



CNPC (HONG KONG) LIMITED

(incorporated in Bermuda with limited liability)

中國(香港)石油有限公司

CONNECTED TRANSACTION

The board of directors of CNPC (Hong Kong) Limited (the "Company") is pleased to announce that the Company had on 11 September 2000 entered into an agreement (the "Agreement") with China Petroleum Economics and Information Research Center, CNPC ("CPEIC") and AsiaDemand, Inc. ("AsiaDemand") regarding the establishment of a sino-foreign joint venture company (the "JV Company") in the People's Republic of China (the "PRC"). Pursuant to the Agreement, the Company shall contribute RMB 9,600,000 (equivalent to approximately HK\$9,056,604) to the registered capital of the JV Company, representing 32% of its registered capital. CPEIC will contribute technology, including its "OilChina.com" website, to the JV Company.

CPEIC is a division of China National Petroleum Corporation ("CNPC"), the indirect controlling shareholder and ultimate parent of the Company. Therefore, under the Listing Rules of the Stock Exchange (the "Listing Rules"), the entering into of the Agreement by the Company constitutes a connected transaction for the Company.

As the total investment by the Company in the JV Company represents less than 3 per cent. of the book value of the net tangible assets of the Company as disclosed in its latest published audited consolidated accounts as at 31 December 1999, the Agreement is only subject to the relevant disclosure requirements under Rule 14.25(1) of the Listing Rules and no independent shareholders' approval is required. Details of the Agreement will also be disclosed in the annual report and accounts of the Company for the year ending 31 December 2000.

THE AGREEMENT

Date: 11 September 2000

Parties: (i) The Company
(ii) CPEIC
(iii) AsiaDemand

CPEIC is a division of CNPC, the indirect controlling shareholder and ultimate parent of the Company.

AsiaDemand is a company incorporated in California, U.S.A. It is engaged in the business of providing comprehensive e-commerce solutions, system platform, technology and value-added services for companies in the PRC and other countries in Asia. AsiaDemand is not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their associates (as defined under the Listing Rules).

Capital Contribution

The total investment, as well as the registered capital, of the JV Company is RMB 30,000,000 (equivalent to approximately HK\$28,301,887).

The Company will contribute RMB 9,600,000 (equivalent to approximately HK\$9,056,604) in cash, representing 32% of the registered capital of the JV Company.

CPEIC will contribute a total of RMB 10,800,000 (equivalent to approximately HK\$10,188,679), of which RMB 7,500,000 (equivalent to approximately HK\$7,075,472) will be in the form of technology (including the "OilChina.com" website) and RMB 3,300,000 (equivalent to approximately HK\$3,113,208) will be in the form of cash. This represents 36% of the total registered capital of the JV Company. The value of the technology, including the "OilChina.com" website, to be contributed by CPEIC to the JV Company was arrived at after arm's length negotiations between CPEIC, the Company and AsiaDemand.

AsiaDemand will, in addition to providing an e-commerce platform and technical support and services to the JV Company free of charge, contribute RMB 9,600,000 (equivalent to approximately HK\$9,056,604) in cash, representing 32% of the total registered capital of the JV Company.

The parties shall make their respective capital contribution to the JV Company within 15 business days after the date of issue of the JV Company's business licence. It is currently expected by the Company that the business licence of the JV Company would be obtained within 2 months from the signing of the Agreement.

Right of Pre-emption

A shareholder of the JV Company may transfer all or part of its shareholding interest in the JV Company to any third party provided that such transfer has been approved by the other shareholders and the original PRC government approval authority. If a shareholder intends to transfer all or part of its shareholding interest to a third party, the other shareholders shall have a pre-emptive right to purchase such shareholding interest on terms which are no less favourable than those offered to the third party.

Business of the JV Company

Through the integration of an e-commerce platform to be provided by AsiaDemand with the "OilChina.com" website of CPEIC, the JV Company will provide e-commerce services to CNPC and other oil or petro-chemical companies in the PRC.

Management of the JV Company

The board of directors of the JV Company shall consist of 7 directors; 3 directors shall be appointed by CPEIC, 2 directors shall be appointed by the Company and 2 directors shall be appointed by AsiaDemand.

Term of the JV Company

The term of the JV Company is 15 years from the date of issue of its business licence. If all the shareholders agree to extend the term, an application for extension has to be submitted to the original PRC government approval authority at least six months prior to its expiry.

Reasons for Entering into the Agreement

The rapid development of information technology in recent years have brought about strategic adjustments to modes of trading. Compared with traditional modes of trading, e-commerce is cost-effective, fair and transparent. It is estimated that in general, approximately 10% to 20% of transaction costs can be saved by e-commerce transactions. The directors of the Company believe that the establishment of a specialised e-commerce platform for oil and related products may help CNPC and other oil or petro-chemical companies save substantial amounts of administration costs that they would otherwise have to incur if they effect their transactions using traditional modes of trading.

Connected Transaction

CPEIC is a division of CNPC, the indirect controlling shareholder and ultimate parent of the Company. Therefore, under the Listing Rules, the entering into of the Agreement by the Company constitutes a connected transaction for the Company.

As the total investment by the Company in the JV Company represents less than 3 per cent. of the book value of the net tangible assets of the Company as disclosed in its latest published audited consolidated accounts as at 31 December 1999, the Agreement is only subject to the relevant disclosure requirements under Rule 14.25(1) of the Listing Rules and no independent shareholders' approval is required. Details of the Agreement will also be disclosed in the annual report and accounts of the Company for the year ending 31 December 2000.

Business of Company

The Company is mainly engaged in the business of exploration and production of crude oil in the PRC and Thailand.

By Order of the Board
CNPC (Hong Kong) Limited
Zhang Ruchun
Executive Chairman