, Shijingshan Branch (建設銀行石景山支行)	200,000,000.00
Bank Of Beijing, Tianjin Binhai Branch (北京銀行天津濱海支行)	40,000,000.00
China Zheshang Bank, Tianjin Branch (浙商銀行天津分行)	20,000,000.00
Industrial and Commercial Bank of China, Dafeng Branch (工行大豐支行)	30,000,000.00
China Development Bank, Shanghai Branch (國家開發銀行上海分行)	95,000,000.00
China Merchants Bank, Qingdao Branch (招商銀行青島分行營業部)	30,000,000.00
Rural Commercial Bank, Wuhan Economic & Technological Development Zone Branch (農村商業銀行武漢開發區支行)	155,700,000.00
Ping AN Bank, Wuhan Jiangxia Branch (平安銀行武漢江夏支行)	50,000,000.00
Bank of Nanjing, Beijing Chaoyangmen Branch (南京銀行北京朝陽門支行)	17,000,000.00
Bank of Communications, Xuancheng Branch (交通銀行宣城支行)	7,500,000.00
Total	<u>1,546,200,000.00</u>

15. Bills payable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	154,000,000.00	0.00
Commercial acceptance	0.00	0.00
Total	<u>154,000,000.00</u>	<u>0.00</u>

16. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	131,874,952.45	100.00%	90,067,887.60	99.97%
1-2 years (including 2 years)		0.00%	23,012.17	0.03%
2-3 years (including 3 years)		0.00%		
Over 3 years		0.00%		
Total	<u>131,874,952.45</u>	<u>100.00%</u>	<u>90,090,899.77</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of accounts payable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Qingdao SinoEnergy Holding Limited (青島中天能源股份有限公司)	Non-related party	20,855,823.57	Within 1 year	15.81%
Shanghai Yongsheng Chemical Co., Ltd. (上海永盛化工有限公司)	Non-related party	16,071,452.35	Within 1 year	12.19%
Temporary estimated payable	Non-related party	12,039,224.42	Within 1 year	9.13%
Tianjin Hongling Petrochemical Co., Ltd. (天津弘嶺石油化工有限公司)	Non-related party	6,613,719.68	Within 1 year	5.02%
Nanjing Lanyan Petrochemical Storage & Transportation Industrial Limited Company (南京藍燕石化儲運實業有限公司)	Non-related party	5,857,144.27	Within 1 year	4.44%
Total		<u>61,437,364.29</u>		<u>46.59%</u>

17. Advance receipt

(1) Categories of advance receipt

Aging	Book balance at the end of the period		Opening book balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	406,537,798.74	100.00%	139,533,405.53	100.00%
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>406,537,798.74</u>	<u>100.00%</u>	<u>139,533,405.53</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of advance receipt are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Advance receipts from individuals for house selling	Non-related party	310,553,620.60	Within 1 year	76.39%
Shanghai Jiedong Energy Trading Co., Ltd. (上海捷東能源貿易有限公司)	Non-related party	8,500,000.00	Within 1 year	2.09%
Shanghai Ruifu Petrochemical Co., Ltd. (上海睿孚石油化工有限公司)	Non-related party	5,000,000.00	Within 1 year	1.23%
Zhongneng International Refining & Chemical Co., Ltd. (中能國際原油煉化有限公司)	Non-related party	5,163,404.89	Within 1 year	1.27%
Chuzhou Jinda Oil Co., Ltd. (滁州市金達石油有限公司)	Non-related party	4,457,820.31	Within 1 year	1.10%
Total		333,674,845.80		82.08%

18. Tax payable

Items	Book balance at the beginning of the year	Book balance at the end of the period
Value added tax	1,530,258.64	1,483,955.16
Business tax	102,000.00	84,227.80
Enterprise income tax	28,378,699.77	26,463,617.76
Individual income tax	162,035.00	191,493.01
Other tax	176,028.67	228,951.83
Total	<u>30,349,022.08</u>	<u>28,452,245.56</u>

19. Staff remuneration payables

Items	Balance at the beginning of the period	Balance at the end of the period
I. Salaries, bonuses, allowance and subsidies	1,089,842.00	1,674,076.03
II. Staff welfare		
III. Social insurance premiums		
IV. Union operation costs and employee education costs		
Total	<u>1,089,842.00</u>	<u>1,674,076.03</u>

20. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	96,330,599.18	100.00%	99,462,870.51	97.07%
1-2 years (including 2 years).		0.00%	3,000,000.00	2.93%
2-3 years (including 3 years).		0.00%		
Over 3 years.		0.00%		
Total	<u>96,330,599.18</u>	<u>100.00%</u>	<u>102,462,870.51</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of other payables are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Zhangjiakou Huafu Caitong Investment Management Co., Ltd. (張家口華富財通投資管理 有限公司)	Non-related party	27,961,336.11	Within 1 year	29.03%
Zhongyuanhang Gas Co., Ltd. (中遠航燃氣有限公司).	Non-related party	18,971,000.00	Within 1 year	19.69%
Zhongyou Hongli Assets Management Co., Ltd. (中油鴻力資產管理有限公司)	Non-related party	10,158,330.76	Within 1 year	10.55%
Yueyang Construction and Investment Operation Co., Ltd. (岳陽縣城市建設投資經營 有限公司)	Non-related party	9,000,000.00	Within 1 year	9.34%
Tianjin Gaotai Development & Construction Co., Ltd. (天津高泰開發建設有限公司)	Non-related party	4,000,000.00	Within 1 year	4.15%
Total		<u>70,090,666.87</u>		<u>72.76%</u>

21. Long-term borrowings

Items	Closing balance
China Development Bank, Beijing Branch (國家開發銀行北京分行)	328,490,000.00
Zhangjiakou City Commercial Bank (張家口市商業銀行).	206,510,000.00
Agricultural Bank of China, Leiyang Branch (農業銀行耒陽支行)	105,000,000.00
Postal Savings Bank of China, Zhangjiakou Branch (郵政儲蓄銀行張家口分行).	4,768,105.13
Agricultural Bank of China, Yueyang Branch (農業銀行岳陽市分行).	30,000,000.00
The Export-Import Bank of China, Shanghai Branch (中國進出口銀行上海分行)	489,520,000.00
China Development Bank, Shanghai Branch (國家開發銀行上海分行)	25,000,000.00
Total	<u>1,189,288,105.13</u>

22. Long-term payables

Items	Closing balance
Research and development expenditure.	4,831,437.43
Total	<u>4,831,437.43</u>

23. Special payables

Items	Closing balance
Special amount for High-Tech	655,600.00
Total	655,600.00

24. Other Long-term payables

Items	Closing balance
Deferred revenue	38,945,255.13
Total	38,945,255.13

25. Paid-in capital

Investee	Book balance at the beginning of the year		Increase or decrease for the period	Book balance at the end of the period	
	Investment Amount	Proportion (%)		Investment Amount	Proportion %
Total	1,725,000,000.00	100.00%		1,725,000,000.00	100.00%
China Flader Industrial Co., LTD (中國富萊德實業公司)	517,500,000.00	30.00%		517,500,000.00	30.00%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	483,000,000.00	28.00%		483,000,000.00	28.00%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	431,250,000.00	25.00%		431,250,000.00	25.00%
China Hualian International Commercial CO., LTD. (中國華聯國際貿易公司)	258,750,000.00	15.00%		258,750,000.00	15.00%
Shenzhen Bai Zhao Investment & Consultant CO., LTD. (深圳市百墨投資顧問有限公司)	34,500,000.00	2.00%		34,500,000.00	2.00%

26. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves			
(1) Other equity change in in the invested entity			
(2) Share-based payment for non-exercised			
(3) Changes in the fair value of financial assets held-for-sale.			
(4) Balance on the changes in fair value of investment property			
(5) Profit or loss on cash-flow hedges			
(6) Profit or loss on hedges of a net investment in a foreign operation.			
(7) Income tax effect relating to items included into owners' equity			
(8) Others	263,937,580.51		263,937,580.51
3. Transfer of capital surplus recognized under the previous accounting system			
Total	339,437,580.51		339,437,580.51

27. Retained profit

Items	Amount
Balance at the beginning of the year	1,858,734,495.99
Increase for the period	626,834,680.44
Including: net profit transferred into in the year	676,933,453.93
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	2,485,569,176.43

28. Minority shareholders' interest

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Minority shareholders' interest	572,404,014.45	151,051,118.77		723,455,133.22
Total	572,404,014.45	151,051,118.77	0.00	723,455,133.22

29. Operating revenue and operating cost

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Sub-total of revenue on main business	13,027,837,790.78	11,650,220,659.79	8,980,445,497.38	7,756,698,647.24
Total	13,027,837,790.78	11,650,220,659.79	8,980,445,497.38	7,756,698,647.24

30. Business taxes and surcharges

Items	Amount for the period	Amount for the previous period
Business taxes and surcharges	30,952,844.96	27,233,176.69
Total	30,952,844.96	27,233,176.69

31. Cost of sales

Items	Amount for the period	Amount for the previous period
Sales expenses	57,163,649.43	50,018,152.54
Total	57,163,649.43	50,018,152.54

32. Management fees

Items	Amount for the period	Amount for the previous period
Management fees	110,203,668.70	94,506,023.91
Total	110,203,668.70	94,506,023.91

33. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	153,313,810.57	42,982,149.41
Total	153,313,810.57	42,982,149.41

34. Investment income

Items	Amount for the period	Amount for the previous period
Investment income	646,455.49	-3,257,664.38
Total	646,455.49	-3,257,664.38

35. Non-operating income

Items	Amount for the period	Amount for the previous period
Non-operating income	7,787,923.65	528,132.38
Total	7,787,923.65	528,132.38

36. Non-operating expenses

Items	Amount for the period	Amount for the previous period
Non-operating expenses	110,500.67	14,531,501.91
Total	110,500.67	14,531,501.91

37. Income tax expense

Consistent of income tax expense (income)

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . .	256,421,236.59	251,806,706.82
Adjustment for deferred income tax	-	-
Total	256,421,236.59	251,806,706.82

38. Minority shareholders' profit or loss

Items	Amount for the period	Amount for the previous period
Minority shareholders' equity	151,051,118.77	63,006,152.93
Total	151,051,118.77	63,006,152.93

IX. NOTES TO THE MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Monetary funds

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	39,102.60	20,191.07
Bank deposit	194,118,652.58	362,742,820.42
Other monetary funds		
Total	194,157,755.18	362,763,011.49

2. Accounts receivable

(1) Categories of accounts receivable

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis).	168,101,516.82		69,719,816.10	
Total	168,101,516.82		69,719,816.10	

(2) Accounts receivable provided as bad debt provision by aging analysis

Items	At the end of the period		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	168,101,516.82		69,719,816.10	
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	168,101,516.82		69,719,816.10	

(3) Major debtors in the closing balance of accounts receivable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Sinopec Fuel Oil sales Co., Ltd. (Liaoning Branch) (中國石化燃料油銷售有限公司遼 寧分公司)	Non-related party	42,163,876.88	Within 1 year	25.08%
Shagang (Beijing) International Investment Co., LTD. (沙鋼(北京)國際投資有限公司) . . .	Non-related party	33,385,402.32	Within 1 year	19.86%
Jin'ao Technology (Hubei) Chemicals Co., Ltd. (金澳科技(湖北)化工有限公司) . . .	Non-related party	28,227,432.45	Within 1 year	16.79%
Zhongyou Taifu Bunkering Co., Ltd. (中油泰富船舶燃料有限公司)	Non-related party	23,492,224.21	Within 1 year	13.98%
Sinosteel Iron & Steel Co., Ltd. (中鋼鋼鐵有限公司)	Non-related party	19,518,165.78	Within 1 year	11.61%
Total		146,787,101.64		87.32%

- (4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (5) There is no amount due from the related party during the reporting period.

3. Prepayment

(1) *Prepayments stated according to aging analysis*

Aging	Balance at the end of the period	Balance at the beginning of the year
Within 1 year (including 1 year)	402,009,045.20	197,599,297.50
1-2 years (including 2 years)		
2-3 years (including 3 years)		
Over 3 years		
Total	402,009,045.20	197,599,297.50

- (2) Major debtors in the closing balance of prepayments are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
CSSC International Trading Co., LTD. (中船國際貿易有限公司)	Non-related party	194,821,348.60	Within 1 year	48.46%
Changshu Huihai Chemical Storage Co., LTD. (常熟匯海化工倉儲有限公司)	Non-related party	72,813,565.50	Within 1 year	18.11%
Dalian Shengfeng Petrochemical Co., LTD. (大連晟豐石油化工有限公司)	Non-related party	50,482,505.65	Within 1 year	12.56%
Shanghai Rongzhao Import & Export Co., Ltd (上海融兆進出口有限公司)	Non-related party	27,131,547.43	Within 1 year	6.75%
Pan Jin Sheng Teng Petrochemical Co., Ltd. (盤錦晟騰石油化工有限公司)	Non-related party	24,041,052.40	Within 1 year	5.98%
Total		369,290,019.58		91.86%

- (3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (4) There is no amount prepaid to the related party during the reporting period.

4. Other receivables

(1) *Categories of other receivables*

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Other receivables provided as bad debt provision on an individual basis	105,688,640.40		5,903,088.40	
Other receivables provided as bad debt provision by combo test (aging analysis)				
Total	105,688,640.40		5,903,088.40	

(2) *Other receivables provided as bad debt provision by aging analysis*

Items	Balance at the end of the period		Balance at the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	105,688,640.40		5,903,088.40	
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>105,688,640.40</u>		<u>5,903,088.40</u>	

(3) Major debtors in the closing balance of other receivables are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Beijing Liang Gao Law Firm (北京市兩高律師事務所)	Non-related party	52,000,000.00	Within 1 year	49.20%
CERCG Investment Company (國儲能源投資有限公司)	Related party	24,636,836.17	Within 1 year	23.31%
CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	Related party	24,000,000.00	Within 1 year	22.71%
Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司)	Related party	4,345,787.20	Within 1 year	4.11%
Total		<u>104,982,623.37</u>		<u>99.33%</u>

(4) There is no outstanding amount within other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

5. **Inventory**

Items	Book balance at the beginning of the year	Increase for the period	Decrease for the period	Book Balance at the end of period
Raw material (including the obtaining of land use right)				0.00
Semi-finished products and work in progress				0.00
Inventory (finished goods)	46,258,024.87	3,930,241,879.32	3,590,451,773.05	386,048,131.14
Revolving materials (packing materials and consumables)				0.00
Consumable biological assets				0.00
Construction (completed but not settlement)				0.00
Total	<u>46,258,024.87</u>	<u>3,930,241,879.32</u>	<u>3,590,451,773.05</u>	<u>386,048,131.14</u>

6. Long-term equity investments

(1) Categories of long-term equity investments

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Investment in subsidiaries	1,666,870,000.00	187,100,000.00		1,853,970,000.00
Investment in joint venture				0.00
Investment in associate enterprises	443,000,000.00	14,400,000.00		457,400,000.00
Investment in other enterprises . .				0.00
Sub-total	2,109,870,000.00	201,500,000.00	0.00	2,311,370,000.00
Less: impairment provision for long term equity investments				0.00
Total	<u>2,109,870,000.00</u>	<u>201,500,000.00</u>	<u>0.00</u>	<u>2,311,370,000.00</u>

(2) Details of long-term equity investments

Investee	Accounting method	Book value of investment	Investment Proportion
Shanghai CERCG Co., Ltd. (上海國儲能源集團有限公司)	Cost method	500,000,000.00	100%
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
CERCG Properties Co., Ltd. (國能置業有限公司)	Cost method	282,650,000.00	95%
Guoneng Guarantee Co., Ltd. (國能擔保股份有限公司)	Cost method	280,000,000.00	93.33%
Zhangjiakou CERCG LNP Co., Ltd. (張家口國儲液化天然氣有限公司)	Cost method	205,000,000.00	100%
CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	Cost method	118,500,000.00	80%
Leiyang CERCG Gas Co., Ltd. (未陽國儲能源燃氣有限公司)	Cost method	84,170,000.00	100%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Cost method	63,000,000.00	40%
Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd (深圳市前海國儲能源石化供應鏈管理有限公司)	Cost method	51,000,000.00	51%
Inner Mongolia CERCG Xinneng Venture Capital Center (limited Partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Cost method	51,000,000.00	20.40%
CERCG Investment Company (國儲能源投資有限公司)	Cost method	50,250,000.00	100%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司)	Cost method	38,400,000.00	48%
Zhangjiakou CERCG Logistics Co., Ltd. (張家口國儲能源物流有限公司)	Cost method	20,000,000.00	100%
Guangdong CERCG Investment Co., Ltd. (廣東國儲能源化工投資有限公司)	Cost method	19,000,000.00	90%
Zhangjiakou CERCG Water Supply Co., Ltd. (張家口國儲供水有限公司)	Cost method	12,600,000.00	70%
Liangcheng County CERCG Development Co., Ltd. (涼城縣國儲能源開發有限公司)	Cost method	10,000,000.00	100%
CERCG Jiangsu Co., Ltd. (國儲能源化工江蘇有限公司)	Cost method	9,000,000.00	30%
CERCG Xinganmeng Coal Logistics Management Co., Ltd. (國儲興安盟煤炭物流管理有限公司)	Cost method	5,100,000.00	51%
CERCG Heilongjiang Investment Co., Ltd (國儲能源化工集團黑龍江投資有限公司)	Cost method	5,100,000.00	100%

Investee	Accounting method	Book value of investment	Investment Proportion
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%
Beijing CERCG Information and Consultancy Co., Ltd. (北京國儲信息諮詢有限公司).	Cost method	2,000,000.00	100%
Xinneng Oil and Gas Exploitation and Development Co., Ltd. (新能油氣勘探開發有限公司).	Cost method	50,000,000.00	100%
Beijing Xinneng Financial Leasing Co., Ltd. (北京新能融資租賃有限公司).	Cost method	70,000,000.00	70%
China CERCG Inner Mongolia Co., Ltd. (中國國儲能源化工集團內蒙古有限公司)	Cost method	50,000,000.00	100%
Tianjin CERCG New Energy Development Co., Ltd. (天津國儲新能源開發有限公司)	Cost method	25,000,000.00	50%
CERCG (Xuanhua) Logistics & Trade Co., Ltd. (國儲能源化工集團宣化物貿有限公司)	Cost method	4,600,000.00	100%
Total		<u>2,311,370,000.00</u>	

7. Fixed assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total original value	10,305,379.00	8,510,074.10	0.00	18,815,453.10
Including: office equipment . . .	6,552,979.00	2,610,524.63		9,163,503.63
Transportation equipment . . .	3,752,400.00	5,899,549.47		9,651,949.47
II. Total accumulated depreciation	6,575,735.28	2,065,666.23	0.00	8,641,401.51
Including: office equipment . . .	3,949,055.28	1,332,204.57		5,281,259.85
Transportation equipment . . .	2,626,680.00	733,461.66		3,360,141.66
III. Total accumulated amount of provision for impairment . . .				0.00
IV. Total carrying amount	3,729,643.72			10,174,051.59
Including: office equipment . . .	2,603,923.72			3,882,243.78
Transportation equipment . . .	1,125,720.00			5,769,705.69

8. Intangible asset

Items	Book balance at beginning of period	Increase for the period	Decrease for the period	Book balance at the end of period
Land use right				0.00
Non-patented technology				0.00
Franchise rights				0.00
Software		70,570.94	6,552.81	64,018.13
Total	<u>0.00</u>	<u>70,570.94</u>	<u>6,552.81</u>	<u>64,018.13</u>

9. Short-term borrowings

Items	Closing balance
China Everbright Bank, Jianguomeng Branch in Beijing (光大銀行北京建國門支行)	471,000,000.00
Ping AN Bank, Beijing Branch (平安銀行北京分行)	200,000,000.00
China Bohai Bank, Weigongcun Branch (渤海銀行魏公村支行)	30,000,000.00
China Minsheng Bank, Xiamen Branch (民生銀行廈門分行)	200,000,000.00
China Construction Bank, Shijingshan Branch (建設銀行石景山支行)	200,000,000.00
Total	<u>1,101,000,000.00</u>

10. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	10,577,464.94	100.00%	17,700,834.20	100.00%
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>10,577,464.94</u>	<u>100.00%</u>	<u>17,700,834.20</u>	<u>100.00%</u>

(2) Major creditors in the closing balance of accounts payable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Tianjin Hongling Petrochemical Co., Ltd. (天津弘嶺石油化工有限公司)	Non-related party	6,613,719.68	Within 1 year	62.53%
Hebei Anke Engineering and Technology Co., Ltd. (河北安科工程技術有限公司)	Non-related party	3,898,492.37	Within 1 year	36.86%
Total		<u>10,512,212.05</u>		<u>99.38%</u>

11. Tax payable

Items	Balance at the beginning of the year	Balance at the end of the period
Value added tax	1,107,043.01	1,510,399.51
Enterprise income tax	8,584,180.57	4,252,926.88
Individual income tax	97,043.01	133,388.38
Other tax	132,845.16	181,247.94
Total	<u>9,921,111.75</u>	<u>6,077,962.71</u>

12. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	4,938,538.20	100.00%	89,915,774.38	100.00%
1-2 years (including 2 years).				
2-3 years (including 3 years).				
Over 3 years.				
Total	<u>4,938,538.20</u>	<u>100.00%</u>	<u>89,915,774.38</u>	<u>100.00%</u>

(2) Major creditors in the closing balance of other payable are set out as follows:

<u>Name</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Zhongyou Hongli Assets Management Co., Ltd. (中油鴻力資產管理有限公司) . . .	Non-related party	2,558,330.76	Within 1 year	51.80%
Jin'ao Technology (Hubei) Chemicals Co., Ltd. (金澳科技(湖北)化工有限公司) . .	Non-related party	1,371,500.00	Within 1 year	27.77%
Beijing Jiazha Technology & Trading Co., Ltd. (北京嘉兆科貿有限責任公司) . . .	Non-related party	1,000,000.00	Within 1 year	20.25%
Total		<u>4,929,830.76</u>		<u>99.82%</u>

13. Paid-in capital

<u>Investee</u>	<u>Book balance at the beginning of the year</u>		<u>Increase and decrease for the period</u>	<u>Book balance at the end of the period</u>	
	<u>Investment Amount</u>	<u>Proportion (%)</u>		<u>Investment Amount</u>	<u>Proportion (%)</u>
Total	1,725,000,000.00	100.00%		1,725,000,000.00	100.00%
China Flader Industrial Co., LTD (中國富萊德實業公司) .	517,500,000.00	30.00%		517,500,000.00	30.00%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	483,000,000.00	28.00%		483,000,000.00	28.00%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	431,250,000.00	25.00%		431,250,000.00	25.00%
China Hualian International Commercial CO., LTD. (中國華聯國際貿易公司)	258,750,000.00	15.00%		258,750,000.00	15.00%
Shenzhen Bai Zhao Investment & Consultant CO., LTD. (深圳市百墨投資顧問有限公司)	34,500,000.00	2.00%		34,500,000.00	2.00%

14. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves.			
(1) Other equity change in the invested entity			
(2) Share-based payment for non-exercised.			
(3) Changes in the fair value of financial assets held-for-sale			
(4) Balance on the changes in fair value of investment property.			
(5) Profit or loss on cash-flow hedges.			
(6) Profit or loss on hedges of a net investment in a foreign operation			
(7) Income tax effect relating to items included into owners' equity			
(8) Others			
3. Transfer of capital surplus recognized under the previous accounting system.			
Total	75,500,000.00		75,500,000.00

15. Retained profit

Items	Amount
Balance at the beginning of the year	427,805,161.75
Increase for the period.	226,714,030.86
Including: net profit transferred into in the year	226,714,030.86
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	654,519,192.61

16. Operating revenue and operating cost

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Sub-total on main business	4,002,915,211.60	3,590,451,773.05	2,507,942,107.72	2,183,385,016.85
Sub-total on other business				
Total	4,002,915,211.60	3,590,451,773.05	2,507,942,107.72	2,183,385,016.85

17. Business taxes and surcharges

Items	Amount for the period	Amount for the previous period
Business taxes and surcharges	6,531,532.13	6,620,964.65
Total	6,531,532.13	6,620,964.65

18. Cost of sales

Items	Amount for the period	Amount for the previous period
Sales expenses	9,211,195.56	9,090,325.74
Total	9,211,195.56	9,090,325.74

19. Management fees

Items	Amount for the period	Amount for the previous period
Management fees	16,576,513.01	15,102,689.88
Total	16,576,513.01	15,102,689.88

20. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	78,147,674.14	11,984,992.72
Total	78,147,674.14	11,984,992.72

21. Income tax expense*Component of income tax expense (income)*

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . .	75,571,343.62	70,439,529.47
Adjustment for deferred income tax		
Total	75,571,343.62	70,439,529.47

X. CONTINGENCIES

The Company did not have significant contingencies to be disclosed.

XI. NON-ADJUSTING POST BALANCE SHEET EVENTS

The Company did not have any post balance sheet day event to be disclosed.

XII. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES**(I) Related parties****1. Recognition standards for a related party**

Recognition standards for a related party: in case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties.

2. *Investors of the Company*

Name of related parties	Place of registry	Percentage of shareholding
China National Friend Industry Corporation (中國富萊德實業公司)	Beijing	30%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	Beijing	28%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	Beijing	25%
China Hualian International Commercial Co., Ltd. (中國華聯國際貿易公司)	Beijing	15%
Shenzhen Bai Zhao Investment & Consultant Co., Ltd. (深圳百墨投資顧問有限公司)	Shenzhen	2%

(II) **Pricing policy**

Pricing for connected transactions arrived at by market principles.

(III) **Transactions with related parties**

There is no transaction with related parties during 2014.

XIII. **OTHER SIGNIFICANT MATTERS**

1. **Exchange of Non-monetary Assets**

There is no significant exchange of non-monetary asset required to be disclosed during the reporting period.

2. **Debt Restructuring**

There is no significant debt restructuring matters required to be disclosed during the reporting period.

3. **Discontinued operations**

The Company and its subsidiaries have no intention to discontinue its operations.

4. **Significant displacement, transfer and disposal of assets**

The Company did not have significant displacement, transfer and disposal matters.

XIV. **APPROVAL FOR THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Company as at 20 January 2015.

AUDITORS' REPORT

Eastlake Shen Zi (2014) No. 224

To All Shareholders of China Energy Reserve and Chemicals Group Company Limited,

We have audited the accompanying consolidated and parent company financial statements of China Energy Reserve and Chemicals Group Company Limited (hereafter refers to the Company), which comprise the consolidated and parent company balance sheets as at 31 December 2013, and the consolidated and parent company income statements, the consolidated and parent company statements of cash flows for the year of 2013, and the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements. The responsibilities include: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining necessary internal control to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

II. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. OPINION

In our opinion, the financial statements of the Company were prepared in accordance with Accounting Standards for Business Enterprises, and presented fairly, in all material aspects, the financial position of the Company as of 31 December 2013 and the results of its operations and its cash flows for the year of 2013.

Beijing Eastlake CPA Co., Ltd

Chinese Certified Public Accountants: /s/

Chinese Certified Public Accountants: /s/

Beijing, PRC

10 April 2014

CONSOLIDATED BALANCE SHEET

Company: China Energy Reserve and Chemicals Group				31 December 2013		Unit: RMB	
Assets	Row	Balance at the beginning of the period	Balance at the end of the period	Liabilities and owners' equity (or shareholder's equity)	Row	Balance at the beginning of the period	Balance at the end of the period
CURRENT ASSETS:				CURRENT LIABILITIES:			
Monetary fund	1	673,836,875.22	1,107,584,704.51	Short-term borrowings	34	202,229,500.00	841,060,000.00
Held-for-trading financial assets	2		2,400,000.00	Held-for-trading financial liabilities	35		
Bills receivable	3	300,000.00	7,800,000.00	Bills payable	36	160,000,000.00	
Dividend receivable	4			Accounts payable	37	103,668,543.86	90,090,899.77
Interest receivable	5			Advance receipt	38	92,001,839.02	139,533,405.53
Accounts receivable	6	169,592,501.78	346,754,195.07	Staff remuneration payables	39	438,494.14	1,089,842.08
Other receivables	7	234,913,840.73	120,021,861.55	Taxes payable	40	22,397,440.90	30,349,022.08
Prepayments	8	929,783,608.58	858,229,688.33	Interest payable	41		
Inventory	9	276,026,305.16	487,972,977.24	Dividend payable	42		
Long term debt due within one year	10			Other payables	43	34,356,880.03	102,462,870.51
Other current assets	11			Non-current liabilities due within one year	44		
				Other current liabilities	45	2,250,000.00	
Total current assets	12	2,284,453,131.47	2,930,763,426.70	Total current liabilities	46	617,342,697.95	1,204,586,039.97
NON-CURRENT ASSETS:				NON-CURRENT LIABILITIES:			
Available-for-sale financial assets	13			Long-term borrowings	47	654,633,333.32	763,074,989.16
Held-to-maturity investments	14			Bonds payable	48		
Investment properties	15			Long-term payables	49	110,577,639.85	52,016,014.66
Long-term equity investments	16	64,321,825.21	584,545,383.97	Special accounts payable	50	655,600.00	655,600.00
Long-term receivables	17			Estimated liabilities	51		
Fixed assets – cost	18	1,506,256,003.26	1,721,217,515.86	Other long-term liabilities	52	11,042,233.46	37,404,252.65
Less: Accumulated depreciation	19	292,041,522.81	301,432,263.08	Deferred income tax liabilities	53		
Net value of fixed assets	20	1,214,214,480.45	1,419,785,252.78	Total non-current liabilities	54	776,908,806.63	853,150,856.47
Less: provisions for impairment on fixed assets	21			TOTAL LIABILITIES	55	1,394,251,504.58	2,057,736,896.44
Net fixed assets	22	1,214,214,480.45	1,419,785,252.78	OWNERS' EQUITY:			
Productive biological assets	23			Paid-in capital	56	865,000,000.00	1,725,000,000.00
Construction materials	24	77,349,207.41	43,188,335.97	Capital reserves	57	341,221,350.44	339,437,580.51
Construction in progress	25	420,182,392.25	1,411,971,211.33	Less: Treasury shares	58		
Disposal of fixed assets	26			Surplus reserves	59		
Intangible assets	27	89,790,057.68	142,511,539.58	Retained profit	60	1,181,801,042.06	1,858,734,495.99
Goodwill	28			Total equity attributable to owners of parent company	61	2,388,022,392.50	3,923,172,076.50
Long-term prepaid expenses	29	24,285,988.19	20,547,837.06	*Minority interests		392,995,516.27	572,404,014.45
Other non-current assets	30	672,330.69		Total owners' equity		2,781,017,908.77	4,495,576,090.95
Deferred income tax assets	31						
Total non-current assets	32	1,890,816,281.88	3,622,549,560.69				
TOTAL ASSETS	33	4,175,269,413.35	6,553,312,987.39	TOTAL LIABILITIES AND OWNERS' EQUITY	62	4,175,269,413.35	6,553,312,987.39

BALANCE SHEET

Company: China Energy Reserve and Chemicals Group

31 December 2013

Unit: RMB

Assets	Row	Balance at the beginning of the period	Balance at the end of the period	Liabilities and owners' equity	Row	Balance at the beginning of the period	Balance at the end of the period
				(or shareholders' interest)			
CURRENT ASSETS:				CURRENT LIABILITIES:			
Monetary fund	1	22,528,035.41	362,763,011.49	Short-term borrowings	34	25,000,000.00	450,000,000.00
Held-for-trading financial assets	2			Held-for-trading financial liabilities	35		
Bills receivable	3			Bills payable	36		
Dividend receivable	4			Accounts payable	37	10,265,528.60	17,700,834.20
Interest receivable	5			Advance receipt	38	6,203,158.87	
Accounts receivable	6	19,805,566.78	69,719,816.10	Staff remuneration payables	39		
Other receivables	7	6,756,859.28	5,903,088.40	Taxes payable	40	8,975,227.51	9,921,111.75
Prepayments	8	9,112,288.00	197,599,297.50	Interest payable	41		
Inventory	9	12,608,258.64	46,258,024.87	Dividend payable	42		
Long-term debt due within one year	10			Other payables	43	6,552,373.36	89,915,774.38
Other current assets	11			Non-current liabilities due within one year	44		
				Other current liabilities	45		
Total current assets	12	70,811,008.11	682,243,238.36	Total current liabilities	46	56,996,288.34	567,537,720.33
NON-CURRENT ASSETS:				NON-CURRENT LIABILITIES:			
Available-for-sale financial assets	13			Long-term borrowings	47		
Held-to-maturity investments	14			Bonds payable	48		
Investment properties	15			Long-term payables	49		
Long-term equity investments	16	1,137,750,000.00	2,109,870,000.00	Special accounts payable	50		
Long-term receivables	17			Estimated liabilities	51		
Fixed assets – cost	18	9,984,626.00	10,305,379.00	Other long-term liabilities	52		
Less: accumulated depreciation	19	4,562,772.43	6,575,735.28	Deferred income tax liabilities	53		
Net value of fixed assets	20	5,421,853.57	3,729,643.72	Total non-current liabilities	54	0.00	0.00
Less: provisions for impairment on fixed assets	21			TOTAL LIABILITIES	55	56,996,288.34	567,537,720.33
Net fixed assets	22	5,421,853.57	3,729,643.72				
Productive biological assets	23			OWNERS' EQUITY:			
Construction materials	24			Paid-in capital	56	865,000,000.00	1,725,000,000.00
Construction in progress	25			Capital reserves	57	75,500,000.00	75,500,000.00
Disposal of fixed assets	26			Less: Treasury shares	58		
Intangible assets	27			Surplus reserves	59		
Goodwill	28			Retained profit	60	216,486,573.34	427,805,161.75
Long-term prepaid expenses	29			Total equity attributable to owners of parent company	61	1,156,986,573.34	2,228,305,161.75
Other non-current assets	30			*Minority shareholders' equity			
Deferred income tax assets	31			Total owners' equity		1,156,986,573.34	2,228,305,161.75
Total non-current assets	32	1,143,171,853.57	2,113,599,643.72				
TOTAL ASSETS	33	1,213,982,861.68	2,795,842,882.08	TOTAL LIABILITIES AND OWNERS' EQUITY	62	1,213,982,861.68	2,795,842,882.08

CONSOLIDATED INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

2013

Unit: RMB

Items	Row	For the year of 2013	For the year of 2012	Items	Row	For the year of 2013	For the year of 2012
I. Total operating revenue	1	8,980,445,497.38	2,714,602,059.11	Including : investment income from associate and joint venture	22		
Including: operating revenue	2	8,980,445,497.38	2,714,602,059.11	III. Operating profit ("–" denotes loss)	23	1,005,749,683.21	458,652,802.28
Including: Revenue from main business	3	8,980,445,497.38	2,712,006,924.88	Add: Non-operating income	24	528,132.38	8,245,218.97
Revenue from other business	4		2,595,134.23	Including: income from disposal of non-current assets .	25		
II. Total operating costs	5	7,971,438,149.79	2,260,977,873.77	Income from non- currency assets trading (non- currency transaction)	26		
Including: operating costs	6	7,756,698,647.24	2,111,769,908.46	Governmental subsidy (subsidy income)	27		
Including: costs on main business	7	7,756,698,647.24	2,111,701,783.06	Income from debt restructuring	28		
Costs on other business	8		68,125.40	Less: non-operating expenses	29	14,531,501.91	4,834,786.96
Business taxes and surcharges	9	27,233,176.69	19,804,391.46	Including: loss on disposal of non- current assets	30		
Selling expenses	10	50,018,152.54	36,925,449.92	Loss on non- currency assets trading (non- currency transaction)	31		
Administrative expenses	11	94,506,023.91	73,768,494.85	Loss on debt restructuring	32		
Including: business entertainment	12			IV. Total profit ("–" denotes total loss)	33	991,746,313.68	462,063,234.29
Research and development expenditures	13			Less: income tax expenses	34	251,806,706.82	110,987,814.73
Finance expenses	14	42,982,149.41	18,709,629.08	Add: *#investment loss not recognized	35		
Including: interest expense	15			V. Net profit ("–" denotes net loss) .	36	739,939,606.86	351,075,419.56
Interest income	16			Less: *minority shareholders' profit or loss	37	63,006,152.93	52,820,211.82
Net loss on exchange ("–" denotes net revenue)	17			VI. Net profit attributable to owners of parent company	38	676,933,453.93	298,255,207.74
Loss on impairment of assets	18			VII. Earnings per share:	39		
Others	19			Basic earnings per share	40		
Add: gain on change in fair value ("–" denotes loss)	20			Diluted earnings per share	41		
Investment income ("–" denotes loss)	21	-3,257,664.38	5,028,616.94				

INCOME STATEMENT

Company: China Energy Reserve and Chemicals Group

2013

Unit: RMB

Items	Row	For the year of 2013	For the year of 2012	Items	Row	For the year of 2013	For the year of 2012
I. Total operating revenue	1	2,507,942,107.72	687,528,023.95	Including: investment income from associates and joint ventures	22		
Including: operating revenue	2	2,507,942,107.72	687,528,023.95	III. Operating profit (“-” denotes loss)	23	281,758,117.88	140,366,625.35
Including: revenue from main business	3	2,507,942,107.72	687,528,023.95	Add: non-operating income	24		
Revenue from other business	4			Including: Income from disposal of non-current assets	25		
II. Total operating cost	5	2,226,183,989.84	562,393,246.17	Income from non-currency assets trading (non-currency transaction)	26		
Including: operating cost	6	2,183,385,016.85	536,781,867.70	Governmental subsidy (subsidy income)	27		
Including: costs on main business	7	2,183,385,016.85	536,781,867.70	Income from debt restructuring	28		
Costs on other business	8			Less: non-operating expenses	29		
Business taxes and surcharges	9	6,620,964.65	3,502,421.59	Including: loss on disposal of non-current assets	30		
Selling expenses	10	9,090,325.74	7,203,215.40	Loss on non-currency assets trading (non-currency transaction)	31		
Administrative expenses	11	15,102,689.88	14,246,948.55	Loss on debt restructuring	32		
Including: business entertainment	12			IV. Total profit (“-” denotes total loss)	33	281,758,117.88	140,366,625.35
Research and development expenditures	13			Less: income tax expenses	34	70,439,529.47	31,283,694.45
Finance expenses	14	11,984,992.72	658,792.93	Add: *#investment loss not recognized	35		
Including: interest expense	15			V. Net profit (“-” denotes net loss)	36	211,318,588.41	109,082,930.90
Interest income	16			Less: *minority shareholders’ profit or loss	37		
Net loss on exchange (“-” denoted net revenue)	17			VI. Net profit attributable to owners of parent company	38	211,318,588.41	109,082,930.90
Loss on impairment of assets	18			VII. Earnings per share:	39		
Others	19			Basic earnings per share	40		
Gain on change in fair value (“-” denotes loss)	20			Diluted earnings per share	41		
Investment income (“-” denotes loss)	21		15,231,847.57				

CONSOLIDATED CASH FLOWS STATEMENTS

Company: China Energy Reserve and Chemicals Group 2013

Unit: RMB

Items	Amount	Supplementary information	Amount
I. Cash flows from operating activities:		1. Reconciliation of net profits as cash flows from operating activities:	
Cash received from sales of goods and rendering of services	10,166,644,450.30	Net profit	739,939,606.86
Tax rebates received.		Add: provision for impairment of assets.	
Cash received relating to other operating activities	115,656,960.66	Depreciation of fixed assets	9,390,740.27
Subtotal of cash inflows	10,282,301,410.96	Amortisation of intangible assets	1,652,271.30
Cash paid for goods and services	9,213,730,491.98	Amortisation of long-term prepaid expenses	9,200,731.55
Cash paid to and for employees	73,561,856.25	Loss from disposal of fixed assets, intangible assets and other long-term assets (less: revenue).	
Taxes and surcharges paid.	277,923,396.38	Loss from retired fixed assets	
Cash paid relating to other operating activities	489,441,666.26	Loss from change in fair value (less: revenue)	
Subtotal of cash outflows	10,054,657,410.87	Financial expenses	43,064,287.09
Net cash flows from operating activities	227,644,000.09	Investment losses (less: revenue)	3,257,664.38
II. Cash flows from investing activities:		Decrease in deferred income tax assets (less: increase)	
Cash received from investments		Increase in deferred income tax liability (less: decrease)	
Cash received from investment income	1,031,029.62	Decrease in inventory (less: increase)	-211,946,672.08
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		Decrease in operating items receivable (less: increase)	-315,327,471.30
Cash received relating to other investing activities		Increase in operating items payable (less: decrease)	-51,587,157.98
Subtotal of cash inflows	1,031,029.62	Others	
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	733,865,463.17	Net cash flows from operating activities.	227,644,000.09
Cash paid on investments	593,070,000.00	2. Investments and financing activities not involving cash settlements:	
Cash paid relating to other investing activities		Capital converted from debts	
Subtotal of cash outflows	1,326,935,463.17	Convertible bonds of the Company due within one year	
Net cash flows from investing activities	-1,325,904,433.55	Finance leases of fixed assets	
III. Cash flows from financing activities:		3. Net Increase in cash and cash equivalents:	
Cash received from capital contribution	860,000,000.00	Cash balance at the end of the period	1,107,584,704.51
Cash received from borrowings	747,272,155.84	Less: cash balance at the beginning of the period	673,836,875.22
Cash received relating to other financing activities		Add: cash equivalents at the end of the period	
Subtotal of cash inflows	1,607,272,155.84	Less: cash equivalents at the beginning of the period	
Cash repayments of amounts borrowed		Net increase in cash and cash equivalents	433,747,829.29
Cash paid for dividend and profit distribution or interest payment	43,064,287.09		
Cash paid relating to other financing activities	32,199,606.00		
Subtotal of cash outflows	75,263,893.09		
Net cash flows from financing activities	1,532,008,262.75		
IV. Effect of foreign exchange rate changes on cash			
V. Net increase in cash and cash equivalents	433,747,829.29		

CASH FLOWS STATEMENTS

Company: China Energy Reserve and Chemicals Group		2013	Unit: RMB
Items	Amount	Supplementary information	Amount
I. Cash flows from operating activities:		1. Reconciliation of net profit as cash flows from operating activities:	
Cash received from sales of goods and rendering of services	2,878,174,857.84	Net profit	211,318,588.41
Tax rebates received		Add: provision for impairment of assets	
Cash received relating to other operating activities.	69,415,814.65	Depreciation of fixed assets	2,012,962.85
Subtotal of cash inflows	2,947,590,672.49	Amortisation of intangible assets	
Cash paid for goods and services.	2,769,261,939.84	Amortisation of long-term prepaid expenses	
Cash paid to and for employees	9,158,701.59	Loss on disposal of fixed assets, intangible assets and other long-term assets (less: revenue)	
Payments of taxes	85,929,410.04	Loss on retired fixed assets	
Cash paid relating to other operating activities	44,255,558.59	Loss on change in fair value (less: revenue)	
Subtotal of cash outflows	2,908,605,610.06	Finance expenses	11,309,333.35
Net cash flows from operating activities	38,985,062.43	Investment loss (less: revenue)	
II. Cash flows from investing activities:		Decrease in deferred income tax assets (less: increase)	
Cash received from investments		Increase in deferred income tax liabilities (less: decrease)	
Cash received from investment income.		Decrease in inventory (less: increase).	-33,649,766.23
Disposal of fixed assets, intangible assets and other long-term assets		Decrease in operating items receivable (less: increase).	-237,547,487.94
Cash received relating to other investing activities.		Increase in operating items payable (less: decrease)	85,541,431.99
Subtotal of cash inflows		Others	
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	320,753.00	Net cash flows from operating activities	38,985,062.43
Cash paid on investments	972,120,000.00	2. Investments and financing activities not involving cash settlements:	
Cash paid relating to other investing activities		Capital converted from debts	
Subtotal of cash outflows	972,440,753.00	Convertible bonds of the Company due within one year	
Net cash flows from investing activities	972,440,753.00	Finance leases of fixed assets.	
III. Cash flows from financing activities:		3. Net Increase in cash and cash equivalents:	
Cash received from capital contribution.	860,000,000.00	Cash balance at the end of the period	362,763,011.49
Cash received from borrowings.	430,000,000.00	Less: cash balance at the beginning of the period	22,528,035.41
Cash received relating to other financing activities.		Add: cash equivalents as at the end of the period	
Subtotal of cash inflows	1,290,000,000.00	Less: cash equivalents as at the beginning of the period	
Cash repayments of amounts borrowed	5,000,000.00	Net increase in cash and cash equivalents	340,234,976.08
Cash paid for dividend and profit distribution or interest payment	11,309,333.35		
Cash paid relating to other financing activities			
Subtotal of cash outflows	16,309,333.35		
Net cash flows from financing activities	1,273,690,666.65		
IV. Effect of foreign exchange rate changes on cash			
V. Net increase in cash and cash equivalents	340,234,976.08		

**Notes to the Financial Statements of
China Energy Reserve and Chemicals Group
As at 31 December 2013**

I. BASIC INFORMATION OF THE COMPANY

China Energy Reserve and Chemicals Group (hereafter referred to as the “Company”) (formerly known as China Huaxing Mechanical and Electrical Equipment Company (中國華星機電設備公司)) was founded on 21 November 1981. Its name was changed to China Yuanhong Energy Investment Company Limited (中國遠鴻能源投資有限公司) subsequent to the reconstruction took place on 1 June 2010. The Company obtained the enterprise legal person business licence of No. 100000000042401 issued by the State Administration for Industry & Commerce of the People’s Republic of China. Its registered capital was RMB100 million, for which Zhong Cheng Xin An Rui (Beijing) Accounting Firm (中誠信安瑞(北京)會計師事務所有限公司) had carried out verification and issued a capital verification report Zhong Cheng Xin An Rui Yan Zi (2010) No. 1046. In December 2010, China Yuanhong Energy Investment Company Limited was transformed into China Yuanhong Energy Group Corporation Company (中國遠鴻能源集團股份公司), for which Beijing Run Peng Ji Neng Accounting Firm (北京潤鵬冀能會計事務所) had performed the capital verification on 28 December 2010 and issued a report Jing Run (Yan) Zi [2010] No. 224907. On 28 February 2011, China Yuanhong Energy Group Corporation Company changed its name to China Energy Reserve and Chemicals Group. In April 2011, the Company increased its registered capital through resolution passed on the General Meeting by RMB202 million to RMB302 million. On 19 April 2011, Beijing Run Peng Ji Neng Accounting Firm performed capital verification on it and issued a report Jing Run (Yan) Zi [2011] No. 206660. Capital contribution to the increase of registered capital is as follows: Guoneng Natural Gas Corporation Company (國能天然氣股份公司) contributed RMB122 million, representing 40.4% of the registered capital after the change; Guoneng Natural Gas Import and Export (Beijing) Company Limited (國能天然氣進出口(北京)有限公司) contributed RMB80 million, representing 26.49% of the registered capital after the change; Beijing Sinogas Sanhuan Sci-tech Development Company Limited (北京中油三環科技發展有限公司) contributed RMB51 million, representing 16.89% of the registered capital after the change; and Zhongyuanhang Gas Company Limited (中遠航燃氣有限公司) contributed RMB49 million, representing 16.22% of the registered capital after the change. In March 2012, the Company increased its registered capital through resolution passed on the General Meeting by RMB563 million to RMB865 million. On 7 March 2012, Beijing Zhong Tong Xing Accounting Firm (北京中同興會計師事務所) conducted capital verification on the registered capital and issued the report Zhong Tong Xing (Yan) Zi [2012] No. 015. Capital contribution to the increase of registered capital is as follows, Guoneng Natural Gas Import and Export (Beijing) Company Limited contributed RMB380 million, representing 43.93% of the registered capital after the change; Guoneng Natural Gas Corporation Company contributed RMB285 million, representing 32.95% of the registered capital after the change; Zhongyuanhang Gas Company Limited contributed RMB149 million, representing 17.22% of the registered capital after the change and Beijing Sinogas Sanhuan Sci-tech Development Company Limited contributed RMB51 million, representing 5.90% of the registered capital after the change. It was resolved on the General Meeting in April 2012 that equity interests of RMB51 million from Beijing Sinogas Sanhuan Sci-tech Development Company Limited to be transferred to Zhongyuanhang Gas Company Limited and Shenzhen Baizhao Investment & Consultant Company Limited (深圳市百墨投資顧問有限公司), which took up RMB49 million and RMB2 million respectively, among which: Guoneng Natural Gas Import and Export (Beijing) Company Limited contributed RMB380 million, representing 43.93% of the registered capital after the change; Guoneng Natural Gas Corporation Company contributed RMB285 million, representing 32.95% of the registered capital after the change; Zhongyuanhang Gas Company Limited contributed RMB198 million, representing 22.89% of the registered capital after the change; Shenzhen Baizhao Investment & Consultant Company Limited contributed RMB2 million, representing 0.23% of the registered capital after the change. The registered capital was increased by RMB860 million to RMB1,725 million through resolution passed on the General Meeting in January 2013, for which verification process was carried out and a verification report Jingrun Yan Zi [2013] No. 203489 was issued by Beijing Run Peng Ji Neng Accounting Firm on 29 January 2013. Capital contribution to the increase of registered capital is as follows: Guoneng Natural Gas Import and Export (Beijing) Company Limited contributed RMB648 million, representing 37.57% of the registered capital after the change; Xinneng International Investment Co. Ltd. contributed RMB431.25 million, representing 25% of the registered capital after the change; Zhongyuanhang Gas Company Limited contributed RMB358.75 million, representing 20.79% of the registered capital after the change; Guoneng Natural Gas Corporation Company contributed RMB285 million, representing 16.52% of the registered capital after the change; Shenzhen Baizhao Investment & Consultant Company Limited contributed RMB2 million, representing 0.12% of the registered capital after the change. It was resolved on the General Meeting in February 2013 that equity interests of RMB285 million be transferred to China National Friend Industry Corporation (中國富萊德實業公司) out of the equity interests of RMB285 million of Guoneng Natural Gas Corporation Company, and equity interests of RMB165 million be transferred to China National Friend Industry Corporation out of the equity interests of RMB165 million of Guoneng Natural Gas Import and Export (Beijing) Company Limited, and equity interests of RMB67.5 million, RMB258.75 million and RMB32.5 million be transferred to China National Friend Industry Corporation, China Hualian International Trade Company and Shenzhen Baizhao Investment & Consultant Company Limited respectively out of the equity interests of RMB358.75 million of Zhongyuanhang Gas Company Limited, among which, China National Friend Industry Corporation contributed RMB517.5 million, representing 30% of the registered capital after the change; Guoneng Natural Gas Import and Export (Beijing) Company Limited contributed RMB483 million, representing 28% of the registered capital after the change; Xinneng International Investment Co. Ltd. contributed RMB431.25 million, representing 25% of the registered capital after the change; China Hualian

International Trade Company contributed RMB258.75 million, representing 15% of the registered capital after the change; Shenzhen Baizhao Investment & Consultant Company Limited contributed RMB34.5 million, representing 2% of the registered capital after the change. The Company located at Room 202, 2nd Floor, Unit 1, Building No. 1, No. 2 Yinhe South street, District Shijingshan, Beijing with registered capital of RMB1,725 million, and legal representative of which is Chen Yihe.

Scope of business: battery manufacturing; energy investments; investment management; investment advisory service; development of energy and energy-saving technologies, technical consulting, technology transfer; technical service; sales of electrical and mechanical equipment, lubricating oil, fuel oil, chemical products (excluding dangerous chemicals); import and export business. Sales of other petroleum products (excluding refined oil); sales of metal ores, metal materials, non-metallic minerals and products; oil and gas exploration service; pipeline transportation; technical detection; machinery and equipment leasing; computer systems and integration, software development, data processing, equipment maintenance; project management; asset management; property management; house leasing; conference and exhibition service; warehouse management.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared on a going concern and actual transaction and event basis in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued and revised thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises”).

III. STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

These Financial Statements comply with the Accounting Standards for Business Enterprises and give a true and fair view of information related to the Company, including its financial position as at 31 December 2013 and results of operations and cash flows for the year of 2013.

IV. EXPLANATION OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting year

The accounting periods of the Company are classified as year and interim. Interim accounting period refers to a reporting period less than a full accounting year. The Company adopts the Gregorian calendar year as its accounting year, beginning from 1 January and ended 31 December each year.

2. Reporting currency

Renminbi (“RMB”) is the currency in the primary economic environment in which the Company and its domestic subsidiaries operate and has been adopted by the Company and its domestic subsidiaries as its reporting currency in the preparation of these financial statements.

3. Basis of preparation and principle of measurement (nature of measurement)

According to relevant requirements under the Accounting Standards for Business Enterprises, the Company has adopted the accrual basis as its basis of accounting. Except for certain financial instruments, historical costs have been adopted as the basis of measurement in these Financial Statements. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

4. Calculation and translation of foreign currency transactions

(1) Translation of foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the foreign currency is translated into the reporting currency at the spot exchange rate at the transaction date. (Generally, a spot exchange rate is the middle rate quoted by the People’s Bank of China on the day of transaction). Transaction in foreign currency exchange or transaction involving foreign currency exchange shall be translated into the reporting currency at the actual exchange rate.

(2) Translation of foreign monetary items and foreign non-monetary items

On the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate on the balance sheet date and the arising difference shall be recorded in the current profit or loss, except: (1) exchange difference arising from foreign currency borrowings for the purchase and construction of assets qualified for capitalization shall be dealt with according to the principle of capitalization of loans; and (2) exchange difference arising from the change of balance in the carrying amount other than amortized cost of an available-for-sale foreign monetary item shall be recognized in other comprehensive income.

Foreign currency non-monetary items measured at the historical cost shall still be translated into the reporting currency at the spot exchange rate at the transaction date. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate at the date of fair value evaluation, and the translation difference between the reporting currency and the original currency, shall be accounted for as the change in fair value (including changes of exchange rate) and recorded in the current profit or loss or recognized as other comprehensive income and recorded in the capital reserve.

(3) Translation of financial statements denominated in foreign currency

Where the consolidated financial statements include foreign operation(s), if there is foreign currency monetary substantially item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as “translation differences arising on translation of financial statements denominated in foreign currency” in shareholder’s equity, and in current profit or loss upon disposal of the foreign operation.

Financial statements of foreign operations denominated in foreign currency are translated into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders’ equity items except for retained profits are translated at the spot exchange rates at the dates on which such items arose; revenue and expense in the income statement are translated at the spot exchange rate on the transaction date; the retained profits at the beginning of the year is the translated previous year’s retained profits at the end of the year; the retained profits at the end of the year is calculated and presented on the basis of each translated profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders’ equity items, as the exchange difference arising on translation of financial statements denominated in foreign currency, is separately recognized as other comprehensive income under the shareholders’ equity in the balance sheet. On disposal of and loss of control over the foreign operation, the exchange difference arising from translation of financial statements denominated in foreign currency presented under shareholders’ equity items on the balance sheet in respect of such foreign operation is recorded in the current profit or loss in whole or in proportion of such foreign operation.

Cash flows arising from a transaction in foreign currency are translated at the spot exchange on the day on which the cash flows incur. The effect of exchange rate changes on cash is regarded as a reconciling item and presented separately in the cash flows statement.

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year’s financial statements.

5. Criteria for determination of cash and cash equivalents

Cash and cash equivalents of the Company comprise cash on hand, deposits readily available for payment and short-term highly liquid investments that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and have a short maturity of generally within three months since acquired.

6. Accounts receivable

Accounts receivable includes accounts receivable and other receivable, etc.

(1) Recognition of bad debt provision

The Company carries out an overall inspection on the carrying amount of receivable on the balance sheet date. Where there arises any of the following objective evidences indicating that accounts receivable have been impaired, an impairment provision will be made: ① a serious financial difficulty occurs to the debtor; ② the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ③ the debtor will probably go bankrupt or carry out other financial reorganizations; other objective evidences indicating that the accounts receivable are impaired.

(2) Measurement of bad debt provision

① Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable

Accounts receivable of more than RMB1 million is recognized as individually significant accounts receivable by the Company.

For accounts receivable that is individually significant, the Company assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk features and collectively assessed for impairment. Accounts receivable for which an impairment loss is individually recognized are not included in a group of accounts receivable with similar credit risk features and collectively assessed for impairment.

② Basis for recognition and measurement of bad debt provision for single item with insignificant accounts receivable but greater risks after arrival at by credit risk features

A. Basis for determining portfolio of credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Company classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors’ ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

B. Measurement determined basing on credit risk feature portfolio

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

③ Aging analysis

Aging	Ratio of provision (%)	
	Accounts receivable	Other accounts receivable
Within 1 year (including 1 year, the same below)	0	0
1-2 years	5	5
2-3 years	10	10
3-4 years	20	20
4-5 years	50	50
Over 5 years	80	80

(3) Reversal of bad debt provision

If there are evidences indicating that the value of the account receivable is recovered and that recovery is objectively connected to the event subsequent to the recognition of the loss, the impairment loss previously recognized will be reversed and recorded into profit or loss for the period. However, the carrying amount so reversed shall not exceed the amortised cost of the account receivable on the date of reversal on the assumption that no impairment provision has been made.

7. Inventory

(1) Classification of inventories

Inventories mainly include raw materials, work in progress and semi-finished products, revolving supplementary materials, finished products, stored commodities etc.

(2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the first-in, first-out method.

Inventories are initially measured at cost. Inventories mainly include materials in stock, work in progress (development cost), finished products and developed products intended to sell but temporarily leased. Costs of products under development include payments for land acquisition, costs for infrastructure, construction and installation costs, borrowing costs capitalized before project is ready for intended use, and other relevant costs during development. When dispatched, actual cost will be calculated based on the first-in, first-out method.

(3) Recognition of net realizable value of inventory and provision for inventory impairment

Net realizable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and relative tax in daily operation. The realizable value of inventories shall be determined on the basis of definite evidence, purpose of holding the inventories and effect of after-balance-sheet-date events.

At the balance sheet date, inventories are calculated at the lower of cost and net realizable value. Provision for inventory impairment is made when the net realizable value is lower than the cost. Provisions for impairment of inventory shall be made according to the amount by which the cost of a single inventory exceeds its net realizable value.

After making the provision for inventory impairment, in case the factors causing inventory impairment no longer exists, and the net realizable value of an inventory is higher than its book value, an amount no more than the original provision for inventory impairment shall be transferred back and incorporated into the current profit or loss.

(4) The inventory taking system shall use permanent inventory system.

(5) Amortization of low-value consumables and packaging materials

Low-value consumables are amortized by lump-sum when taken for use. Also, packaging materials are amortized by lump-sum when taken for use.

8. Long-term equity investments

(1) Determination of initial investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the sum of combination cost and respective direct related expenses of acquirer arising from business combination.

Equity investment other than long-term equity investment acquired through business combination shall be initially measured at its cost.

(2) Method for subsequent measurement and profit or loss recognition

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured. Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Long-term equity investment without control or joint control or significant influence with a fair value which can be reliably measured is accounted for as available-for-sale financial assets.

In addition, long-term equity investments with control on the investee are accounted for using cost method and record in the Company's financial statements.

① Long-term equity investments accounted for using the cost method

Under the cost method, long-term equity investment is measured at its initial investment cost. Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, investment gains for the period is recognized as the cash dividends or profits declared by the investee.

② Long-term equity investments accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to the current profit or loss, and the cost of the long term equity investment shall be adjusted accordingly.

Under the equity method, investment gain or loss for the current period represents the Company's share of the net profits or losses made by the investee for the current year. The Company shall recognize its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto in conformity with the accounting policies and accounting periods of the Company. The unrealized gain or loss from internal transactions entered into between the Company and its associated enterprises and joint ventures is set off according to the shareholding attributable to the Company and investment profit or loss is recognized based on such basis. However, the unrealized loss from internal transactions entered into between the Company and the investee will not be set off if belongs to impairment loss on assets transferred according to regulations such as "Accounting Standards for Business Enterprises No. 8 "Assets impairment". In respect of the other comprehensive income of investees, the carrying amount of long-term equity investments is accordingly adjusted and recognized as other comprehensive income and included in the capital reserves.

The Company's share of net losses of the investee shall be recognized to the extent that the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. If the Company has obligation to assume additional loss, the projected liability will be recognized basing on the estimated obligation assumed and charged to the investment loss for the period. Where the investee is making net profits in subsequent periods, the Company shall resume recognizing its share of profits after setting off against the share of unrecognized losses.

If there is debit variation in relation to the long-term equity investments in associates and joint venture held prior to first adoption of the New Accounting Standards for Business Enterprises by the Company on 1 January 2006, the amounts amortized over the original residual term using the straight-line method is included in the current profit or loss.

③ Acquisition of minority interests

During the preparation of the consolidated financial statements, the capital reserve shall be adjusted basing on the difference between the new long-term equity investment acquired as a result of the acquisition of minority interests and the net assets share which are measured basing on the continuous measurement since the acquisition date (or combination date) of subsidiaries attributable to the Group calculated according to the proportion of newly acquired shares and an adjustment shall be made to retained earnings if the capital reserve insufficient to set off impairment.

④ *Disposal of long-term equity investments*

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and the net assets in the subsidiary responding to the disposal of long-term equity investments is charged to the owners' equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be treated in accordance with the relevant accounting policies as described in Note VII. 1 "Preparation Method of the Consolidated Financial Statements".

On disposal of a long-term equity investment otherwise, the difference between the carrying amount of the investment and the actual consideration paid is included in the current profit or loss. Where the equity method is adopted, other comprehensive income previously included in shareholders' equity shall be transferred to the current profit or loss on a pro-rata basis. The remaining equity shall be recognized as the long-term equity investments or other relevant financial assets basing on the carrying amount and subsequently measured in accordance with the accounting policies of the foresaid long-term equity investments or financial assets. The retrospective adjustment shall be made in accordance with the relevant provisions if the remaining equity is accounted for using the equity method instead of the cost method.

(3) *Recognition of having joint control or significant influence over the investee*

The term "control" means that the Group has the power to decide an enterprise's financial and operating policy, pursuant to which, the Group can get the power to obtain benefits from its operating activities. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is control or significance influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investor and other investee held) were taken into account.

(4) *Impairment test method and impairment provision*

The Company assesses at each balance sheet date whether there is any indication that any long-term equity investments may be impaired. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If the recoverable amount of an asset is less than its carrying amount, a provision for impairment loss of the asset is recognized accordingly and charged to the current profit or loss.

An impairment loss recognized on long-term equity investments shall not be reversed in a subsequent period.

9. **Investment Property**

Investment property refer to real estate held to earn rentals or for capital appreciation, or both. Investment property of the Company include the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out.

(1) *Recognition of investment properties*

No investment property shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to this investment property are likely to flow into the enterprise;
- ② The cost of the investment property can be reliably measured.

(2) *Initial measurement of the investment property*

- ① The cost of a purchased investment property consists of the purchase price, relevant taxes, and other expenses directly related to the asset.
- ② The cost of a self-built investment property shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost of an investment property obtained by other means shall be recognized in accordance with relevant accounting standards.
- ④ Subsequent expenditures related to an investment property shall be included to the cost of the investment property if they meet the recognition conditions for investment property; otherwise, if they fail to meet the recognition conditions, they shall be included in the current profits or losses upon occurrence.

(3) Subsequent measurement of the investment property

The cost method is adopted by the Company for subsequent measurement of investment property on the date of the balance sheet. According to relevant regulations of Accounting Standards for Business Enterprises No. 4 – Fixed Assets and Accounting Standard for Business Enterprises No. 6 – Intangible Assets, the Company shall make amortization basing on straight-line method over the expected useful life or make provision for investment property.

(4) Conversion of the investment property

Where the Company has well-established evidence indicating that the purpose of the property has changed, it shall convert the investment property to other assets or visa versa. The book value of the property prior to the conversion shall be entry value after conversion.

(5) Impairment provision of the investment property

Basis and method of calculation of impairment provision for investment property under cost model on subsequent measurement refer to Note IV. 14.

10. Fixed Assets

(1) Recognition of fixed assets

Fixed assets of the Company are tangible assets that are held for using in the production or supply of services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year. No fixed asset shall be recognized unless it meets the following requirements simultaneously:

- ① The economic benefits pertinent to the fixed asset are likely to flow into the enterprise;
- ② The cost of the fixed asset can be measured reliably.

(2) Initial measurement of fixed asset

Fixed assets are measured initially at cost.

- ① The cost of a purchased fixed asset consists of the purchase price, the relevant taxes, freights, loading and unloading fees, installation fees and professional service fees and other expenses that bring the fixed asset to the expected conditions for use and that may be relegated to the asset.

Where the payment for a fixed asset is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of fixed assets shall be recognized on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price shall be included in the current profits or losses within the credit period, unless it shall be capitalized in accordance with the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs.

- ② The cost of a self-constructed fixed asset shall be formed by the necessary expenses incurred for bringing the asset to the expected conditions for use.
- ③ The cost invested to a fixed asset by the investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, other than those of unfair value as stipulated in the contract or agreement.
- ④ Subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are recognized basing on the amount incurred and charged to the current profit or loss. Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.
- ⑤ The costs of fixed assets acquired through the exchange of non-monetary assets, debt restructuring, business combinations, and financial leasing shall be respectively ascertained in accordance with the Accounting Standards for Business Enterprises No. 7 – Exchange of Non-monetary Assets, Accounting Standards for Business Enterprises No. 12 – Debt Restructuring, Accounting Standards for Business Enterprises No. 20-Business Combinations and Accounting Standards for Business Enterprises No. 21 – Leases.

(3) Categories of fixed assets

The fixed assets of the Company include buildings and supporting facilities, machine equipment, structures and other auxiliaries, transportation equipment, electronic equipment, pipe network and other equipment and furniture.

(4) Depreciation of fixed assets

- ① Recognition of the depreciation methods and estimated net useful life, estimated residual value and annual depreciation rate: Fixed assets shall be depreciated by straight-line method. Annual depreciation rate determined based on the categories of fixed assets, useful life, estimated net residual value are as follows:

Categories	Useful life	Residual value	Annual depreciation rate
	(year)	(%)	(%)
Buildings and structures	30	5	3.17
Special facilities.	20	5	4.75
Special equipments	12	5	7.92
Transportation equipment	5-10	5	19.00-9.50
Office equipment	5	5	19.00

Depreciation method for fixed assets with provision for impairment: A fixed asset with provision for impairment is depreciated basing on its costs less estimated net residual value, the provision depreciation for and impairment and its remaining useful life.

A fixed asset that has reached its intended use but before the final account for completed project is stated at cost and depreciated basing on estimated value, which will be adjusted basing on actual cost upon the final account for completed project without adjustment to the depreciation already made.

- ② Review of useful life, estimated net residual value and depreciation method for fixed assets: The Company reviews the useful life, estimated net residual value and depreciation of a fixed asset at least at each financial year-end. The useful life of fixed assets is subject to adjustment based on the change, if any, as compared to the original estimate. The estimated net residual value is subject to adjustment basing on the change, if any, as compared to the original estimate. The depreciation method applied is subject to change where there arises a significant change in the expected realization mode of economic benefit relating to the fixed assets. Any change in the useful life, estimated net residual value and depreciation method of a fixed asset shall be accounted for as a change in accounting estimate.

(5) Treatment of subsequent expenses related to fixed assets

Subsequent expenses related to fixed assets mainly include repair expense, renovation expense, repair costs, decoration expenses and so on that incur in the course of use of fixed assets. In accounting, subsequent expenses related to fixed assets that are qualified for recognition of fixed assets (such as for renovation) are capitalized in cost of fixed assets, where the carrying amount of the replaced part, if any, is deducted. Expenses that are not qualified for recognition of fixed assets (such as for repair costs related to fixed assets) are charged to the current profits or losses. Decoration expenses related to fixed assets that are qualified for recognition of fixed assets are accounted for in a separate subsidiary account under "fixed assets", and are depreciated separately on a straight-line basis over the lower of the period between two decorations and the remaining useful life of fixed assets.

Improvement expenses on fixed assets leased by way of operating leasing are capitalized as long-term prepaid expenses and amortized on a reasonable basis.

11. Construction in progress

- (1) Construction in progress of the Company include infrastructure construction expenditures, installation expenditures and other construction expenditures. Construction in progress is measured at its actual costs.
- (2) Timing for transferring construction in progress into fixed assets:

Construction in progress is transferred into fixed assets when it is ready for its intended use basing on the actual costs. For any completed fixed assets ready for intended use but with final account unsettled, they will be accounted for at estimated value. An adjustment shall be made upon actual value is determined.

12. Intangible assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

An intangible asset is measured initially at cost. The expenditures associated with intangible assets shall be included in the cost of intangible assets when it is probable that the relevant economic benefits will flow to the Company and its cost can be measured reliably. The expenditures on other projects shall be included in the current profits or losses as incurred.

The land use rights acquired are generally accounted for as intangible assets. For self-constructed plants and buildings, the relevant expenditures on land use rights and the cost of constructions shall be accounted for intangible assets and fixed assets respectively. For acquired buildings and structures, the relevant cost shall be allocated between the land use right and structures, and if it is impossible to be reasonably allocated, all the relevant cost shall be recognized as fixed assets.

When an intangible asset with finite useful life is available for use, its original cost less expected net residual value and any accumulative amount of impairment provision is amortized over its estimated useful life using straight-line method. An intangible asset with indefinite useful life shall not be amortized.

For an intangible asset with finite use life, the Company reviews the useful life and amortization method at the end of the period. Any changes of use life and amortization method shall be taken as changes in accounting estimation. After reviewing useful life of intangible assets with indefinite useful life, if there is evidence indicating that economic benefit inflow term of an intangible asset is predictable, the Company shall estimate its useful life and make an amortization according to the amortization policy for fixed asset with finite use life.

(2) Research and development expenses

Expenses of an internal research and development project of the Company are classified into research expenses and development expenses.

Research expenses shall be included in the current profits or losses as incurred.

Development expenses that satisfy the following conditions simultaneously are recognized as intangible assets, while those that do not satisfy the following conditions are included in current profits or losses:

- ① It is technically feasible that the intangible asset can be used or sold upon completion;
- ② It is intend to complete, use or sell the intangible assets;
- ③ The way in which the intangible assets bring economic benefits shows that there exists consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilisation;
- ④ There are sufficient technical, financial resources and other resources to complete the development of the intangible assets and the ability to make them available for use or sale;
- ⑤ The expenses attributable to such intangible assets can be measured reliably at the development stage.

If the expenses incurred during the research stage and the development stage cannot be distinguished separately, all the research and development expenses incurred are accounted for in the current profits or losses.

13. Long-term prepaid expenses

Long-term prepaid expenses are various expenditures which have incurred but that shall be amortized over more than one year in the reporting period and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period.

14. Impairment of assets

- (I)** Impairment of assets referred herein mainly involve long-term equity investment (excluding the long-term equity investment which does not exercise joint control nor have significant influences on the investee, and has no quotation in the active market and whose fair value cannot be reliably measured), investment properties (excluding investment properties measured at fair value), fixed assets, construction in progress, construction materials, intangible assets (including capitalized development expenses), goodwill, a group of assets and portfolio of assets, etc.

(2) Recognition of assets that may be impaired

As at the balance sheet date, the Company assesses whether there is any signs to indicate that the assets may be impaired. Goodwill arising in a business combination and an intangible asset with infinite useful lives are tested for impairment annually, irrespective of whether there are any signs to indicate that the asset may be impaired. The indicators for impairment are as follows:

- ① the current market price of an asset declines substantially and the decline is obviously more than that as expected caused by passage of time or normal application;
- ② there are significant changes in the economic, technical or legal environment in which the Company operates and in the market where the asset is located in the current period or near future resulting in adverse impacts on the Company;
- ③ the market interest rate or rate of return of other investment has stood high in the period, affecting the discount rate used by an enterprise for the calculation of the present value of estimated cash flow which results in a substantial decline in the recoverable amount of the assets;
- ④ there is evidence to demonstrate that the asset has obsoleted or been physically damaged;
- ⑤ the asset has already been or will be left idle, ceased to be used, or planned to be early disposed;
- ⑥ there is evidence from the internal reports of the Company that the economic return of asset such as the net cash flows generated or operating profit (or loss) realised, has been or will be lower (or higher) than that as expected;
- ⑦ other signs indicating that the value of an asset may have already been impaired.

(3) Measurement of recoverable amount of assets

Where there is any indication that an asset is impaired, its recoverable amount should be estimated. The recoverable amount of an asset is determined by the higher of its fair value less costs of disposal and its present value of expected future cash flows.

(4) Recognition of asset impairment losses

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset will be reduced to its recoverable amount. Impairment losses are recognized in the current profit or loss. A provision for an impairment loss of the asset is recognized accordingly. After the impairment loss for an asset is recognized, the corresponding adjustment will be made to the depreciation or amortization expenses on the impaired asset in subsequent periods, so as to amortize systematically the adjusted carrying amount (net of estimated net residual value) of the asset over its remaining useful lives. Once an impairment loss is recognized for an asset, it shall not be reversed in subsequent accounting periods.

(5) Recognition of asset groups and treatments of impairment

Where there is any evidence indicating a possible impairment of assets, the Company shall, on the basis of single item assets, estimate the recoverable amount. Where it is difficult to do so, it shall determine the recoverable amount of the asset groups on the basis of the asset group to which the asset belongs. The asset groups should be recognized in accordance with the main cash inflow generated by the asset groups which is whether independent of those by other assets or asset groups. Simultaneously, when recognizing an asset group, the Company shall take into consideration how its management manage the production and business activities, and the ways of decision-making for the continuous use or disposal of the assets, etc.

Where the recoverable amount of an asset group or a combination of asset groups is lower than its carrying value (where the headquarter' assets and goodwill are apportioned to a certain asset group or a combination of asset groups, the carrying value of the asset group or the combination of asset groups shall include the amount of the relevant assets of the headquarter and goodwill that have been apportioned to), it shall be recognized as the corresponding impairment loss. The amount of the impairment loss shall first charge against the carrying value of the goodwill which are apportioned to the asset group or combination of asset groups, then charge it against the carrying value of other assets in proportion to the weight of other assets in the asset group or combination of asset groups with the goodwill excluded.

The charges against the carrying value of the assets above shall be treated as the impairment loss of the each single asset and recorded as current profit or loss. The carrying value of the each asset after charges shall not lower than the highest of the below: the net amount after the fair value of the asset less the disposal expense, the present value of the expected future cash flow of the asset and nil. The amount of the impairment loss unshared thereof shall be reallocated in proportion to the weight of other assets' carrying value in relevant asset group or combination of asset groups.

(6) Impairment of goodwill

For goodwill formed by combination, the Company shall carry out an impairment test at least at the end of each year. The goodwill shall, together with the related asset group or sets of asset group, be subject to the impairment test. For the purpose of impairment test of assets, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill, and treat them according to provisions of assets group impairment hereof.

15. Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised; and capitalization shall be discontinued when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognized as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be determined according to the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalisation period, exchange differences related to a specific purpose borrowing denominated in foreign currency shall be fully capitalised. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in the current profit or loss.

Qualifying assets are assets, such as fixed assets, investment properties, inventories, etc that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, and the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

16. Employee Benefits

Employee benefits of the Company mainly include salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labor union funds, employee education funds, non-monetary welfare, lay off welfare, early retirement and other expenditures incurred in exchange for service rendered by employees.

In the accounting period in which an employee has rendered services, the Company shall recognise the employee benefits payable as a liability.

The Company shall participate in social security systems operated by the government as required, including the basic pension insurance system, medical insurance, housing funds and other social security systems, relevant expenditures shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Company terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Company has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Company cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the current profit or loss.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Company during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in the current profit or loss when the recognition criteria for provisions are met (termination benefits).

17. Share-based Payments

(1) *The equity-settled share-based payments*

- ① The equity-settled share-based payment in return for employee services or similar services provided by other party shall be measured at the fair value of the equity instruments granted to the employees and other party.
- ② As to an equity-settled share-based payment in return for services of employees or similar services provided by other party, if the right may be exercised immediately after the grant, the fair value of the equity instruments shall, on the date of the grant, be included in the relevant cost or expense and the capital reserves shall be increased accordingly.
- ③ The Company shall, after the exercise date, make no adjustment to the relevant costs or expenses as well as the total amount of the owner's equities which have been recognized.
- ④ On the exercise date, the Company shall, based on the number of the equity instruments actually exercised, calculate and determine the amount to be transferred in the paid-in capital or share capital, and transfer it into the paid-in capital or share capital.

(2) *The cash-settled share-based payments*

- ① The cash-settled share-based payments is measured at the fair value of liabilities born by the Company.
- ② As to a cash-settled share-based payment instruments, if the right may be exercised immediately after the grant, the fair value of the liability undertaken by the Company shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly.
- ③ As to a cash-settled share-based payment, if the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, on each balance sheet date within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the Company.
- ④ Subsequent measurement
 - A. If, on the balance sheet date, the subsequent information indicates that fair value of the current liability undertaken by the Company are different from the previous estimates, an adjustment shall be made and on the exercise date the estimate shall be adjusted to equal the actually exercisable right.
 - B. The Company shall, on each balance sheet date and on each account date prior to the settlement of the relevant liabilities, re-measure the fair values of the liabilities and include the changes in the current profits or losses.

18. Accrued Liabilities

Obligations pertinent to the contingencies which satisfy the following conditions are recognized as accrued liabilities: (1) the obligation is a current obligation borne by the Company; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; (3) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognized as asset separately, and compensation amount recognized shall not be more than the carrying amount of accrued liabilities.

19. Revenue

(1) *Revenue from sales of goods*

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

(2) Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the measurement of completed work.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (1) the relevant amount of revenue can be reliably measured; (2) it is probable that the economic benefits will flow into the enterprise; (3) the completion schedule of the transaction can be reliably ascertained; (4) transaction costs incurred and to be incurred can be reliably measured.

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognized as an expense for the current period. If the cost of rendering services is expected not to be compensated, no revenue shall be recognized.

When a contract or agreement signed by the Company with other enterprise includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognized respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognized as sales of goods in full.

(3) Royalty revenue

Revenue is recognized on an accrual basis under the relevant contracts or agreements.

(4) Interest income

Interest income is measured based on the length of time for which the Company's cash is used by others and the effective interest rate.

20. Government grant

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognized immediately in the current profit or loss.

A government grant related to an asset shall be recognized as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognized immediately in the current profit or loss.

For the repayment of a government grant already recognized, if there is any related deferred income, the repayment shall be set off against the carrying amount of the deferred income, and any excess shall be recognized in the current profit or loss; if there is no related deferred income, the repayment shall be recognized immediately in the current profit or loss.

21. Construction Contract

- (1) If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized by the Company in light of the percentage-of-completion method on the date of the balance sheet. The term "percentage-of-completion method" means a method by which the contractor recognizes its revenues and costs in the light of the schedule of the contracted project. The Company ascertained the completion schedule of a contract project according to the proportion of the actual accrued contract costs incurred against the expected total contract costs.

The outcome of a fixed price contract can be estimated in a reliable way subject to the following basis: ① the total contract revenue can be measured in a reliable way; ② the economic benefits pertinent to the contract are likely flow into the Company; ③ the actual contract costs incurred can be clearly distinguished and measured reliably; ④ both the schedule of the contracted project and the contract costs to complete the contract can be measured in a reliable way.

The outcome of a cost plus contract can be estimated in a reliable way subject to the following basis: ① the economic benefits pertinent to the contract are likely flow into the Company; ② the actual contract costs incurred can be clearly distinguished and can be measured in a reliable way.

- (2) If the outcome of a construction contract can not be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: ① if the contract costs can be recovered, the contract revenue shall be recognized in accordance with contract costs that can be recovered and the contract costs shall be recognized as contract expenses in the current period when they are incurred; ② if the contract costs cannot be recovered, it shall be recognized as contract expenses when incurred and no contract revenue shall be recognized.

22. Exchange of Non-monetary Assets

- (1) For exchange of non-monetary assets, the fair value of the assets and relevant payable taxes shall be regarded as the transaction cost, and the difference between the fair value and the carrying value of the asset surrendered shall be recorded into the current profit or loss.

① Non-monetary assets shall be recognized and measured, where a non-monetary assets transaction satisfies the following conditions at the same time:

A. The transaction is commercial in nature;

B. The fair value of the assets received or surrendered can be measured reliably.

② Selection of fair value: if the fair value of both the assets received and surrendered can be reliably measured, the fair value of the assets surrendered shall be the basis for the determination of the cost of the assets received, unless there is any exact evidence showing that the fair value of the assets received is more reliable.

③ Treatment when a boot incurred: where a boot is caused when the Company treats the fair value and relevant payable taxes as the cost of the assets received, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall record the difference between the cost of the assets received and the sum of the carrying value of the assets surrendered plus the paid boot and relevant payable taxes into the current profit or loss; the Company, which receives the boot, shall record the difference between the costs of the assets received plus the received boot and the carrying value of the assets surrendered plus relevant payable taxes into the current profit or loss.

- (2) Where any non-monetary assets transaction does not meet such conditions at the same time, the carrying value and relevant taxes payable of the assets surrendered shall be the cost of the assets received and no profit or loss is recognized.

Where a boot is caused when the Company treat the carrying value of the surrendered assets and the relevant payable taxes as the cost of the received assets, the boot shall be accounted for according to the following circumstances, respectively: the Company, which pays the boot, shall treat the result of the carrying value of the assets surrendered plus the paid boot and relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized. The Company, which receives the boot, shall treat the result of the carrying value of the assets surrendered minus the received boot and plus relevant taxes payable as the cost of the assets received, and no profit or loss may be recognized.

23. Debt Restructuring

(1) Definition and scope of debt restructuring

The term “debt restructuring” refers to an event in which the terms of a debt are given in as a result of a mutual agreement between a debtor and a creditor or a judgment of a court when the debtor gets into a financial problem.

(2) Accounting treatment of debtors

- ① When a debt is liquidated by cash, the debtor shall include the difference between the book value of the debt to be restructured and the actual cash payment into the current profit or loss. When a debt is liquidated by a non-cash asset, the debtor shall include the difference between the book value of the debt to be restructured and the fair value of the non-cash asset transferred into the current profit or loss. The difference between fair value of the non-cash asset transferred and its book value shall be included in the current profit or loss. When a debt is converted into capital, the debtor shall recognize the total par value of shares, to which the creditor becomes entitled for waiver of the credit, as share capital (or paid-in capital) and shall recognize the difference between the total amount of the fair value of the shares and the share capital (or paid-in capital) as capital reserve. The difference between the book value of the debt to be restructured and total amount of the fair value of the shares shall be included in the current profit or loss.

- ② Where other terms of a debt are modified, the debtor shall regard the post modification fair value of the debt as the entry value of the restructured debt, and shall include the difference between the book value of the debt to be restructured and the entry value of the restructured debt in the current profit or loss. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital, and the modification of other conditions of a debt, the debtor shall offset, one by one, the cash paid, the fair value of the non-cash asset transferred, and the fair value of the shares to which the creditor becomes entitled, against the book value of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of a debt concern any contingent payment and if the contingent payment meets the conditions for the recognition of expected liabilities as prescribed in contingencies, the debtor shall recognize the contingent sum payable as expected liability, and shall include the difference between the book value of the debt to be restructured and the aggregate amount of the entry value of the restructured debt and the expected amount of liability in the current profit or loss.

(3) Accounting treatments of the creditor

- ① When a debt is liquidated by cash, the creditor shall include the difference between the book balance of the debt to be restructured and the cash received into the current profit or loss. If the creditor has made provision for the impairment of the credit, he or she shall first offset the aforesaid difference against the impairment provision, then include the shortfall in the current profit or loss. When a debt is liquidated by non-cash asset, the creditor shall recognize the fair value of the non-cash asset received as the entry value and shall handle the difference between the book balance of the debt to be restructured and the fair value of the non-cash asset received in accordance with provisions of liquidation of a debt by cash. When a debt is converted into capital, the creditor shall recognize the fair value of the shares to which it becomes entitled as investment to the debtor and shall handle the difference between the book balance of the debt to be restructured and the fair value of the shares in accordance with provisions of liquidation of a debt by cash.
- ② When other terms of a debt are modified, the creditor shall recognize the fair value of the credit after the modification of other terms of the debt as the book value of the restructured debt and shall handle the book balance of the debt to be restructured and the book value of the restructured debt in accordance with provisions of liquidation of a debt by cash. Where a debt restructuring is made by a combination of the liquidation of a debt by cash, the liquidation of a debt by non-cash asset, the conversion of a debt into capital and the modification of other terms of a debt, the creditor shall offset, one by one, the cash received, the fair value of the non-cash asset received, and the fair value of the shares to which the creditor becomes entitled, against the book balance of the debt to be restructured, then handle it in accordance with provisions of modification of other terms of a debt.

If the post-modification terms of the debt concern any contingent sum receivable, the creditor shall not recognize the contingent sum receivable, nor he include it in the book value of the restructured debt.

24. Accounting Treatment of Income Tax

(1) Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

(2) Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognized for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Company able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognized for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.

(3) *Income tax expense*

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense or income and deferred income tax expense or income are included in the current profit or loss, except for those recognized as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognized in other comprehensive income or owners' equity, which are recognized directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

(4) *Offset of income tax*

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Company, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Company was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Company records the net amount after offsetting its current income tax assets and current income tax liabilities.

(5) *Settlement of income tax*

The Company will settle its income tax by prepayment on quarterly basis as approved by the competent Taxation Authority. During the final settlement, the shortage part of the income tax will be paid in the next year, while the overpaid part will be treated as partial settlement in the next year.

25. Accounting treatment of business combination

A business combination refers to the transaction or event to combine two or more separate entities into a single reporting entity. Business combination is classified into business combination under common control and business combination not under common control.

(1) *Business combination under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties before and after the combination, and that control is not transitory. The party that, on the combination date, obtains control of another enterprise participating in the combination is the absorbing party, while that other enterprise participating in the combination is a party being absorbed. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Assets and liabilities obtained by the absorbing party are measured at their carrying amount at the combination date as recorded by the party being merged. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate nominal value of shares issued as consideration) is charged to the capital reserve (share capital premium). If the capital reserve (share capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Cost incurred by the absorbing party that is directly attributable to the business combination shall be charged to profit or loss in the period in which they are incurred.

(2) Business combination not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination. For a business combination not involving enterprises under common control, the party that, on the acquisition date, obtains control of another enterprise participating in the combination is the acquirer, while that other enterprise participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquiree plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial recognized costs. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognized as contingent consideration. Subsequent adjustments will impact on the goodwill. Where future events with possible impact on the merger cost are specified in the merger contract or agreement, and future events are likely to occur as estimated on the acquisition date and the amount of the impact on the merger cost can be reliably measured, the Company shall include them in the merger cost. When the business combination is achieved in stages through a number of exchange transactions, the Company re-measures its previously held equity interest in the acquiree on the acquisition date, and the difference between the fair value and the net book value is recognized as investment income for the period in the consolidated financial statements of the Company, in the meanwhile, the other comprehensive income related to the equity interest of acquiree held before the acquisition date is transferred to investment income for the period. The cost of combination is the sum of the fair value of the equity interest of the acquiree as at the acquisition date which held before the acquisition date and the fair value of the equity interest of the acquiree as at the acquisition date which additional acquired on the acquisition date.

The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values. Where the cost of a business combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognized as goodwill. Where the cost of a business combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer shall first reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of combination. If after such reassessment the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is charged to profit or loss for the period.

The acquiree's deductible temporary difference acquired by the acquirer, which is still not yet recognized as it does not satisfy the recognition conditions of the deferred income tax assets on the acquisition date. If new or addition information proves that the relevant circumstances have already existed on the acquisition date within twelve months after the acquisition date, which estimates that the economic benefits incurred from the deductible temporary difference at the acquisition date of acquirer can be realised, then the relevant deferred income tax assets will be recognized, and the goodwill will be reduced at the same time, if the goodwill is not sufficient be absorbed, any excess shall be recognized as the profit or loss for the period. Except as disclosed above, the deferred income tax assets related to the business combination are included in the current profit or loss.

V. ACCOUNTING POLICIES, CHANGE IN ACCOUNTING ESTIMATE AND CORRECTION TO PREVIOUS MATERIAL ERRORS AND STATEMENT OF OTHER EVENTS' ADJUSTMENT

There is no disclosable accounting policies, change in accounting estimate and correction to previous material errors of the Company during 2013.

VI. TAXATION

1. Main Tax Types and Tax Rates

Tax type	Detailed tax rate
Value added tax	The Group's taxable revenue is subject to output tax at tax rates of [6]%, [13]% and 17%, and the VAT payable is provided by the difference after net of deductible input VAT of the period.
Business tax	Calculated and levied by [3]% of the taxable turnover.
Urban maintenance and construction tax . . .	Calculated and levied by [7]% of the circulation tax actually paid.
Education surtax	Calculated and levied by [3]% of the circulation tax actually paid.
Local education surtax	Calculated and levied by [2]% of the circulation tax actually paid.
Enterprise income tax	Calculated and levied by [25]% of the taxable income.

2. Tax Incentives and Approvals

Nil.

3. Other Statement

Nil.

VII. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Basis for Preparation of Consolidated Financial Statements

(1) Principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term "control" means that the Company has the power to decide an investee's financial and operating policy pursuant to which, the Company can get the power to obtain benefits from its operating activities. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is a business or entity controlled by the Company.

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Company obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flows statements; for disposal of subsidiaries during the period, no adjustment shall be made to the opening balance of the consolidated balance sheet. For those subsidiaries acquired through business combination not under common control, the operating results and cash flows after the acquisition date have been properly included in the consolidated income statements and consolidated cash flows statements. No adjustments shall be made to the opening balance of the consolidated balance sheet and the comparative consolidated financial statements amount. For those subsidiaries acquired through business combination under common control, the operating results and cash flows from the beginning of the consolidation period to the consolidation date are also presented in the consolidated income statement and the consolidated cash flows statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For subsidiaries acquired from business combination not under common control, the financial statements of the subsidiaries will be adjusted according to the fair value of the identifiable net assets.

All intra-group significant balances, transactions and unrealised profit are eliminated in the consolidated financial statements.

The shareholders' equity and the portion of the profit or loss for the period that is not attributable to the Company are presented separately under shareholders' equity and net profit in the consolidated financial statements as minority Shareholders' equity and profit or loss. The portion of net profit or loss of subsidiaries for the period attributable to minority interests is presented in the consolidated income statement under the "net profit" line item as "minority interests". When the amount of loss attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount shall be allocated against minority interests.

2. Basic condition of the subsidiaries included in the consolidated financial statements during the year

No.	Name of enterprises	Percentage of	Percentage of	Registered capital	Investment amount
		shareholding	the voting right		
		(%)	(%)		
1	Shanghai CERCG Co., Ltd (上海國儲能源集團有限公司)	100.00%	100.00%	300,000,000.00	500,000,000.00
2	CERCG Properties Co., Ltd (國能置業有限公司)	95.00%	95.00%	87,000,000.00	282,650,000.00
3	Guoneng Financing Guarantee Co., Ltd (國能融資擔保股份公司)	93.33%	93.33%	300,000,000.00	280,000,000.00
4	Zhangjiakou CERCG LNP Co., Ltd (張家口國儲液化天然氣有限公司)	100.00%	100.00%	100,000,000.00	205,000,000.00
5	CERCG (Tianjin) Co., Ltd (國儲能源化工(天津)有限公司)	80.00%	80.00%	120,000,000.00	118,500,000.00
6	Leiyang CERCG Gas Co., Ltd (耒陽國儲能源燃氣有限公司)	100.00%	100.00%	76,670,000.00	97,670,000.00
7	Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd (深圳市前海國儲能源石化供應鏈管理有限 公司)	51.00%	51.00%	100,000,000.00	51,000,000.00
8	CERCG Investment Company (國儲能源投資有限公司)	100.00%	100.00%	50,250,000.00	50,250,000.00
9	Zhangjiakou CERCG Logistics Co., Ltd (張家口國儲能源物流有限公司)	100.00%	100.00%	20,000,000.00	20,000,000.00
10	Guangdong CERCG Investment Co., Ltd (廣東國儲能源化工投資有限公司)	90.00%	90.00%	20,000,000.00	18,000,000.00
11	Zhangjiakou CERCG Water Supply Co., Ltd (張家口國儲供水有限公司)	70.00%	70.00%	18,000,000.00	12,600,000.00
12	Liangcheng County CERCG Development Co., Ltd (涼城縣國儲能源開發有限公司)	100.00%	100.00%	10,000,000.00	10,000,000.00
13	CERCG Xing'an Meng Coal Logistics Management Co., Ltd (國儲興安盟煤炭物流管理有限公司)	51.00%	51.00%	10,000,000.00	5,100,000.00
14	CERCG Heilongjiang Investment Co., Ltd (國儲能源化工集團黑龍江投資有限公司)	100.00%	100.00%	5,100,000.00	5,100,000.00
15	Beijing CERCG Information and Consultancy Co., Ltd (北京國儲信息諮詢有限公司)	100.00%	100.00%	2,000,000.00	2,000,000.00

3. Changes in scope of combination during the year and reasons

(1) Subsidiaries newly included in the scope of combination during the year

No.	Name of enterprises	Obtained channels
1	Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd (深圳市前海國儲能源石化供應鏈管理有限公司)	newly established or invested
2	Liangcheng County CERCG Development Co., Ltd (涼城縣國儲能源開發有限公司)	newly established or invested
3	CERCG Xing'an Meng Coal Logistics Management Co., Ltd (國儲興安盟煤炭物流管理有限公司)	newly established or invested
4	CERCG Heilongjiang Investment Co., Ltd (國儲能源化工集團黑龍江投資有限公司)	newly established or invested
5	Beijing CERCG Information and Consultancy Co., Ltd (北京國儲信息諮詢有限公司)	newly established or invested

(2) *Subsidiaries not to be included in the scope of combination during the year*

No.	Name of enterprises	Notes
1	Zhangjiakou CERCG Energy Pipeline Co., Ltd. (張家口國儲天然氣管道有限公司)	transfer of equity
2	Yujing CERCG Gas Co. Ltd. (余江縣國儲能源燃氣有限公司)	dissolved

VIII. NOTES TO MAJOR ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS

Unless specified otherwise, amounts in the following notes to major items will be denominated in RMB. The terms “at the beginning of the year” and “at the end of the year” refer to 1 January 2013 and 31 December 2013 respectively, and the terms “previous period” and “the period” refer to the year of 2012 and the year of 2013 respectively.

1. Monetary funds

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	2,125,694.65	1,333,716.58
Bank deposit	1,105,459,009.86	592,503,158.64
Others monetary funds		80,000,000.00
Total	1,107,584,704.51	673,836,875.22

2. Held-for trading financial assets

Items	Balance at the end of the period	Balance at the beginning of the year
Short-term investment	2,400,000.00	0.00
Total	2,400,000.00	0.00

3. Bills receivable

Items	Balance at the end of the period	Balance at the beginning of the year
Bank acceptance	7,800,000.00	300,000.00
Commercial acceptance		
Total	7,800,000.00	300,000.00

4. Accounts receivable

(1) *Categories of accounts receivable*

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis)	346,754,195.07		169,592,501.78	
Total	346,754,195.07		169,592,501.78	

(2) *Accounts receivable provided as bad debt provision by aging analysis*

Items	Closing balance		Opening balance	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	339,168,557.59		164,009,904.23	
1-2 years (including 2 years)	7,582,637.48		5,582,597.55	
2-3 years (including 3 years)	3,000.00			
Over 3 years				
Total	<u>346,754,195.07</u>		<u>169,592,501.78</u>	

(3) Top 5 debtors in the closing balance of accounts receivable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Hebei Xinquan Petrochemical Co., Ltd. (河北鑫泉石油化工有限公司)	Non-related party	30,540,022.50	Within 1 year	8.81%
Sichuan Chukun Trading Co., Ltd. (四川楚坤貿易有限公司)	Non-related party	29,200,000.00	Within 1 year	8.42%
Zhongyou Taifu Bunkering Co., Ltd. (中油泰富船舶燃料有限公司)	Non-related party	25,079,594.40	Within 1 year	7.23%
China National Civil Aircraft Development Co., LTD. (中國民用飛機開發公司)	Non-related party	22,570,000.00	Within 1 year	6.51%
Guangdong Yunfeng Technology Co., Ltd. (廣東雲峰科技有限公司)	Non-related party	19,000,800.00	Within 1 year	5.48%
Total		<u>126,390,416.90</u>		<u>36.45%</u>

(4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

5. Prepayment

(1) *Prepayments stated according to aging analysis*

Aging	Balance at the end of the period	Balance at the beginning of the year
Within 1 year (including 1 year)	850,884,197.61	922,590,181.37
1-2 years (including 2 years)	7,345,490.72	7,193,427.21
2-3 years (including 3 years)		
Over 3 years		
Total	<u>858,229,688.33</u>	<u>929,783,608.58</u>

(2) Top 5 debtors in the closing balance of prepayments are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Pan Jin Sheng Teng Petrochemical Co., Ltd. (盤錦晟騰石油化工有限公司)	Non-related party	175,040,000.00	Within 1 year	20.40%
China Labour & Social Security Publishing House (中國勞動社會保障出版社)	Non-related party	150,000,000.00	Within 1 year	17.48%
Shanghai Aoxu International Trading Co., Ltd. (上海翱栩國際貿易有限公司)	Non-related party	130,000,000.00	Within 1 year	15.15%

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
China Petrochemical (Nantong) Co., Ltd. (華大石化(南通)有限公司)	Non-related party	119,918,800.00	Within 1 year	13.97%
Beijing Liang Gao Law Firm (北京市兩高律師事務所)	Non-related party	50,000,000.00	Within 1 year	5.83%
Total		<u>624,958,800.00</u>		<u>72.83%</u>

(3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(4) There is no prepayment due to related parties during the reporting period.

6. Other receivables

(1) *Categories of other receivables*

<u>Categories</u>	<u>Balance at the end of the period</u>		<u>Balance at the beginning of the year</u>	
	<u>Amount</u>	<u>Bad debt provision</u>	<u>Amount</u>	<u>Bad debt provision</u>
Other receivables provided as bad debt provision on an individual basis	120,021,861.55		234,913,840.73	
Other receivables provided as bad debt provision by combo test (aging analysis).				
Total	<u>120,021,861.55</u>		<u>234,913,840.73</u>	

(2) *Other receivables provided as bad debt provision by aging analysis*

<u>Items</u>	<u>Balance at the end of the period</u>		<u>Balance at the beginning of the year</u>	
	<u>Book balance</u>	<u>Bad debt provision</u>	<u>Book balance</u>	<u>Bad debt provision</u>
Within 1 year (including 1 year)	115,246,513.13		227,036,485.73	
1-2 years (including 2 years)	4,775,348.42		7,877,355.00	
2-3 years (including 3 years)				
Over 3 years				
Total	<u>120,021,861.55</u>		<u>234,913,840.73</u>	

(3) Top 5 debtors in the closing balance of other receivables are set out as follows:

<u>Name of company</u>	<u>Relationship with the Company</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion</u>
Beijing Yingshi Innovation Investment & Consultancy Co., LTD. (北京盈時創新投資顧問有限公司)	Non-related party	40,000,000.00	Within 1 year	36.36%
Inner Mongolia Zhonghui Furui Investment & Management Co., LTD. (內蒙古中匯富瑞投資管理有限公司)	Non-related party	20,000,000.00	Within 1 year	18.18%
Zhejiang Wofeng Industrial Co., LTD. (浙江沃豐實業有限公司)	Non-related party	20,000,000.00	Within 1 year	18.18%
Refundable deposits	Non-related party	10,700,000.00	Within 1 year	9.73%
Shanghai Yunfeng Group Chemical Co., LTD. (上海雲峰集團化工有限公司)	Non-related party	5,000,000.00	Within 1 year	4.54%
Total		<u>95,700,000.00</u>		<u>86.98%</u>

- (4) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (5) There is no other amount due from the related party during the reporting period.

7. Inventory

Items	Book balance at the beginning of the year	Increase for the period	Decrease for the period	Book balance at the end of the period
Raw material (including the obtaining of land use right)				
Semi-finished products and work in progress	161,553,492.83	85,518,905.86		247,072,398.69
Inventory (finished goods)	114,472,812.33	126,427,766.22		240,900,578.55
Revolving materials (packing materials and consumables)				
Consumable biological assets				
Construction (completed but not settlement)				
Total	276,026,305.16	211,946,672.08		487,972,977.24

8. Long-term equity investments

(1) Categories of long term equity investments

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Investment in joint venture				
Investment in associate enterprises .	57,321,825.21	521,403,558.76		578,725,383.97
Investment in other enterprises . . .	7,000,000.00		1,180,000.00	5,820,000.00
Subtotal	64,321,825.21	521,403,558.76	1,180,000.00	584,545,383.97
Less: impairment provision for long term equity investments . . .	0.00			0.00
Total	64,321,825.21	521,403,558.76	1,180,000.00	584,545,383.97

(2) Details of long-term equity investments

Investee	Accounting method	Book value of investment	Investment Proportion
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Equity method	60,709,556.22	40%
Inner Mongolia CERCG Xinneng Venture Capital Center (limited Partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Equity method	51,015,476.16	20.40%
Inner Mongolia Qinggang Runhe Co., Ltd (內蒙古慶港潤禾天然氣綜合利用有限公司)	Cost method	40,000,000.00	40%
Jiangsu Honghai Energy Co., Ltd (江蘇泓海能源有限公司)	Equity method	39,855,250.52	40%
Zhongshu Dingsheng Construction & Culture Communication Co., Ltd. (中數鼎盛城建文化傳播有限公司)	Cost method	24,500,000.00	49%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司)	Equity method	20,991,437.30	48%
Xiangtan Kunlun Energy Co., Ltd (湘潭昆侖能源有限公司)	Equity method	14,514,842.55	24%
Rizhao Zhongneng Gas Co., Ltd. (日照中能燃氣有限公司)	Equity method	9,928,893.08	28.57%

Investee	Accounting method	Book value of investment	Investment Proportion
Anping Yanzhong Gas Co., Ltd. (安平縣燕中燃氣有限公司)	Equity method	8,879,385.90	30%
Shanghai Jinjie Energy Co., Ltd. (上海金捷能源有限公司)	Equity method	6,074,668.62	49%
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%
Huizhou Yunfeng CERCG Management Co., Ltd. (惠州雲峰國儲能源管理有限公司)	Equity method	2,447,465.23	49%
Hengyang Nanyue Guoao Automotive Energy Co., Ltd. (衡陽南岳國澳車用能源有限公司)	Cost method	500,000.00	20%
Shanghai Defeng Yacht Club Co., Ltd. (上海德峰游艇俱樂部有限公司)	Equity method	128,408.39	20%
Total		<u>584,545,383.97</u>	

9. Fixed Assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total cost	1,506,256,003.26	395,529,511.49	180,567,998.89	1,721,217,515.86
Including: buildings and structures	200,053,897.34		115,029,313.99	85,024,583.35
Special facilities	251,586,971.70	145,146,829.96		396,733,801.66
Special equipments	368,162,396.74		65,538,684.90	302,623,711.84
Transportation equipment	355,883,253.91	243,742,313.48		599,625,567.39
Office facilities	330,569,483.57	6,640,368.05		337,209,851.62
II. Total accumulated depreciation	292,041,522.81	58,342,933.25	48,952,192.98	301,432,263.08
Including: Buildings and structures	35,830,122.96		2,761,320.23	33,068,802.73
Special facilities	88,009,964.46		11,095,776.89	76,914,187.57
Special equipments	72,850,358.64		35,095,095.86	37,755,262.78
Transportation equipment	82,087,051.70	43,682,428.26		125,769,479.96
Office equipment	13,264,025.05	14,660,504.99		27,924,530.04
III. Total accumulated amount of provision for impairment	0.00			0.00
IV. Total carrying amount	1,214,214,480.45			1,419,785,252.78
Including: buildings and structures	164,223,774.38			51,955,780.62
Special facilities	163,577,007.24			319,819,614.09
Special equipment	295,312,038.10			264,868,449.06
Transportation equipment	273,796,202.21			473,856,087.43
Office equipment	317,305,458.52			309,285,321.58

10. Construction materials

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Special materials	77,349,207.41		34,160,871.44	43,188,335.97
Total	<u>77,349,207.41</u>		<u>34,160,871.44</u>	<u>43,188,335.97</u>

11. Construction in progress

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
LNG storage and distribution station in Zhangjiakou	89,045,229.12	716,782,888.72		805,828,117.84
Pipe network in Xuancheng	192,975,770.57		2,531,583.28	190,444,187.29
Natural gas pipeline construction project in Leiyang	1,658,410.48	162,578,391.17		164,236,801.65
Oil storage project in Nangang, Tianjin		130,307,679.29		130,307,679.29
Sun Family Garden project	28,428,881.48	36,841,478.37		65,270,359.85
Shale gas project in Tongren City . .	80,000,000.00		51,749,013.11	28,250,986.89
Oil dock project in Ronglu, Yueyang		23,190,240.89		23,190,240.89
Biodiesel plant in Liuzhou	8,991,579.16		5,521,255.98	3,470,323.18
Natural gas refueling station project in Leiyang		800,000.00		800,000.00
Vehicle detective plant project in Guzhen		114,401.24		114,401.24
Oil storage project in Dafeng Harbor, Jiangsu		58,113.21		58,113.21
Towing vehicles plant	16,269,782.05		16,269,782.05	
Ningguo Nitestar plant	2,775,866.25		2,775,866.25	
Natural gas pipeline construction project in Zhangjiakou	36,873.14		36,873.14	
Total	420,182,392.25	1,070,673,192.89	78,884,373.81	1,411,971,211.33

12. Intangible assets

Items	Balance at the beginning of the period	Increase for the period	Decrease for the period	Balance at the end of the period
Land use rights	72,574,988.37	56,080,860.70		128,655,849.07
Non-patented technology	15,521,255.97		2,575,645.47	12,945,610.50
Franchise right	933,333.34		33,333.33	900,000.01
Software	760,480.00		750,400.00	10,080.00
Total	89,790,057.68	56,080,860.70	3,359,378.80	142,511,539.58

13. Long term prepaid expenses

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Deferred revenue on leaseback	17,092,853.05		848,808.76	16,244,044.29
Other	7,193,135.14		2,889,342.37	4,303,792.77
Total	24,285,988.19		3,738,151.13	20,547,837.06

14. Short-term borrowings

Items	Closing balance
Ping An Bank, Beijing branch	170,000,000.00
China Everbright Bank, Beijing Jian Guo Men branch	150,000,000.00
China Zheshang Bank, Tianjin branch	100,000,000.00
China Development Bank, Shanghai branch	85,000,000.00
Rural Commercial Bank, Wuhan Economic & Technological Development Zone branch	76,060,000.00
China Merchants Bank, Beijing Taiyanggong branch	50,000,000.00
Ping An Bank, Wuhan Jiangxia branch	50,000,000.00
Bank of Nanjing, Beijing Chaoyangmen branch	40,000,000.00
Bank of Communications, Shanghai Qingpu branch	40,000,000.00
Ping An Bank, Beijing Asian Olympics branch	30,000,000.00
Bank of Jiangsu, Beijing Zhongguancun Branch	30,000,000.00
China Merchants Bank, Wuhan branch	20,000,000.00
Total	<u>841,060,000.00</u>

15. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	90,067,887.60	99.97%	102,100,207.62	98.49%
1-2 years (including 2 years)	23,012.17	0.03%	1,568,336.24	1.51%
2-3 years (including 3 years)				
Over 3 years				
Total	<u>90,090,899.77</u>	<u>100.00%</u>	<u>103,668,543.86</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of accounts payable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Qingdao Sinosky Energy (Holdings) Co., Ltd. (青島中天能源股份有限公司)	Non-related party	14,594,359.64	Within 1 year	16.20%
Zhongyou General Luxi Gas Equipment Co., Ltd. (中油通用魯西天然氣裝備有限公 司).	Non-related party	10,558,000.00	Within 1 year	11.72%
Shanghai Yongsheng Chemical Co., Ltd. (上海永盛化工有限公司)	Non-related party	8,187,500.00	Within 1 year	9.09%
Shengze Energy Technology Co., Ltd. (盛澤能源技術有限公司)	Non-related party	6,554,000.00	Within 1 year	7.27%
Hubei Ronggu Industrial Co., Ltd. (湖北融谷實業有限公司)	Non-related party	3,731,494.50	Within 1 year	4.14%
Total		<u>43,625,354.14</u>		<u>48.42%</u>

16. Advance receipt

(1) Categories of advance receipt

Aging	Book balance at the end of the period		Opening book balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	139,533,405.53	100.00%	92,001,839.02	100.00%
1-2 years (including 2 years)				
2-3 years (including 3 years)				
Over 3 years				
Total	<u>139,533,405.53</u>	<u>100.00%</u>	<u>92,001,839.02</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of advance receipt are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Advance receipts from individuals for house selling	Non-related party	110,155,200.81	Within 1 year	78.95%
Shanghai Jiedong Energy Trading Co., Ltd. (上海捷東能源貿易有限公司)	Non-related party	7,000,000.00	Within 1 year	5.02%
Jiaxing Zhongneng Industrial Co., Ltd. (嘉興中能實業有限公司)	Non-related party	6,311,033.32	Within 1 year	4.52%
Luohe Huishi Energy Co., Ltd. (漯河慧實能源有限公司)	Non-related party	2,896,812.50	Within 1 year	2.08%
Zhengzhou Xinao Clean Energy Co., Ltd. (鄭州新奧清潔能源有限公司)	Non-related party	2,428,873.30	Within 1 year	1.74%
Total		<u>128,791,919.93</u>		<u>92.30%</u>

17. Tax payable

Items	Book balance at the beginning of the year	Book balance at the end of the period
Value added tax	-458,036.14	1,530,258.64
Business tax	551,258.50	102,000.00
Enterprise income tax	22,139,368.88	28,378,699.77
Individual income tax	85,967.42	162,035.00
Other tax	78,882.24	176,028.67
Total	<u>22,397,440.90</u>	<u>30,349,022.08</u>

18. Staff remuneration payables

Items	Balance at the beginning of the period	Balance at the end of the period
I. Salaries, bonuses, allowance and subsidies	438,494.14	1,089,842.08
II. Staff welfare		
III. Social insurance premiums		
IV. Union operation costs and employee education costs		
Total	<u>438,494.14</u>	<u>1,089,842.08</u>

19. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	99,462,870.51	97.07%	34,356,880.03	100.00%
1-2 years (including 2 years)	3,000,000.00	2.93%		
2-3 years (including 3 years)				
Over 3 years				
Total	<u>102,462,870.51</u>	<u>100.00%</u>	<u>34,356,880.03</u>	<u>100.00%</u>

(2) Top 5 creditors in the closing balance of other payables are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司) . . .	Related party	58,550,000.00	Within 1 year	57.14%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	Related party	30,450,000.00	Within 1 year	29.72%
Yueyang Construction and Investment Operation Co., Ltd. (岳陽市城市建設投資經營有限公司) . . .	Non-related party	4,000,000.00	Within 1 year	3.90%
Wuhan Zhongneng Gas Co., Ltd. (武漢中能燃氣有限公司)	Non-related party	3,000,000.00	1-2 years	2.93%
Guangdong Dalong Group Co., Ltd. (廣東大隆企業集團有限公司)	Non-related party	2,000,000.00	Within 1 year	1.95%
Total		<u>98,000,000.00</u>		<u>95.64%</u>

20. Long-term borrowings

Items	Closing balance
China Development Bank, Beijing branch	582,000,000.00
Shengjing Bank, Beijing Zhongguancun Branch	89,000,000.00
Agricultural Bank of China, Hunan Leiyang branch	82,000,000.00
Postal Savings Bank of China, Zhangjiakou branch	10,074,989.16
Total	<u>763,074,989.16</u>

21. Long-term payables

Items	Closing balance
Finance leases	48,396,184.46
Research and development expenditure	3,619,830.20
Total	<u>52,016,014.66</u>

22. Special payables

Items	Closing balance
Special amount for High-Tech	655,600.00
Total	<u>655,600.00</u>

23. Other Long-term payables

Items	Closing balance
Deferred revenue	37,404,252.65
Total	37,404,252.65

24. Paid-in capital

Investee	Book balance at the beginning of the year		Increase or decrease for the period	Book balance at the end of the period	
	Investment Amount	Proportion (%)		Investment Amount	Proportion (%)
Total	865,000,000.00	100.00%	860,000,000.00	1,725,000,000.00	100.00%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	380,000,000.00	43.93%	103,000,000.00	483,000,000.00	28.00%
Guoneng Natural Gas Holdings Company (國能天然氣股份公司)	285,000,000.00	32.95%	-285,000,000.00		
Zhongyuanhang Gas Co., Ltd. (中遠航燃氣有限公司)	198,000,000.00	22.89%	-198,000,000.00		
Shenzhen Bai Zhao Investment & Consultant Co., Ltd. (深圳市百墨投資顧問有限公司)	2,000,000.00	0.23%	32,500,000.00	34,500,000.00	2.00%
China Flader Industrial Co., Ltd (中國富萊德實業公司)			517,500,000.00	517,500,000.00	30.00%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)			431,250,000.00	431,250,000.00	25.00%
China Hualian International Commercial Co., Ltd. (中國華聯國際貿易公司)			258,750,000.00	258,750,000.00	15.00%

25. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves			
(1) Other equity change in the invested entity			
(2) Share-based payment for non-exercised			
(3) Changes in the fair value of financial assets held-for-sale			
(4) Balance on the changes in fair value of investment property			
(5) Profit or loss on cash-flow hedges			
(6) Profit or loss on hedges of a net investment in a foreign operation			
(7) Income tax effect relating to items included into owners' equity			
(8) Others	265,721,350.44	-1,783,769.93	263,937,580.51
3. Transfer of capital surplus recognized under the previous accounting system			
Total	341,221,350.44	-1,783,769.93	339,437,580.51

26. Retained profit

<u>Items</u>	<u>Amount</u>
Balance at the beginning of the year	1,181,801,042.06
Increase for the period	676,933,453.93
Including: net profit transferred into in the year	676,933,453.93
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	1,858,734,495.99

27. Minority shareholders' interest

<u>Items</u>	<u>Balance at the beginning of the year</u>	<u>Increase for the period</u>	<u>Decrease for the period</u>	<u>Balance at the end of the period</u>
Minority shareholders' interest	392,995,516.27	179,408,498.18		572,404,014.45
Total	<u>392,995,516.27</u>	<u>179,408,498.18</u>		<u>572,404,014.45</u>

28. Operating revenue and operating cost

<u>Items</u>	<u>Amount for the period</u>		<u>Amount for the previous period</u>	
	<u>Revenue</u>	<u>Cost</u>	<u>Revenue</u>	<u>Cost</u>
Sub-total of revenue on main business	8,980,445,497.38	7,756,698,647.24	2,712,006,924.88	2,111,701,783.06
Sub-total of other business			2,595,134.23	68,125.40
Total	<u>8,980,445,497.38</u>	<u>7,756,698,647.24</u>	<u>2,714,602,059.11</u>	<u>2,111,769,908.46</u>

29. Business taxes and surcharges

<u>Items</u>	<u>Amount for the period</u>	<u>Amount for the previous period</u>
Business taxes and surcharges	27,233,176.69	19,804,391.46
Total	<u>27,233,176.69</u>	<u>19,804,391.46</u>

30. Cost of sales

<u>Items</u>	<u>Amount for the period</u>	<u>Amount for the previous period</u>
Sales expenses	50,018,152.54	36,925,449.92
Total	<u>50,018,152.54</u>	<u>36,925,449.92</u>

31. Management fees

<u>Items</u>	<u>Amount for the period</u>	<u>Amount for the previous period</u>
Management fees	94,506,023.91	73,768,494.85
Total	<u>94,506,023.91</u>	<u>73,768,494.85</u>

32. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	42,982,149.41	18,709,629.08
Total	42,982,149.41	18,709,629.08

33. Investment income

Items	Amount for the period	Amount for the previous period
Investment income	-3,257,664.38	5,028,616.94
Total	-3,257,664.38	5,028,616.94

34. Non-operating income

Items	Amount for the period	Amount for the previous period
Non-operating income	528,132.38	8,245,218.97
Total	528,132.38	8,245,218.97

35. Non-operating expenses

Items	Amount for the period	Amount for the previous period
Non-operating expenses	14,531,501.91	4,834,786.96
Total	14,531,501.91	4,834,786.96

36. Income tax expense

Consistent of income tax expense (income)

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . .	251,806,706.82	110,987,814.73
Adjustment for deferred income tax		
Total	251,806,706.82	110,987,814.73

37. Minority shareholders' profit or loss

Items	Amount for the period	Amount for the previous period
Minority shareholders' equity	63,006,152.93	52,820,211.82
Total	63,006,152.93	52,820,211.82

IX. NOTES TO THE MAJOR ITEMS OF FINANCIAL STATEMENTS OF THE PARENT COMPANY

1. Monetary funds

Items	Balance at the end of the period	Balance at the beginning of the year
Cash	20,191.07	34,689.37
Bank deposit	362,742,820.42	22,493,346.04
Other monetary funds		
Total	362,763,011.49	22,528,035.41

2. Accounts receivable

(1) Categories of accounts receivable

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Accounts receivable provided as bad debt provision on an individual basis				
Accounts receivable provided as bad debt provision by combo test (aging analysis).	69,719,816.10		19,805,566.78	
Total	69,719,816.10		19,805,566.78	

(2) Accounts receivable provided as bad debt provision by aging analysis

Items	At the end of the period		At the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	69,719,816.10		19,805,566.78	
1-2 years (including 2 years)				
2-3 years (including 3 years)				
Over 3 years				
Total	69,719,816.10		19,805,566.78	

(3) Major debtors in the closing balance of accounts receivable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Zhongyou Taifu Bunkering Co., Ltd. (中油泰富船舶燃料有限公司)	Non-related party	25,079,594.40	Within 1 year	35.97%
Beijing Clinstech Equipments Co., Ltd. (北京科林盛泰設備有限公司)	Non-related party	18,850,110.48	Within 1 year	27.04%
Nanjing Runze Fuel Oil Co., Ltd. (南京潤澤燃料油有限公司)	Non-related party	15,188,616.10	Within 1 year	21.79%
Nanjing Lanyan Petrochemical Storage & Transportation Industrial Limited Company (南京藍燕石化儲運實業有限公司)	Non-related party	3,929,704.88	Within 1 year	5.64%
Sinopec Fuel Oil Sales Co., Ltd. (Liaoning Branch) (中國石化燃料油銷售有限公司遼寧 分公司)	Non-related party	3,000,011.00	Within 1 year	4.30%
Total		66,048,036.86		94.73%

- (4) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (5) There is no amount due from the related party during the reporting period.

3. Prepayment

(1) *Prepayments stated according to aging analysis*

Aging	Balance at the end of the period	Balance at the beginning of the year
Within 1 year (including 1 year)	197,599,297.50	9,112,288.00
1-2 years (including 2 years)		
2-3 years (including 3 years)		
Over 3 years		
Total	197,599,297.50	9,112,288.00

- (2) Major debtors in the closing balance of prepayments are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Pan Jin Sheng Teng Petrochemical Co., Ltd. (盤錦晟騰石油化工有限公司)	Non-related party	175,040,000.00	Within 1 year	88.58%
Sinopec Fuel Oil Co., Ltd. (South China Sales Branch) (中石油燃料油 有限責任公司華南銷售分公司).	Non-related party	12,008,797.50	Within 1 year	6.08%
Baotou General Special Steel Pipes Co., Ltd. (包鋼通用鋼鐵特種鋼管有限責任公 司).	Non-related party	8,589,032.27	Within 1 year	4.35%
Total		195,637,829.77		99.01%

- (3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.
- (4) There is no amount prepaid to the related party during the reporting period.

4. Other receivables

(1) *Categories of other receivables*

Categories	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Bad debt provision	Amount	Bad debt provision
Other receivables provided as bad debt provision on an individual basis	5,903,088.40		6,756,859.28	
Other receivables provided as bad debt provision by combo test (aging analysis).				
Total	5,903,088.40		6,756,859.28	

(2) *Other receivables provided as bad debt provision by aging analysis*

Items	Balance at the end of the period		Balance at the beginning of the year	
	Book balance	Bad debt provision	Book balance	Bad debt provision
Within 1 year (including 1 year)	5,903,088.40		1,756,859.28	
1-2 years (including 2 years)			5,000,000.00	
2-3 years (including 3 years)				
Over 3 years				
Total	<u>5,903,088.40</u>		<u>6,756,859.28</u>	

(3) Major debtors in the closing balance of other receivables are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Yuetian Wealth Financial Guarantee Co., Ltd. (躍天財富融資擔保有限公司)	Non-related party	2,000,000.00	Within 1 year	33.88%
Diaoyutai State Guesthouse (釣魚台國賓館)	Non-related party	1,686,300.00	Within 1 year	28.57%
Total		<u>3,686,300.00</u>		<u>62.45%</u>

(4) There is no outstanding amount within other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

(5) There is no amount due from the related party during the reporting period.

5. **Inventory**

Items	Book balance at the beginning of the year	Increase for the period	Decrease for the period	Book Balance at the end of period
Raw material (including the obtaining of land use right)				
Semi-finished products and work in progress				
Inventory (finished goods)	12,608,258.64	33,649,766.23		46,258,024.87
Revolving materials (packing materials and consumables)				
Consumable biological assets				
Construction (completed but not settlement).				
Total	<u>12,608,258.64</u>	<u>33,649,766.23</u>		<u>46,258,024.87</u>

6. **Long-term equity investments**

(1) *Categories of long-term equity investments*

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the period
Investment in subsidiaries	1,098,750,000.00	568,120,000.00		1,666,870,000.00
Investment in joint venture				
Investment in associate enterprises	39,000,000.00	404,000,000.00		443,000,000.00
Investment in other enterprises				
Sub-total	1,137,750,000.00	972,120,000.00		2,109,870,000.00
Less: impairment provision for long term equity investments				
Total	<u>1,137,750,000.00</u>	<u>972,120,000.00</u>		<u>2,109,870,000.00</u>

(2) *Details of long-term equity investments*

Investee	Accounting method	Book value of investment	Investment Proportion
Shanghai CERCG Co., Ltd. (上海國儲能源集團有限公司)	Cost method	500,000,000.00	100%
Guoneng Baima Energy Co., Ltd. (國能白馬能源有限公司)	Cost method	300,000,000.00	40%
CERCG Properties Co., Ltd. (國能置業有限公司)	Cost method	282,650,000.00	95%
Guoneng Guarantee Co., Ltd. (國能擔保股份有限公司)	Cost method	280,000,000.00	93.33%
Zhangjiakou CERCG LNP Co., Ltd. (張家口國儲液化天然氣有限公司)	Cost method	205,000,000.00	100%
CERCG (Tianjin) Co., Ltd. (國儲能源化工(天津)有限公司)	Cost method	118,500,000.00	80%
Leiyang CERCG Gas Co., Ltd. (未陽國儲能源燃氣有限公司)	Cost method	97,670,000.00	100%
Jilin Energy Holdings Co., Ltd. (吉林省能源控股有限公司)	Cost method	63,000,000.00	40%
Shenzhen Qianhai CERCG Petrochemical Supply Chain Management Co., Ltd (深圳市前海國儲能源石化供應鏈管理有限公司) . .	Cost method	51,000,000.00	51%
Inner Mongolia CERCG Xinneng Venture Capital Center (Limited Partnership) (內蒙古國儲新能源創業投資中心(有限合夥))	Cost method	51,000,000.00	20.40%
CERCG Investment Company (國儲能源投資有限公司)	Cost method	50,250,000.00	100%
Anhui Guowan LNG Co., Ltd. (安徽省國皖液化天然氣燃氣有限公司)	Cost method	24,000,000.00	48%
Zhangjiakou CERCG Logistics Co., Ltd. (張家口國儲能源物流有限公司)	Cost method	20,000,000.00	100%
Guangdong CERCG Investment Co., Ltd. (廣東國儲能源化工投資有限公司)	Cost method	18,000,000.00	90%
Zhangjiakou CERCG Water Supply Co., Ltd. (張家口國儲供水有限公司)	Cost method	12,600,000.00	70%
Liangcheng County CERCG Development Co., Ltd. (涼城縣國儲能源開發有限公司)	Cost method	10,000,000.00	100%
CERCG Jiangsu Co., Ltd. (國儲能源化工江蘇有限公司)	Cost method	9,000,000.00	30%
CERCG Xinganmeng Coal Logistics Management Co., Ltd. (國儲興安盟煤炭物流管理有限公司)	Cost method	5,100,000.00	51%
CERCG Heilongjiang Investment Co., Ltd. (國儲能源化工集團黑龍江投資有限公司)	Cost method	5,100,000.00	100%
CERCG Investment Company (國屬能源投資有限公司)	Cost method	5,000,000.00	10%
Beijing CERCG Information and Consultancy Co., Ltd. (北京國儲信息諮詢有限公司)	Cost method	2,000,000.00	100%
Total		<u>2,109,870,000.00</u>	

7. Fixed assets

Items	Balance at the beginning of the year	Increase for the period	Decrease for the period	Balance at the end of the year
I. Total original value	9,984,626.00	320,753.00		10,305,379.00
Including: office equipment	6,232,226.00	320,753.00		6,552,979.00
Transportation equipment	3,752,400.00			3,752,400.00
II. Total accumulated depreciation	4,562,772.43	2,012,962.85		6,575,735.28
Including: office equipment	2,686,572.43	1,262,482.85		3,949,055.28
Transportation equipment	1,876,200.00	750,480.00		2,626,680.00
III. Total accumulated amount of provision for impairment				
IV. Total carrying amount	5,421,853.57			3,729,643.72
Including: office equipment	3,545,653.57			2,603,923.72
Transportation equipment	1,876,200.00			1,125,720.00

8. Short-term borrowings

Items	Closing balance
Ping AN Bank, Beijing Branch (平安銀行北京分行)	170,000,000.00
China Everbright Bank, Beijing Jianguomeng Branch (光大銀行北京建國門支行)	150,000,000.00
China Merchants Bank, Beijing Taiyanggong Branch (招商銀行北京太陽宮支行)	50,000,000.00
Ping AN Bank, Beijing Asian Olympics Branch (平安銀行北京亞奧支行)	30,000,000.00
Bank of Jiangsu, Beijing Zhongguancun Branch (江蘇銀行北京中關村支行)	30,000,000.00
Bank of Nanjing, Beijing Chaoyangmen branch (南京銀行北京朝陽門支行)	20,000,000.00
Total	450,000,000.00

9. Accounts payable

(1) Aging of accounts payable

Aging	Book balance at the end of the period		Book balance at the beginning of the year	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year (including 1 year)	17,700,834.20	100.00%	10,265,528.60	100.00%
1-2 years (including 2 years)				
2-3 years (including 3 years)				
Over 3 years				
Total	17,700,834.20	100.00%	10,265,528.60	100.00%

(2) Major creditors in the closing balance of accounts payable are set out as follows:

Name of company	Relationship with the Company	Amount	Aging	Proportion
Sino General Luxi Natural Gas Equipment Co., Ltd. (中油通用魯西天然氣裝備有限公司)	Non-related party	10,558,000.00	Within 1 year	59.65%
Qingdao Sino Energy Holding Limited (青島中天能源股份有限公司)	Non-related party	5,872,000.00	Within 1 year	33.17%
Total		16,430,000.00		92.82%

10. Tax payable

Items	Balance at the beginning of the year	Balance at the end of the period
Value added tax	614,239.15	1,107,043.01
Enterprise income tax	8,229,620.15	8,584,180.57
Individual income tax	63,801.91	97,043.01
Other tax	67,566.30	132,845.16
Total	8,975,227.51	9,921,111.75

11. Other payables

(1) Aging of other payables

Aging	Balance at the end of the period		Balance at the beginning of the year	
	Amount	Proportion	Amount	Proportion
		(%)		(%)
Within 1 year (including 1 year)	89,915,774.38	100.00%	6,552,373.36	100.00%
1-2 years (including 2 years)				
2-3 years (including 3 years)				
Over 3 years				
Total	89,915,774.38	100.00%	6,552,373.36	100.00%

(2) Major creditors in the closing balance of other payable are set out as follows:

Name	Relationship with the Company	Amount	Aging	Proportion
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司) . . .	related party	58,550,000.00	Within 1 year	65.12%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	related party	30,450,000.00	Within 1 year	33.87%
Total		89,000,000.00		98.98%

12. Paid-in capital

Investee	Book balance at the beginning of the year		Increase and decrease for the period	Book balance at the end of the period	
	Investment Amount	Proportion		Investment Amount	Proportion
		(%)			(%)
Total	865,000,000.00	100.00%	860,000,000.00	1,725,000,000.00	100.00%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有 限公司)	380,000,000.00	43.93%	103,000,000.00	483,000,000.00	28.00%
Guoneng Natural Gas Holding Limited (國能天然氣股份公司)	285,000,000.00	32.95%	-285,000,000.00		
Zhongyuanhang Gas Co., Ltd. (中遠航燃氣有限公司)	198,000,000.00	22.89%	-198,000,000.00		
Shenzhen Bai Zhao Investment & Consultant CO., LTD. (深圳市百墨投資顧問有限公 司)	2,000,000.00	0.23%	32,500,000.00	34,500,000.00	2.00%
China National Friend Industry Corporation (中國富萊德實業公司)			517,500,000.00	517,500,000.00	30.00%

Investee	Book balance at the beginning of the year		Increase and decrease for the period	Book balance at the end of the period	
	Investment Amount	Proportion (%)		Investment Amount	Proportion (%)
Xinneng International Investment Co. Ltd. (新能國際投資有限公司) . . .			431,250,000.00	431,250,000.00	25.00%
China Hualian International Commercial CO., LTD. (中國華聯國際貿易公司) . . .			258,750,000.00	258,750,000.00	15.00%

13. Capital reserves

Items	Book balance at the beginning of the year	Increase or decrease for the year	Book balance at the end of the period
1. Capital (share capital) premium	75,500,000.00		75,500,000.00
2. Other capital reserves			
(1) Other equity change in the invested entity .			
(2) Share-based payment for non-exercised . .			
(3) Changes in the fair value of financial assets held-for-sale			
(4) Balance on the changes in fair value of investment property.			
(5) Profit or loss on cash-flow hedges.			
(6) Profit or loss on hedges of a net investment in a foreign operation			
(7) Income tax effect relating to items included into owners' equity			
(8) Others			
3. Transfer of capital surplus recognized under the previous accounting system			
Total	75,500,000.00		75,500,000.00

14. Retained profit

Items	Amount
Balance at the beginning of the year	216,486,573.34
Increase for the period	211,318,588.41
Including: net profit transferred into in the year	211,318,588.41
Other adjustment factors	
Decrease for the period	
Including: extraction of surplus reserve in the year	
Extraction of general risk provisions in the year.	
Distribution of cash dividend in the year.	
Conversed capital	
Other decreases	
Balance at the end of the year	427,805,161.75

15. Operating revenue and operating cost

Items	Amount for the period		Amount for the previous period	
	Revenue	Cost	Revenue	Cost
Sub-total on main business	2,507,942,107.72	2,183,385,016.85	687,528,023.95	536,781,867.70
Sub-total on other business.				
Total	2,507,942,107.72	2,183,385,016.85	687,528,023.95	536,781,867.70

16. Business taxes and surcharges

Items	Amount for the period	Amount for the previous period
Business taxes and surcharges	6,620,964.65	3,502,421.59
Total	6,620,964.65	3,502,421.59

17. Cost of sales

Items	Amount for the period	Amount for the previous period
Sales expenses	9,090,325.74	7,203,215.40
Total	9,090,325.74	7,203,215.40

18. Management fees

Items	Amount for the period	Amount for the previous period
Management fees	15,102,689.88	14,246,948.55
Total	15,102,689.88	14,246,948.55

19. Finance expenses

Items	Amount for the period	Amount for the previous period
Finance expenses	11,984,992.72	658,792.93
Total	11,984,992.72	658,792.93

20. Income tax expense

Component of income tax expense (income)

Items	Amount for the period	Amount for the previous period
Current income tax according to tax law and relevant requirements . .	70,439,529.47	31,283,694.45
Adjustment for deferred income tax		
Total	70,439,529.47	31,283,694.45

X. CONTINGENCIES

The Company did not have significant contingencies to be disclosed.

XI. NON-ADJUSTING POST BALANCE SHEET EVENTS

The Company did not have any post balance sheet day event to be disclosed.

XII. RELATIONSHIP AND TRANSACTIONS WITH RELATED PARTIES

(I) Related parties

1. Recognition standards for a related party

Recognition standards for a related party: in case a party controls, commonly controls or exerts significant influence over another party, or in case two or more parties are under exclusive control, common control or significant influence of the same party, they shall constitute related parties.

2. Investors of the Company

<u>Name of related parties</u>	<u>Place of registry</u>	<u>Percentage of shareholding</u>
China National Friend Industry Corporation (中國富萊德實業公司)	Beijing	30%
Guoneng Natural Gas IMP. & EXP. (Beijing) Co., Ltd. (國能天然氣進出口(北京)有限公司)	Beijing	28%
Xinneng International Investment Co. Ltd. (新能國際投資有限公司)	Beijing	25%
China Hualian International Commercial Co., Ltd. (中國華聯國際貿易公司)	Beijing	15%
Shenzhen Bai Zhao Investment & Consultant Co., Ltd. (深圳百壘投資顧問有限公司)	Shenzhen	2%

(II) Pricing policy

Pricing for connected transactions arrived at by market principles.

(III) Transactions with related parties

There is no transaction with related parties during 2013.

XIII. OTHER SIGNIFICANT MATTERS

1. Exchange of Non-monetary Assets

There is no significant exchange of non-monetary asset required to be disclosed during the reporting period.

2. Debt Restructuring

There is no significant debt restructuring matters required to be disclosed during the reporting period.

3. Discontinued operations

The Company and its subsidiaries have no intention to discontinue its operations.

4. Significant displacement, transfer and disposal of assets

The Company did not have significant displacement, transfer and disposal matters.

XIV. APPROVAL FOR THE FINANCIAL STATEMENTS

The financial statements have been approved by the Company as at 20 April 2014.

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