THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Culturecom Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 343)

DISCLOSEABLE TRANSACTION
INVOLVING ISSUE OF CONSIDERATION SHARES

A letter from the board of directors of the Company is set out on pages 5 to 22 of this circular.

A notice convening a special general meeting of the Company to be held at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 27 December 2007 at 11:00 a.m. (the "**SGM**") is set out on pages 71 to 72 of this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting as the case may be. Completion and delivery of the enclosed form of proxy will not preclude you from attending and voting at the SGM should you so wish.

* *for identification purpose only*

11 December 2007

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Audited Net Profit"	the audited net profit after tax and any extraordinary items or exceptional items of the Target Group to be determined under the Hong Kong Generally Accepted Accounting Principles
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday or public or statutory holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	Culturecom Holdings Limited, an exempted company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the S&P Agreement
"Consideration"	the total consideration of HK$213,000,000 to be paid by the Company to the Vendor pursuant to the S&P Agreement
"Consideration Shares"	1,000,000,000 new Shares to be allotted and issued by the Company at Issue Price as consideration for the Proposed Acquisition
"Da Ming Petro"	勝利油田大明油氣勘探開發科技有限責任公司(transliterated as Shengli Oilfield Da Ming Petroleum and Gas Exploration Development Company Limited), a subsidiary of Sinopec Shengli
"Director(s)"	director(s) of the Company from time to time
"Group"	the Company and its subsidiaries
"Guaranteed Period"	the period of the financial year commencing on 1 January 2008 and ending on 31 December 2008 of the Target Group
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, are third parties independent of and not connected with any director, chief executive or substantial or management shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the Listing Rules)
"Issue Price"	the issue price of HK$0.213 per Consideration Share
"Last Trading Day"	12 July 2007, being the last trading day of the Shares and the warrants of the Company immediately prior to the entering into of the S&P Agreement
"Latest Practicable Date"	5 December 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MOU"	the non-binding memorandum of understanding entered into with an Independent Third Party (the Target) regarding a possible investment in the Target Group which is principally engaged in energy sector related business as announced by the Company on 28 May 2007
"Mr. Chen"	Mr. Chen Chunpei, one of the three shareholders of the Vendor holding 30% equity interest in the Vendor
"Mr. Liao"	Mr. Liao Chang Yuan, one of the three shareholders of the Vendor holding 40% equity interest in the Vendor
"Mr. Tai"	Mr. Tai Pang, one of the three shareholders of the Vendor holding 30% equity interest in the Vendor
"PRC"	the People's Republic of China, which for the purpose of this circular shall exclude Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
"Profit Guarantees"	the profit guarantee provided by the Vendor under the S&P Agreement in respect of the Audited Net Profit, which, in aggregate, will not be less than RMB19,000,000(equivalent to approximately HK$19,390,000) for the Guaranteed Period

"Proposed Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser as contemplated under the S&P Agreement
"Purchaser"	Success Dynasty Limited, an indirect wholly-owned subsidiary of the Company
"Refundable Deposit"	the payment of US$1.5 million (equivalent to approximately HK$11.7 million) in cash made by the Purchaser to the Target within 7 days after the date of the MOU
"S&P Agreement"	the conditional legally binding sale and purchase agreement dated 16 July 2007 entered into among the Purchaser, the Vendor and Mr. Liao in relation to the sale and purchase of the Sale Shares
"Sale Shares"	six ordinary shares of US$1.00 each in the issued share capital of the Target, representing the entire issued share capital of the Target
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve, among other matters, the issue of the Consideration Shares
"Shareholders"	holders of the Shares from time to time
"Shares"	ordinary shares of HK$0.10 each in the capital of the Company
"Shengli Geological Research Institute"	勝利油田地質科學研究院 (transliterated as Shengli Oilfield Institute of Geological Science Research)
"Shengli Oilfield Administrative Bureau"	勝利油田管理局 (transliterated as Shengli Oilfield Administrative Bureau)
"Sinopec Shengli"	Sinopec Shengli Oilfield Dynamic Group Company Limited (中國石化勝利油田大明(集團)股份有限公司)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiaries"	together, Subsidiary A and Subsidiary B
"Subsidiary A"	Keenwell Energy Technology Limited (健宏能源科技有限公司), a company incorporated in Hong Kong, which is wholly and beneficially owned by the Target

"Subsidiary B"	東營健宏石油技術服務有限公司(transliterated as Dong Ying Jian Hong Petroleum Technology Services Limited), a company established in the PRC as a wholly foreign-owned enterprise, which is wholly and beneficially owned by the Target
"Target"	Raise Beauty Investments Limited, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by the Vendor
"Target Group"	the Target and the Subsidiaries
"Technical Report"	the technical report to be prepared in compliance with Chapter 18 of the Listing Rules in respect of Yi Dong Oilfield
"Vendor"	Wealthy Concept Holdings Limited, a company incorporated in the British Virgin Islands, which is beneficially owned as to 30%, 30% and 40% by Mr. Tai, Mr. Chen and Mr. Liao.
"Yi Dong Oilfield"	義東油區義深3區塊及大81-60區塊 (transliterated as Yi Dong Oil Region Yi Shen third plate and Da 81-60 plate)
"HK$"	Hong Kong dollars, the lawful currency for the time being in Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 343)

Executive Directors:
Mr. Cheung Wai Tung *(Chairman)*
Mr. Chu Bong Foo *(Vice-Chairman)*
Mr. Henry Chang Manayan
Mr. Wan Xiaolin
Mr. Tai Cheong Sao
Mr. Chung Billy

Independent non-executive Directors:
Mr. Lai Man To
Mr. Wang Tiao Chun
Mr. Joseph Lee Chennault

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Culturecom Centre
47 Hung To Road
Kwun Tong
Kowloon
Hong Kong

11 December 2007

To the shareholders of the Company

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION
INVOLVING ISSUE OF CONSIDERATION SHARES

INTRODUCTION

By the announcement dated 30 July 2007, the Company announced that on 16 July 2007, the Purchaser entered into the S&P Agreement with the Vendor whereby the Purchaser agreed to acquire the Sale Shares from the Vendor for an aggregate consideration of HK$213,000,000.

The purpose of this circular is to provide you with further details regarding the Proposed Acquisition, the Technical Report and the notice of SGM in accordance with the Listing Rules.

* *for identification purpose only*

THE S&P AGREEMENT

Date: 16 July 2007

Parties: (1) the Purchaser, a wholly-owned subsidiary of the Company, as purchaser;

(2) the Vendor, as vendor; and

(3) Mr. Liao, as guarantor.

The Vendor is a company incorporated in the British Virgin Islands, which is beneficially owned as to 30%, 30% and 40% by Mr. Tai, Mr. Chen and Mr. Liao. The principal business of the Vendor is investment holding.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for being shareholders of the Target, each of Mr. Tai, Mr. Chen and Mr. Liao is independent to each other and their respective associates.

To the best of the Director's knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owners (Mr. Tai, Mr. Chen and Mr. Liao) are Independent Third Parties.

Mr. Liao, being the single largest shareholder of the Target, entered into the S&P Agreement to guarantee due performance of the Vendor under the S&P Agreement. In the event of non performance of the Vendor, Mr. Liao will indemnify the Purchaser against any liabilities, losses, damages, fees and expenses incurred as a result of such non performance.

Mr. Liao is currently a Canadian resident who has been a private investor managing his portfolio of investment since 1997. Prior to 1997, Mr. Liao has had about 10 years of experience as a senior management in banks in the PRC. Mr. Liao has amicable relationship with some of the largest state-owned enterprises in the PRC.

Assets to be acquired

Pursuant to the S&P Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell the Sale Shares, representing the entire issued share capital of the Target as at the date of the S&P Agreement and the Latest Practicable Date.

Consideration

The Consideration for the Proposed Acquisition is HK$213,000,000, which shall be settled by the Purchaser procuring the Company to allot and issue the Consideration Shares to the Vendor credited as fully paid, at the Issue Price on Completion.

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations on normal commercial terms after having considered (i) the estimated petroleum reserve and its market value contained in Yi Dong Oilfield as provided in the petroleum reserve reports thereon dated February 1986 and September 1998 prepared by Shengli Geological Research Institute and Shengli Oilfield Administrative Bureau respectively provided by the Vendor, (ii) the prospects of the Target Group in light of its cooperative relationship with Da Ming Petro and its parent company, Sinopec Shengli, in Yi Dong Oilfield, and (iii) the Profit Guarantee. Background information of Shengli Geological Research Institute and Shengli Oilfield Administrative Bureau are further elaborated below under the section headed "Information on the Experts" and information on the petroleum reserve of Yi Dong Oilfield and the prospects of the Target Group on the one hand and the Profit Guarantee on the other are further elaborated below under the sections headed "Information on the Target Group" and "Profit Guarantee" respectively.

In view of the above, the Directors (including the independent non-executive Directors) consider the Consideration to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) all approvals and consents required to be obtained on the part of the Vendor, the Target, Mr. Liao and the Purchaser in relation to the transactions contemplated under the Proposed Acquisition having been obtained;

(b) all facts, matters or conditions relating to the Vendor, the Target and Mr. Liao, given as warranties under the S&P Agreement, remaining true and accurate in all respects;

(c) the passing by the Shareholders at the SGM approving the Proposed Acquisition, the S&P Agreement and matters contemplated thereby including the allotment and issue of the Consideration Shares at the Issue Price credited as fully paid;

(d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the PRC legal aspects of the S&P Agreement and the transaction contemplated thereby;

(e) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group; and

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares.

Other than conditions (a), (c) and (f) above, all conditions are waivable by the Purchaser in writing under the S&P Agreement. The Purchaser has no current intention to waive any of such conditions.

Long-stop date

If any of the conditions is not satisfied (or, as the case may be, waived by the Purchaser) in five months following the entering into of the S&P Agreement or such later date as the Vendor, the Purchaser and Mr. Liao may agree, the S&P Agreement shall cease and determine and in that event, the Vendor shall procure the Target to forthwith return the Refundable Deposit to the Purchaser without interest.

Completion

Completion shall take place on the fifth Business Day after all the conditions of the S&P Agreement having been fulfilled or waived.

In the event Completion does not take place as stipulated due to no fault of the Vendor, the Vendor shall also procure the Target to forthwith refund the Refundable Deposit to the Purchaser without interest.

Upon Completion, the Target and its subsidiaries will become wholly-owned subsidiaries of the Company and their accounts will be consolidated with that of the financial accounts of the Group.

Profit Guarantee

The Vendor has guaranteed to the Purchaser that the Audited Net Profit shall in aggregate be not less than the Profit Guarantee, being not less than RMB19 million (equivalent to approximately HK$19.39 million for the Guaranteed Period). Given that the Vendor shall indemnify the Purchaser in the event that the Profit Guarantee is not achieved, the Board considers that the Profit Guarantee is in the interests of the Company and the Shareholders as a whole. Given that the Target Group could achieve an unaudited net profit after tax of approximately HK$9,209,000 for the six months ended 30 June 2007, the Company considers that the Profit Guarantee given by the Vendor is reasonable.

In the event that the Profit Guarantee is not achieved, the Vendor shall pay to the Purchaser in cash an amount equal to the difference between the Audited Net Profit and the Profit Guarantee on a dollar to dollar basis. In the event the Target Group recorded a loss for the Guaranteed Period, the Vendor shall pay to the Purchaser in cash an amount equal to the summation of the loss (express in positive figure) and the Profit Guarantee.

The Vendor and the Purchaser shall procure the auditors of the Company for the then time being to prepare an audited accounts of the Target Group within three months from the end of the Guaranteed Period in determining whether the Profit Guarantee is achieved. Any amount payable by the Purchaser shall be made within seven (7) days from such delivery of the audited accounts of the Target Group. Further announcement will be made by the Company should the Target Group fail to achieve the Profit Guarantee or make a loss.

THE CONSIDERATION SHARES

1,000,000,000 new Shares will be issued at an Issue Price of HK$0.213 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

(a) a discount of approximately 10.13% to the closing price of HK$0.2370 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 14.53% to the average closing price of HK$0.2492 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Trading Day;

(c) a discount of approximately 11.62% to the average closing price of HK$0.241 per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 25.29% over the closing price of HK$0.17 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(e) a premium of approximately 139% over the net asset value per Share of approximately HK$0.089 based on the audited consolidated financial statements of the Group as at 31 March 2007 (after having adjusted for the conversion of the convertible bonds, the issue of 800,000,000 new Shares and the exercise of warrants subsequent to 31 March 2007) and the total number of issued shares of the Company of 6,077,259,642 as at the Latest Practicable Date.

The Consideration Shares will be allotted and issued pursuant to a specific mandate to be sought at the SGM and will be allotted and issued on the date of Completion.

Based on the closing price of HK$0.17 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the Consideration Shares has a total market value of approximately HK$170,000,000.

The Consideration Shares represent approximately 16.45% of the existing issued share capital of the Company and approximately 14.13% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Issue Price was arrived at by the Vendor and the Purchaser after taking into consideration of the average closing price of HK$0.224 per Share during the period from the date of MOU and the Last Trading Day. Given that the Issue Price represents a relatively low discount of approximately 4.91% to that average closing price, the Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable.

Restriction on disposal

Pursuant to the S&P Agreement, the Vendor has undertaken to and covenanted with the Purchaser that, it will not, within the period commencing on the date of Completion and ending on the date falling six months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of the Consideration Shares or any interests therein or grant any options or rights in respect of any of the Consideration Shares without prior written approval from the Purchaser.

The Vendor further undertook and covenanted with the Purchaser that any dealings in the Consideration Shares after such restricted period will be in quantity of not more than 100,000,000 Consideration Shares with any one Independent Third Party.

Application for listing

Application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

CHANGES IN SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares:

Shareholders	**As at the Latest Practicable Date and before Completion**		**Immediately after Completion and the allotment and issue of the Consideration Shares**	
	No. of Shares	*Approximate Percentage*	*No. of Shares*	*Approximate Percentage*
Mr. Cheung Wai Tung, *an executive Director*	1,886,000	0.03%	1,886,000	0.03%
Mr. Chu Bong Foo, *an executive Director (Note)*	283,052,000	4.66%	283,052,000	4.00%
Mr. Henry Chang Manayan, *an executive Director*	2,000,000	0.03%	2,000,000	0.03%
Mr. Wan Xiaolin, *an executive Director*	500,000	0.01%	500,000	0.01%
Harvest Smart Overseas Limited	843,052,000	13.87%	843,052,000	11.91%
Vendor	–	–	1,000,000,000	14.13%
Public	4,946,769,642	81.40%	4,946,769,642	69.89%
Total	**6,077,259,642**	**100.00%**	**7,077,259,642**	**100.00%**

Note: 283,052,000 Shares comprise of (i) 160,180,000 Shares beneficially owned by Mr. Chu Bong Foo in his personal capacity and (ii) 122,872,000 Shares held by Bay-Club Enterprises Inc., a company which is wholly and beneficially owned by Mr. Chu Bong Foo.

The Proposed Acquisition will not result in a change of control of the Company.

INFORMATION ON THE EXPERTS

The following is a brief account of Shengli Geological Research Institute and Shengli Oilfield Administrative Bureau as provided by the Vendor.

Shengli Geological Research Institute

Shengli Geological Research Institute is an institute operated under a branch of the Sinopec Shengli Oilfield Company, which in turn is a subsidiary of China Petrochemical Corporation, a state-owned enterprise. Shengli Geological Research Institute is situated in Dongying City, Shandong Province, the PRC. Shengli Geological Research Institute has been in operation since 1964.

Shengli Geological Research Institute is equipped with advance technology in conducting its business in, among others, medium and long term planning and deployment for the exploration and development of oilfields, building and adjusting oil production facilities in new and old areas, formulating programs for EOR thermal recovery of heavy oil, geological and new technological research for, and management of oilfield exploration and development, geological data and information and domestic and foreign information in the field.

Shengli Geological Research Institute has received a number of national or provincial scientific and technological progress or achievement awards and has been recognised as a "National Geological Survey Meritorious Unit（全國地質勘查功勳單位）". Shengli Geological Research Institute is also qualified as a National A-grade project advisory unit（國家甲級工程諮詢單位資格）and a national grade testing centre（國家級測試中心）. Shengli Geological Research Institute has also passed the national laboratory review（國家實驗室認可現場評審和計量認証覆審）and has been a member to the International Federation of Consulting Engineers Association（國際諮詢工程師聯合會成員協會會員）.

Being a research institute, Shengli Geological Research Institute has published works, and participated in domestic and international conferences on, oil exploration and developments. Shengli Geological Research Institute has provided services to multinational conglomerates on oilfield technologies in the domestic and international markets.

Shengli Oilfield Administrative Bureau

Same as Shengli Geological Research Institute, Shengli Oilfield Administrative Bureau is operated under China Petrochemical Corporation, which oversees oilfield operations of China Petrochemical Corporation. Shengli Oilfield Administrative Bureau has participated in the exploration and development of mining area of over 150,000 sq. km. covering oil and gas resources of 17 billion tons. Shengli Oilfield Administrative Bureau has also had experience in discovering 72 oil and gas fields with oil reserve of 4.4 billion tons and proven natural gas reserve of 207.5 billion cubic meters.

Other than having business cooperation relationship with Da Ming Petro, whose direct largest shareholder is China Petroleum & Chemical Corporation, as further elaborated below, the Vendor and the Target Group are independent of and not connected with Shengli Geological Research Institute and Shengli Oilfield Administrative Bureau.

INFORMATION ON THE TARGET GROUP

Whereas the Target and Subsidiary A are investment holding companies, which were incorporated on 16 August 2005 and 31 August 2001 respectively, Subsidiary B forms the main operating company within the Target Group. Subsidiary B was formed on 26 April 2005 in the PRC as a wholly foreign-owned enterprise with a registered capital and total investment of US$5,000,000. As at the date of the S&P Agreement, the equity interest of Subsidiary B was owned as to 12.6% by Subsidiary A and 87.4% by the Target. As confirmed by the Vendor, the interest of Subsidiary B has all along been belonging to the ultimate beneficial owners of the Target, being Mr. Tai, Mr. Chen and Mr. Liao, in proportion to their interest in the Target of 30%, 30% and 40% respectively.

According to its business license, Subsidiary B is permitted to engage in energy savings projects, petroleum extraction facilities environmental-friendly projects, offshore drilling platform maintenance projects and the provision of petroleum technology related services. According to the Vendor, since the establishment of Subsidiary B, it has only been engaging in petroleum technology related services by cooperating with Da Ming Petro in Yi Dong Oilfiled, which is further elaborated below. While focusing principally on its existing cooperation with Da Ming Petro in Yi Dong Oilfield, Subsidiary B intends to seek further cooperation with Da Ming Petro in other regions as well as other state-owned enterprises, which possess natural resources extraction rights and that Subsidiary B does not have current plan to engage in other businesses allowed to be performed under its business license. The Company has been advised by its PRC legal adviser that Subsidiary B's cooperation with Da Ming Petro is legal, which is permitted under its business license.

Since 2006, Subsidiary B has been cooperating with Da Ming Petro in order to get a share in the prospective return of the field of petroleum exploration and development by having entered into a legally binding cooperation agreement on 15 May 2006 for a term of 20 years in respect of Yi Dong Oilfield. Subsidiary B is one of the foreign-owned enterprises that have been cooperating with Da Ming Petro in such business. Da Ming Petro is a subsidiary of Sinopec Shengli and its single largest shareholder is China Petroleum & Chemical Corporation holding approximately 26.33% of the equity interest therein. While Da Ming Petro has had over five years of operation in the field of petroleum exploration and development, Sinopec Shengli has over 10 years of experience in the industry. The petroleum extraction right in Yi Dong Oilfield belongs to Da Ming Petro, which allows Da Ming Petro to extract and sale petroleum from Yi Dong Oilfield. The exploration right and mining right of Yi Dong Oilfield are held by Da Ming Petro, which allow it to carry our exploration and mining activities in Yi Dong Oilfield. The rights of Subsidiary B in Yi Dong Oilfield are its cooperation rights under the cooperation agreement with Da Ming Petro. The extraction rights of Da Ming Petro include but not limited the right to extract and explore oil resources within the area of Yi Dong Oilfield. To the best of the Directors' knowledge, there is no specific name for such rights and there is no period limitation on such rights and Da Ming Petro may develop extraction and exploration wells within Yi Dong Oilfield under these rights.

The form of cooperation between Da Ming Petro and Subsidiary B in respect of Yi Dong Oilfield has been that Da Ming Petro would provide the resources extraction rights, all technical know-how, technicians and all necessary assistance whereas Subsidiary B's contribution would be in the form of capital, which will be applied as working capital for the project in Yi Dong Oilfield, in return for certain percentages of the sales from oil produced calculated on a monthly basis. The sales sharing ratio for the cooperation in Yi Dong Oilfield comprises two stages: (1) prior to Subsidiary B having received in full its contributed capital in Yi Dong Oilfield, Subsidiary B will be entitled to 70% of the sales of oil produced whereas Da Ming Petro will be sharing 30% thereof; and (2) subsequent to Subsidiary B having received in full its contributed capital in Yi Dong Oilfield, Subsidiary B and Da Ming Petro will be sharing the sales of oil produced equally.

Da Ming Petro and Subsidiary B have formed a joint working group overseeing the technical aspects and overall management of the exploration and development of the project in Yi Dong Oilfield. The joint working group comprises seven members, one of whom is the chairman who is nominated by Da Ming Petro and would lead the project. Out of the six remaining seats, four are nominees of Da Ming Petro and two belonging to Subsidiary B. The joint working group is further divided into a group of four members, with one member being nominee of Subsidiary B, which would look after the technical aspects of the project in Yi Dong Oilfield, such as determining the number and positions of the drilling locations (the "**Technical Working Group**") and another group of two members, one from each side, responsible for the overall management (the "**Management Working Group**"). The joint working group would adopt the management approach of Da Ming Petro. The joint working group would report to Da Ming Petro and Subsidiary B from time to time regarding the progress of the cooperation on Yi Dong Oilfield. Upon expiry of the cooperation, all information, including information newly generated, and all equipments and facilities involved or used will belong to Da Ming Petro.

The Technical Working Group would determine, among other matters, the number and actual positions of drilling locations and the Management Working Group would be responsible for approving the decisions of the Technical Working Group. Once those decisions have been approved, Subsidiary B would provide funding and the Technical Working Group would be responsible for managing the extraction process. As at the Latest Practicable Date, Subsidiary B has invested an aggregate of approximately US$3,000,000 (equivalent to approximately HK$23,400,000) in Yi Dong Oilfield. Depending on the degree of expansion on extractions in Yi Dong Oilfield, the Vendor does not anticipate there will be further funding requirement or if so, it is expected to be limited to US$5,000,000 (equivalent to approximately HK$39,000,000), being the total registered capital and investment of Subsidiary B as at the Latest Practicable Date. The existing cooperation agreement did not provide for any specific funding requirements or timeline to be provided by Subsidiary B nor did it confer rights to Subsidiary B to terminate the existing cooperation agreement. However, Subsidiary B has the final determination as to how much to be invested in.

Yi Dong Oilfield has a petroleum reserve area of approximately 2.3 square kilometers. Yi Dong Oilfield is located at Shandong Province, Dongying City, Hekou District, the PRC. Based on the petroleum reserve reports on Yi Dong Oilfield dated February 1986 and September 1998 prepared by Shengli Geological Research Institute and Shengli Oilfield Administrative Bureau respectively, the recoverable and remaining recoverable petroleum reserve of Yi Dong Oilfield are approximately 1.038 million tons and 0.9088 million tons respectively. As assessed by Subsidiary B, having considered the amount of remaining recoverable petroleum reserve for Yi Dong Oilfield and the current petroleum price of approximately RMB3,950 per ton (equivalent to approximately HK$4,000 per ton), the value of the remaining recoverable petroleum reserve of Yi Dong Oilfield is approximately RMB3,550,000,000 (equivalent to approximately HK$3,600,000,000).

Currently, Subsidiary B is negotiating another cooperation agreement with Da Ming Petro for petroleum extraction in Chaoshui Basin（潮水盆地）. Chaoshui Basin（潮水盆地）is situated at the north of the eastern section of Hexi Corridor, where the oilfield lies in Jinchang Depression（金昌坳陷）in the middle of Chaoshui Basin（潮水盆地）. The oilfield is divided into 4 oil extraction areas and Subsidiary B expects to obtain one of the extraction rights. As advised by the Vendor, the relevant parties have reached an understanding that the cooperation would be in similar form as the existing cooperation

by forming a joint working group and Da Ming Petro being responsible for providing oil extraction rights and necessary technologies and Subsidiary B contributing by way of capital injections, which funds will be applied as working capital for the project in Chaoshui Basin（潮水盆地）, subject to further negotiation on the detailed terms, including sales sharing ratio, of the final documentation. As at the Latest Practicable Date, to the best of the Directors' knowledge, Subsidiary B is still in the course of negotiation for the cooperation in the project of Chaoshui Basin (潮水盆地).

The Company has also appointed Gaffney, Cline & Associates (Consultants) Pte Ltd. ("**GCA**") as its technical adviser in preparing the technical report. GCA is an independent energy advisory group of 45 years' standing, whose expertise in petroleum reservoir evaluation and economic analysis. For further details of the qualifications and experience of GCA, please refer to section 9 of the technical report. GCA has also been in accordance with Chapter 18 of the Listing Rules prepared the technical report contained in the circular of another listed company in Hong Kong.

As stated in the technical report, the relevant block (the "**Block**") of Yi Dong Oilfield is rectangular in shape with an area of approximately 1.6 km2. There are three main reservoir zones: ES2, ES3 and ES4 in the field. The best reservoir properties are observed in the ES2 section, which has also produced most of the oil to date of technical report.

Nine oil wells have been drilled on the Block with one water injector. Sustained production from the Block began in 1996. Oil production peaked at a rate of 110 tonnes per day in 1998. Since 2001, production has fluctuated between 13 and 47 tonnes per day. As at 1 July 2007, the oil rate was about 38 tonnes per day. Cumulative production to 1 July 2007 was 0.150 million tones with the vast majority of production from three wells in ES2.

Several wells have mechanical problems, especially in the ES3 and ES4 reservoirs. In addition, three new wells are planned along the western edge of the Block, together with a fourth exploration well in the southeast of the Block.

Technical reserves have been estimated by GCA based on the predicted range of performance of the existing wells, workover wells and new wells. The proved, probable and possible total of technical reserves of the Block is 0.661 million tones. Based on the current petroleum price of approximately RMB3,950 per tonne (equivalent to approximately HK$4,000 per tonne), the value of technical reserves of Yi Dong Oilfield is approximately RMB2,610,000,000 (equivalent to approximately HK$2,640,000,000).

In the view of GCA, although the Block is quite small, there are still undrilled areas with drilling potential. In particular, there is an attractive area in the southeastern area of the Block. A well which has been drilled around 3km to the south of the Block boundary has tested at rate of 147 tonnes per day. An exploration well is already drilling in the same main complex. Should this well be a success, it would greatly increase the prospectively of the ES3 fan within the Block.

An exploration well targeting the deeper formations ES3 and ES4 is also proposed. The geological chance of success of this well is estimated at 50%. The best case of unrisked prospective resources of ES3 and ES4 as estimated by GCA is 0.151 million tones. Based on the current petroleum price of approximately RMB3,950 per tonne (equivalent to approximately HK$4,000 per tonne), the value of the unrisked prospective resources of ES3 and ES4 is approximately RMB596,450,000 (equivalent to approximately HK$604,000,000).

The following sets out a summary of the financial results of the Target Group given by the Vendor prepared in accordance with the Generally Accepted Accounting Principles in Hong Kong:

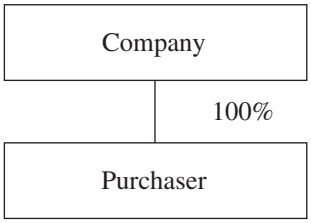
	For the six months ended 30 June 2007	For the year ended 31 December 2006	For the period from 16 August 2005 to 31 December 2005
	HK$'000 (unaudited)	*HK$'000* (audited)	*HK$'000* (audited)
Results			
Turnover	1,831	3,083	447
Profit/(Loss) before tax	(1,973)	(4,128)	(1,328)
Profit/(Loss) after tax	9,209	(4,128)	(1,328)

	As at 30 June 2007	As at 31 December 2006	As at 31 December 2005
	HK$'000 (unaudited)	*HK$'000* (audited)	*HK$'000* (audited)
Assets and liabilities			
Total assets	45,644	32,046	20,078
Net assets (liabilities) value	6,313	(4,410)	(941)

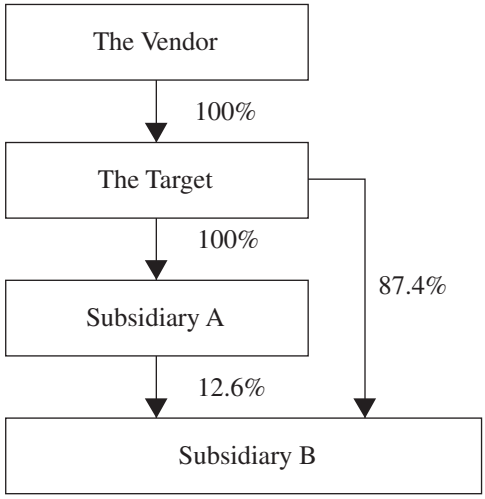
The following charts show the group structure of the Target Group immediately before and immediately after the Completion:

Immediately before Completion

Simplified existing structure of the Group

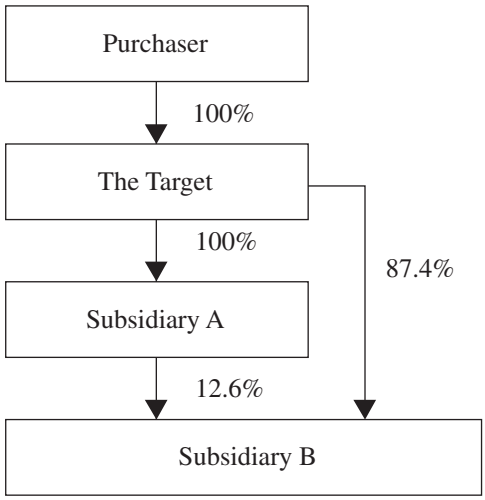


Existing structure of the Target Group



Immediately after Completion

Structure of the Target Group



The Vendor will not be entitled to appoint representatives to the Board pursuant to the S&P Agreement. The S&P Agreement does not confer the Vendor rights to nominate any person to the Board. The Company, however, intends to retain all of the key personnel, including those technical staff for the exploration and exploitation of Yi Dong Oilfield, of the Target Group to continue to manage the Target Group for smooth transition and ensuring continuity of success. The Target Group has been managed by the board of directors of Subsidiary A with the actual operation being delegated to a general manager, vice general manager and a chief engineer. The general manager has over 17 years of corporate managerial experience and has been a top management of a nonferrous metal export and import company in the PRC. The vice general manager, who is also the financial controller, is a qualified accountant in the PRC who has over 14 years of experience in financial management. The chief engineer has over 12 years of experience in well drilling and management and geology research.

Normal exploration technique using exploration wells will be employed for the exploration of Yi Dong Oilfield. Please also refer to the technical report in the appendix for further details.

To the best of the Directors' knowledge, no claims of material importance in relation to exploration rights of the Target Group has been made or notified by third parties against the Company.

FINANCIAL EFFECT OF THE PROPOSED ACQUISITION ON THE COMPANY

Turnover and earnings

The Group's consolidated turnover and loss attributable to shareholders for the financial year ended 31 March 2007 amounted to HK$46,642,000 and HK$22,934,000 respectively. Upon the Completion, the Target and the Subsidiaries will become wholly owned subsidiary companies of the Company, and financial results of the Target Group will be consolidated into the financial accounts of the Group. Taking into account the Guarantee Profit as undertaken by the Vendor and the prospects of the Target Group in Yi Dong Oilfield, the Directors expect that the Group's turnover and earnings for the coming years can be significantly improved by the contribution of this new line of the business in PRC.

Assets and liabilities

As at 31 March 2007, the Group's total assets and total liabilities amounted to approximately HK$247,392,000 and HK$22,425,000 respectively. Upon the Completion, the Target and the Subsidiaries will become wholly owned subsidiary companies of the Company, and the financial accounts of the Target and the Subsidiaries will be consolidated with that of the Group. The difference between the Consideration and the fair value of assets and liabilities of the Target Group will be capitalized and treated as goodwill arising on acquisition in the consolidated financial statement of the Group.

Working Capital Sufficiency

It is estimated that the funding requirement of the Yi Dong Oilfield for the next 24 months will be approximately US$2,000,000 (equivalent to approximately HK$15,600,000). Taking into the account the financial resources available to the Group, the Directors are of the opinion that the Group will have sufficient working capital for its present requirements for at least the next 24 months from the date of publication of this circular in the absence of unforeseeable circumstances.

The Board anticipates that the Group will receive income not less than the amount as stipulated under the Profit Guarantee from the revenue of Subsidiary B under the cooperation agreement with Da Ming Oilfield during the coming 24 months following the issue of the Circular as a result of the Proposed Acquisition.

Save as disclosed above, no further finance is required to enable the Company to exploit the proven reserves in Yi Dong Oilfield on a commercial scale.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in publication of comics and related business, sales of Chinese operating system, processor and application software and investment holding. All current material principal business activities of the Group are carried out in Hong Kong. Immediately after Completion, the Group will also engage in the petroleum industry in the PRC.

In view of the increasing competition in the existing business of the Group, the Directors (including the independent non-executive Directors) understand the need to actively seek new investment opportunities, whether within or outside the Group's principal business activities, in order to increase the value of the Company and improve return of Shareholders.

Keeping abreast with its existing business, the Company finds cooperative opportunities with Sinopec Shengli in pursuit of the prospective gains from the energy related sector. Given the continued economic growth and accelerated urbanization in the PRC as well as the development in the global economy, energy resources are in demand at all times and the Directors (including the independent non-executive Directors) consider that it will maintain its growth momentum. In view of such prospect and inasmuch as Sinopec Shengli has abundance of experience and an established reputation in the energy sector, the Directors (including the independent non-executive Directors) are confident that the Proposed Acquisition will make tangible contributions to the Group.

Taking into account the benefits of the Proposed Acquisition, the Directors (including the independent non-executive Directors) are of the view that the terms of the S&P Agreement are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

The Board wishes to emphasize that Completion is subject to various conditions to be fulfilled. In the event that the conditions are not fulfilled by the long-stop date as stipulated in the S&P Agreement, the S&P Agreement will cease and terminate. As such, Shareholders and investors are urged to exercise caution when dealing in the securities of the Company.

The following is segmental information of the Group as extracted from the annual report of the Group for the year ended 31 March 2007.

The Group is currently organised into three main business segments:

Publishing	–	publishing of comics and related business
Chinese information infrastructure	–	sales of Chinese operating system, processor, eTextbook and application software
Investment	–	rental income from investment properties

Income statement for the year ended 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	41,143	410	5,089	46,642
Segment results	1,183	(14,714)	9,062	(4,469)
Unallocated expenses				(17,856)
Share of loss of associates				(1,662)
Gain on disposal of an associate				891
Gain on disposals of subsidiaries				1,765
Allowances for amount due from associates				(10,196)
Finance costs				(187)
Loss before income tax				(31,714)
Income tax expense				(2,220)
Loss for the year				(33,934)

Balance sheet at 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	16,768	12,112	81,667	110,547
Interests in associates				8,248
Amounts due from associates				26,672
Unallocated corporate assets				101,925
Consolidated total assets				247,392
Liabilities				
Segment liabilities	11,695	1,891	6,831	20,417
Unallocated corporate liabilities				2,008
Consolidated total liabilities				22,425

Other information for the year ended 31 March 2007

	Publishing	Chinese information infrastructure	Investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Purchases of property, plant and equipment	34	30	–	–	64
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation	726	2,825	270	1,697	5,518
Impairment loss of property, plant and equipment	–	2,766	–	61	2,827

Income statement for the year ended 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	41,731	412	4,078	46,221
Segment results	5,192	(73,026)	6,612	(61,222)
Unallocated expenses				(49,614)
Share of loss of associates				(8,240)
Share of loss of a jointly controlled entity				(740)
Finance costs				(3,893)
Gain on disposals of subsidiaries				290
Allowances for amounts due from associates				(33,704)
Allowance for amounts due from a jointly controlled entity				(2,234)
Loss before income tax				(159,357)
Income tax expense				–
Loss for the year				(159,357)

Balance sheet at 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Segment assets	19,288	21,886	58,097	99,271
Interests in associates				3,931
Amounts due from associates				52,637
Unallocated corporate assets				77,771
Consolidated total assets				233,610
Liabilities				
Segment liabilities	9,370	5,412	646	15,428
Unallocated corporate liabilities				7,370
Consolidated total liabilities				22,798

Other information for the year ended 31 March 2006

	Publishing	Chinese information infrastructure	Investment	Unallocated	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Purchases of property, plant and equipment	4	176	–	288	468
Amortisation of development costs	–	16,595	–	510	17,105
Amortisation of prepaid lease payments	–	–	–	335	335
Depreciation	764	3,263	–	2,186	6,213
Allowances for trade and other debtors	344	283	450	5,765	6,842
Impairment loss of development costs	–	15,850	–	–	15,850

LISTING RULES IMPLICATIONS

The Proposed Acquisition constitutes a discloseable transaction on the part of the Company pursuant to Chapter 14 of the Listing Rules. Given the activities in which the Target Group is engaged involve exploration and development of natural resources, the Proposed Acquisition will also fall under Chapter 18 of the Listing Rules and the Company will comply with all requirements as may be applicable set out therein in respect of the Proposed Acquisition. The Proposed Acquisition together with the issue of the Consideration Shares, which is proposed to be made under a special mandate to be sought, will be subject to the approval of the Shareholders at the SGM.

SGM

Set out on pages 71 and 72 of this circular is a notice convening the SGM to be held at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 27 December 2007 at 11:00 a.m. at which resolution(s) will be proposed to consider and approve, among other matters, the Proposed Acquisition, the issue of the Consideration Shares and all matters contemplated thereby.

As at the Latest Practicable Date, no Shareholder has any material interest in the Proposed Acquisition and thus, no Shareholder will be required to abstain from voting on the resolutions to approve the Proposed Acquisition and the issue of the Consideration Shares at the SGM and any vote exercised by the Shareholders at the SGM shall be taken by a show of hands unless a poll is demanded.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the terms of the S&P Agreement to be fair and reasonable and are in the commercial benefit and interests of the Company and Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution(s) regarding, among other matters, the Proposed Acquisition, the issue of the Consideration Shares and all matters contemplated thereunder to be proposed at the SGM.

FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Culturecom Holdings Limited
Cheung Wai Tung
Chairman

Gaffney, Cline & Associates (Consultants) Pte Ltd
Technical and Management Advisers to the Petroleum Industry Internationally Since 1962
Principals:
William B. Cline
Peter D. Gaffney

Registered No. 01453/1987-N

80 Anson Road, #31-01C
Fuji Xerox Towers
Singaore 079907
Telephone: +65 6225 6951
Facsimile: +65 6224 0842
email:gcas@gaffney-cline.com
www.gaffney-cline.com

BCR/dh/L0421/2007/KK1140.00 7 December 2007

The Directors
CULTURECOM HOLDINGS LIMITED
Culturecom Centre
47 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Dear Sirs,

TECHNICAL REPORT ON BLOCK YISHEN 3, YIDONG OIL FIELD, CHINA

INTRODUCTION

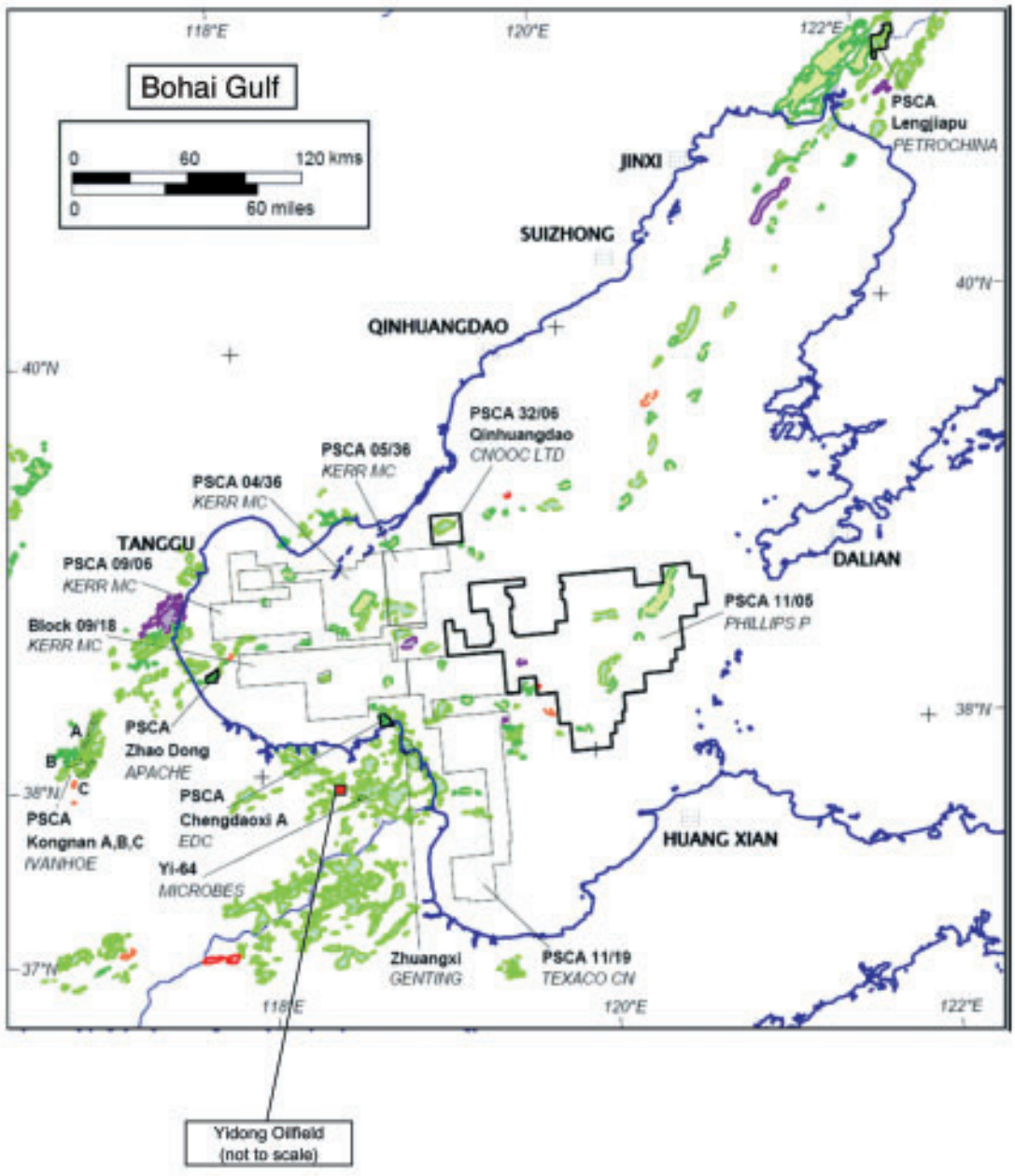
Culturecom Holdings Limited (Culturecom) has commissioned Gaffney, Cline and Associates (GCA) to prepare a Technical Report in respect of the Reserves and Resources of an oilfield in the Shan Dong province, on the eastern coast of China (**Figure 1**). A Co-operation Development Agreement between Shengli Oilfield Da Ming Oil and Gas Exploration and Development Technology Limited (Da Ming Petro), a subsidiary of Sinopec Shengli, and Dong Ying Jian Hong Petroleum Technology Services Limited (Dong Ying) governs the permit. The contract area covers Block Yishen 3, which is part of the Yidong oilfield. The Co-operation Development Agreement is the mechanism whereby Dong Ying receives revenues in return for providing the necessary funds for field development and production operations. It is understood that Culturecom is in the process of acquiring the entire share capital of Raise Beauty Investments Limited (Target), which wholly owns Dong Ying, and it is intended that this report will be included in a Circular to be lodged with the Hong Kong Stock Exchange in connection with that transaction. This report has been prepared in compliance with Rule 18.09 (6) of the Listing Rules of the Hong Kong Stock Exchange.

Culturecom has made available to GCA a data set of technical information including geological, geophysical, and engineering data and reports. GCA has reviewed and relied on this information in preparing this report. However, GCA has not been provided with the License governing the Extraction Rights associated with the Block, so is not in a position to comment on entitlement to production for any party from the Block.

A site visit was undertaken by GCA, details of which are included in this report.

Industry Standard abbreviations are contained in the attached Appendix I Glossary, some or all of which may have been used in this report.

1. Yidong Location Map



It should be noted that Dong Ying (and thus in future Culturecom) has no entitlement to hydrocarbon volumes under the Co-operation Development Agreement entered into with Da Ming Petro, but receives a revenue stream from the sale of production, in return for funding the investments and operating costs associated with the field. GCA has not been informed fully as to the nature, extent or timing of the investments, nor the timing or extent of the revenue stream. GCA has therefore needed to make certain assumptions in preparing the production forecasts contained herein. It must be expressly stated thus that Dong Ying (and thus in future Culturecom) does not have entitlement to book or report Reserves from the Yidong field. Since GCA has not been made aware of the financial arrangements pertaining to the Dong Ying participation in the contract,

GCA is unable to report on that aspect and readers of this report must rely on disclosure by Culturecom in that respect. However, in order to present this Technical Report, the information, analysis and reporting that follows this Introduction represents a picture of the technical standing of the field from a gross (100%) perspective.

GCA uses the Petroleum Resources Management System (SPE PRMS) published by the Society of Petroleum Engineers/World Petroleum Congresses/American Association of Petroleum Geologists/Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) in March, 2007 as the basis for its classification and categorization of hydrocarbon volumes. An abbreviated form of the SPE PRMS is appended as Appendix II. **In order to classify hydrocarbon volumes as Reserves, an economic limit test must be carried out. In the absence of such economic data being made available to GCA in the preparation of this report, the hydrocarbon volumes reported herein are not strictly-speaking Reserves but can be considered as those volumes, which are technically recoverable to the end of the expiry of the Co-operation Development Agreement. It is possible that the volumes could reduce if subjected to the Economic Limit Test (ELT).**

It should be understood that any determination of Reserve or Resource volumes particularly involving petroleum developments, may be subject to significant variations over short periods of time as new information becomes available and perceptions change.

As they are not required under Chapter 18 of the Listing Rules of the Hong Kong Stock Exchange, and GCA is not in possession of the relevant information, no Net Present Values (NPVs) have been calculated for the hydrocarbon volumes presented as part of this report.

GCA is an independent energy consultancy specializing in petroleum reservoir evaluation and economic analysis. In the preparation of this report, GCA has maintained, and continues to maintain, a strict consultant-client relationship with Culturecom. Within the last two years, the partners, directors and employees of GCA have been, and continue to be, independent of Culturecom and Target in the services they provide to the company, including the provision of the opinion expressed in this review. Furthermore, the partners and directors of GCA have no interest in any assets or share capital of Culturecom or Target or in the promotion of either company.

This Technical Report must only be used for the purpose for which it was intended.

Where a copy of this Technical Report is available in any language other than English, the original English language version is to be considered as the Official Version.

EXECUTIVE SUMMARY

Block Yishen 3 is a part of the Yidong oilfield located in Hekou District, Dongying City, Shandong Province, China. The Block is rectangular in shape with an area of about 1.6 km^2.

There are three main reservoir zones: ES2, ES3, and ES4. The main ES2 and ES3 reservoirs are shallow lacustrine coarse sandstones, whereas ES4 consists primarily of carbonates. Reservoir quality generally decreases with depth, so that the best reservoir properties are observed in the ES2 section, which has also produced most of the oil to date.

Nine oil wells have been drilled on the Block, and one water injector. Sustained production from the Block began in 1996. Oil production peaked at a rate of 110 tonnes per day in 1998. Since 2001, production has fluctuated between 13 and 47 tonnes per day. As at 1st July, 2007, the oil rate was about 38 tonnes per day. Cumulative production to 1st July, 2007 was 0.150 MM tonnes with the vast majority of production from three wells in the ES2.

Several wells have mechanical problems, especially in the deeper ES3 and ES4 reservoirs. These wells have workovers planned for them which should increase production above the currently very low (<1 tonne/day) levels. In addition, three new wells are planned along the western edge of the Block, together with a fourth exploration well in the southeast of the Block.

Technical Reserves have been estimated based on the predicted range of performance of: the existing wells, workover wells, and new wells. Initial production rates and decline rates have been estimated, based on historical performance and reservoir properties. These have been compared to volumetric estimates. A summary of Technical Reserves and Prospective Resources estimates, to the expiry of the Co-operation Development Agreement, as at 1st July, 2007, is shown below:

TABLE 1
Gross Field Technical Reserves Summary

Category	STOIIP *(MM tonnes)*	Cumulative Production *(MM tonnes)*	Technical Reserves *(MM tonnes)*	EUR *(MM tonnes)*
Proved	1.718	0.150	0.194	0.345
Proved plus Probable	2.589	0.150	0.314	0.464
Proved plus Probable plus Possible	3.757	0.150	0.661	0.811

TABLE 2
Unrisked Prospective Resources Summary

Case	Volume *(MMm^3)*	Net to Gross *(v/v)*	Porosity *(v/v)*	S_w *(v/v)*	FVF Res/ Surf	SG Rel water	STOIIP *(MMm^3)*	STOIIP *(MM tonnes)*	RF	EUR *(MM tonnes)*	GCoS *(%)*
Low	30	0.08	0.14	0.35	1.20	0.86	0.18	0.153	0.15	0.022	50
Best	100	0.10	0.16	0.30	1.30	0.88	0.86	0.755	0.20	0.151	50
High	188	0.12	0.18	0.25	1.40	0.90	2.18	1.966	0.25	0.491	50

1. GEOLOGICAL SUMMARY

Block Yishen 3 is located at the south-eastern edge of the Yidong field (**Figure 2**). The main accumulation is bounded to the north-west by a major fault, which forms part of the Yidong fault zone. The main fault is oriented northeast-southwest and the field also contains several smaller branching faults which are sub-parallel to this main fault. Fault movement during the Eocene and Oligocene has served as a control on sedimentation. The main reservoir sequences are Eocene to Oligocene and are generally thicker to the northwest from where they were sourced, and thin to the southeast away from the main fault zone. There are three main reservoir zones: ES2 and ES3 which are clastic reservoirs, and ES4 which is primarily a carbonate reservoir.

A recent 3D seismic survey is the main data source, together with the ten well penetrations, for defining the structure of the field. Although there is still some uncertainty in the details, the structural configuration of the field is well established. Uncertainties are related to the exact location of the faults, especially in relation to fault cuts seen in wells. This has an effect not only on the fault pattern, but also on the amount of faulted-out section at the wells. **Figures 3** to **5** show top structure maps and well locations for each of the main reservoirs. **Figure 6** shows an east-west seismic line through the YG-3 well.

1.1 Depositional Environment

The sediments deposited during Eocene and Oligocene are coarse near-shore shallow lake deposits. Strong tectonic movements along the main fault zones caused rapid deposition of sediments along the lake edge, which was likely parallel to the current main Yidong fault. Alluvial fans developed along the lake margins with finer and thinner sediments being deposited in deeper water to the southeast. Sediments generally have limited transport distances, resulting in coarse poorly sorted sands and conglomerates. The main body of the fan complexes is in the 81-4 Block to the north of Block Yishen 3, which is on the southern flank.

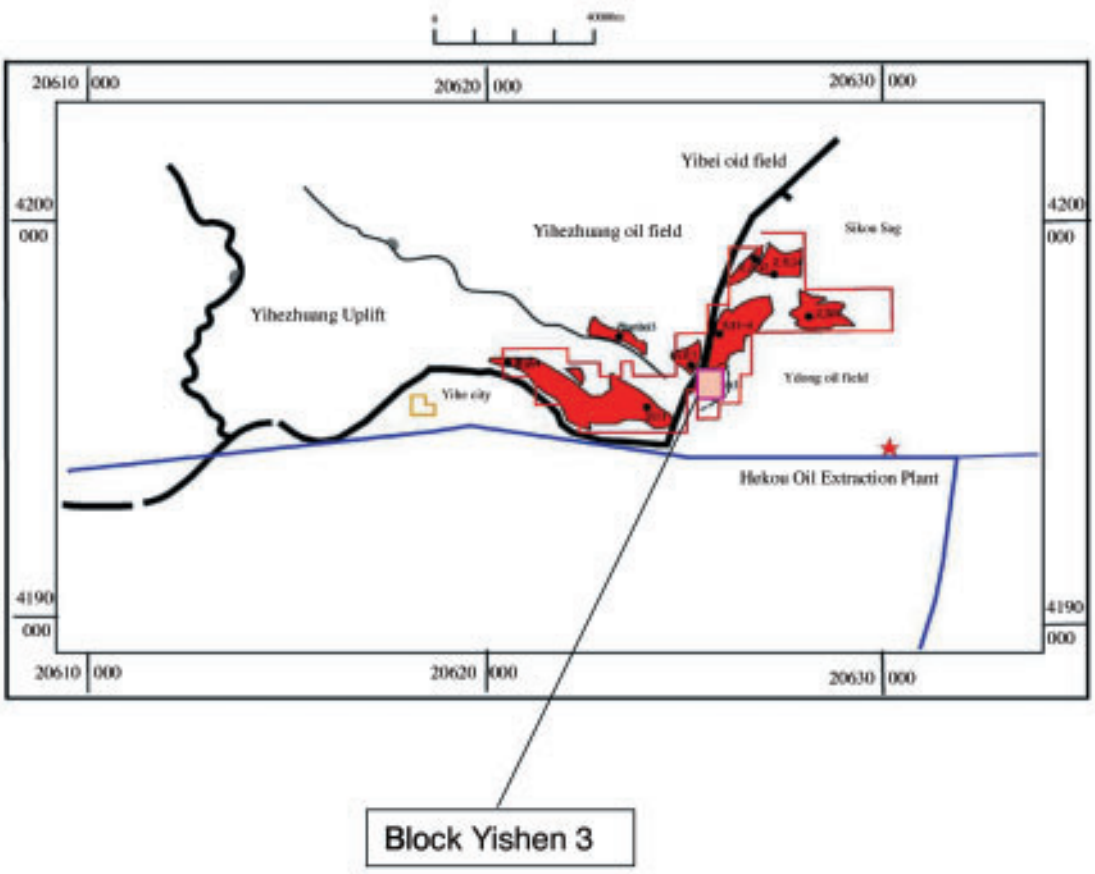
Reservoir quality generally decreases with depth, such that the best reservoir characteristics are in the ES2, with poorer quality observed in the ES3 and ES4. Reservoir quality may also be better in the northwest, more proximal part of the field, although no clear trend has been observed.

1.2 Reservoir Characteristics

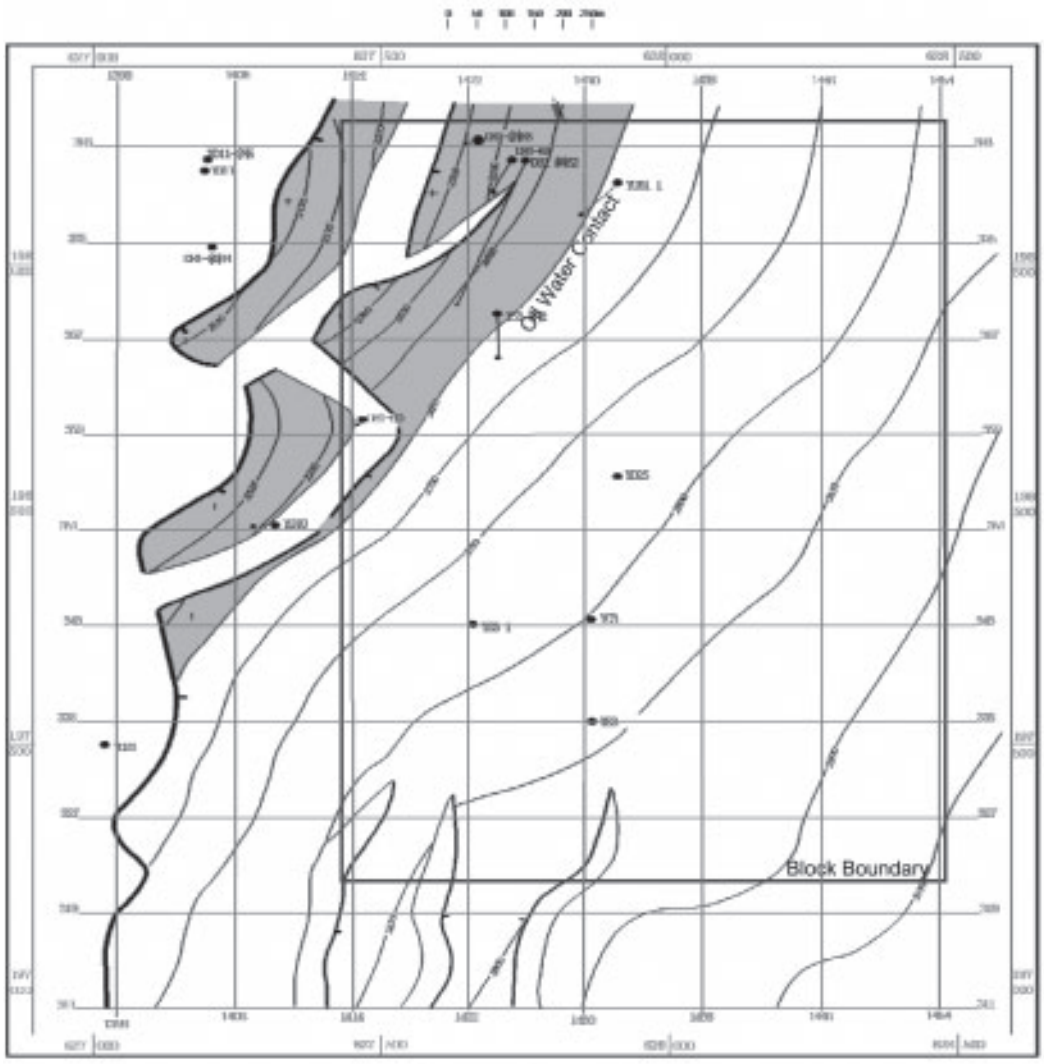
The characteristics of a particular reservoir are those features that are 'pertinent to its ability to store hydrocarbons and also to produce them'. These characteristics will, to a large extent, depend on the depositional environment and the processes that affect the rocks over geological time. This is also true for the reservoirs of the Yidong Field, which were deposited in a lake environment with its own distinctive characteristics.

Lacustrine or lake sediments are deposited by freshwater and are typically quite laterally extensive but often thinly bedded or laminated with clays. These laminae are notoriously difficult to interpret as the thinness of the sand beds may be below the resolution of logging tools.

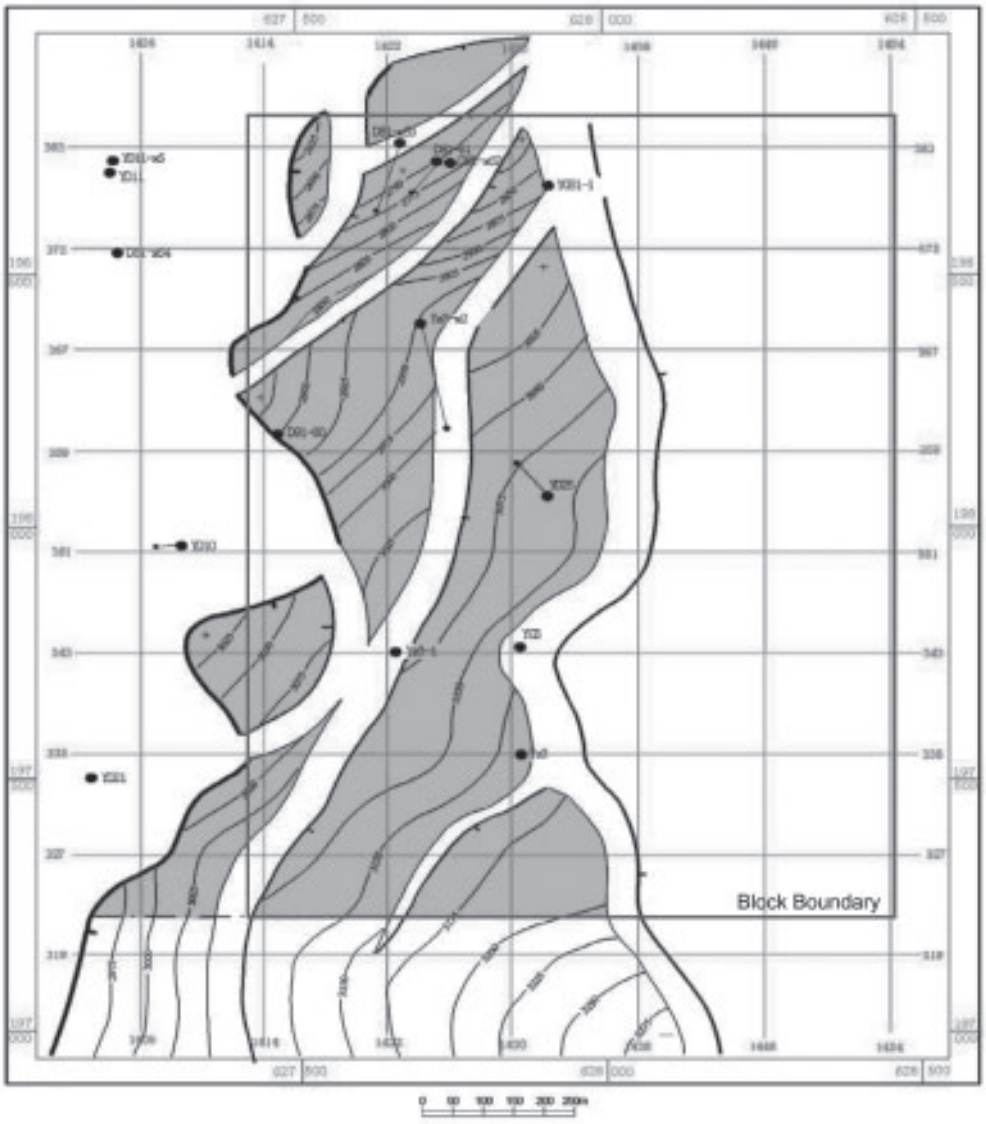
2. Yidong Oil Field Location Map



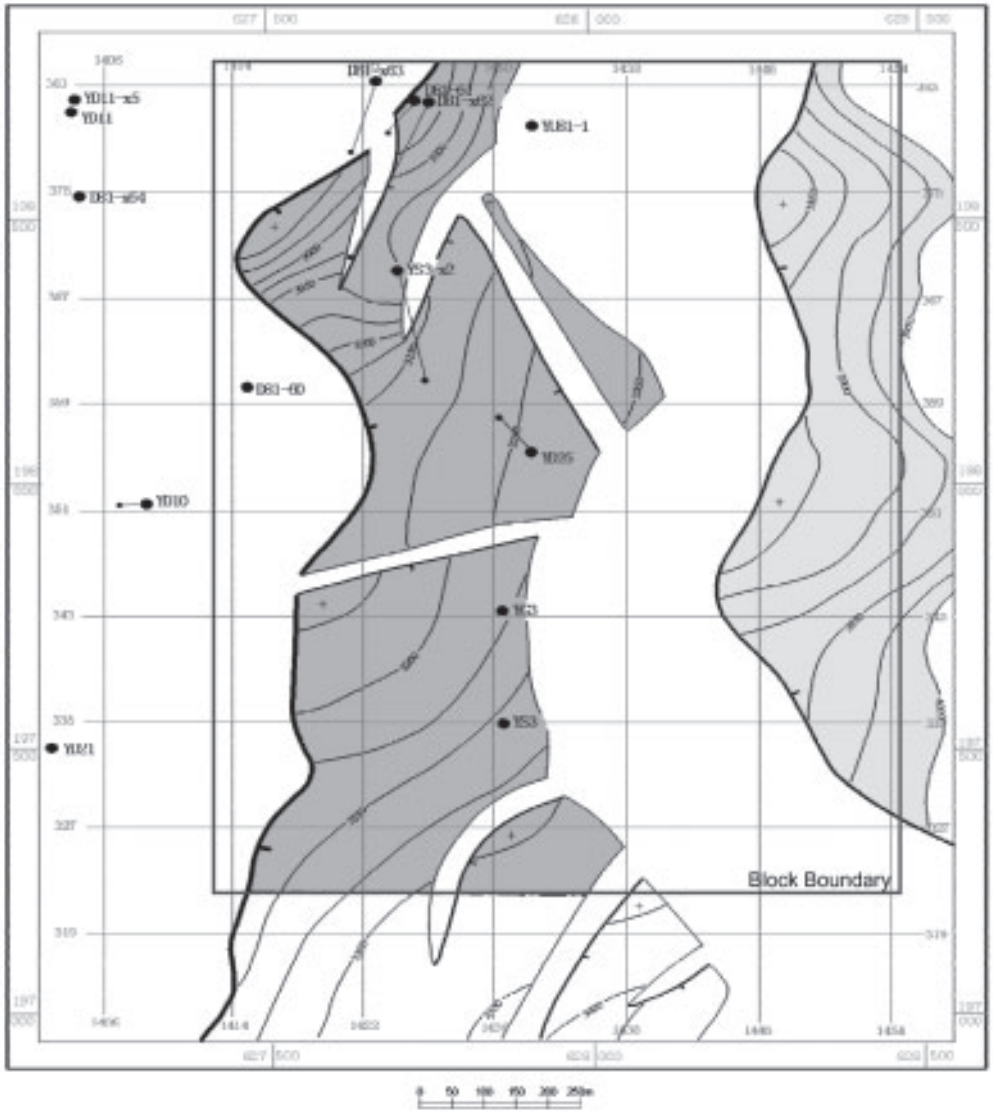
3. ES2 Top Structure Map (m TVDSS)



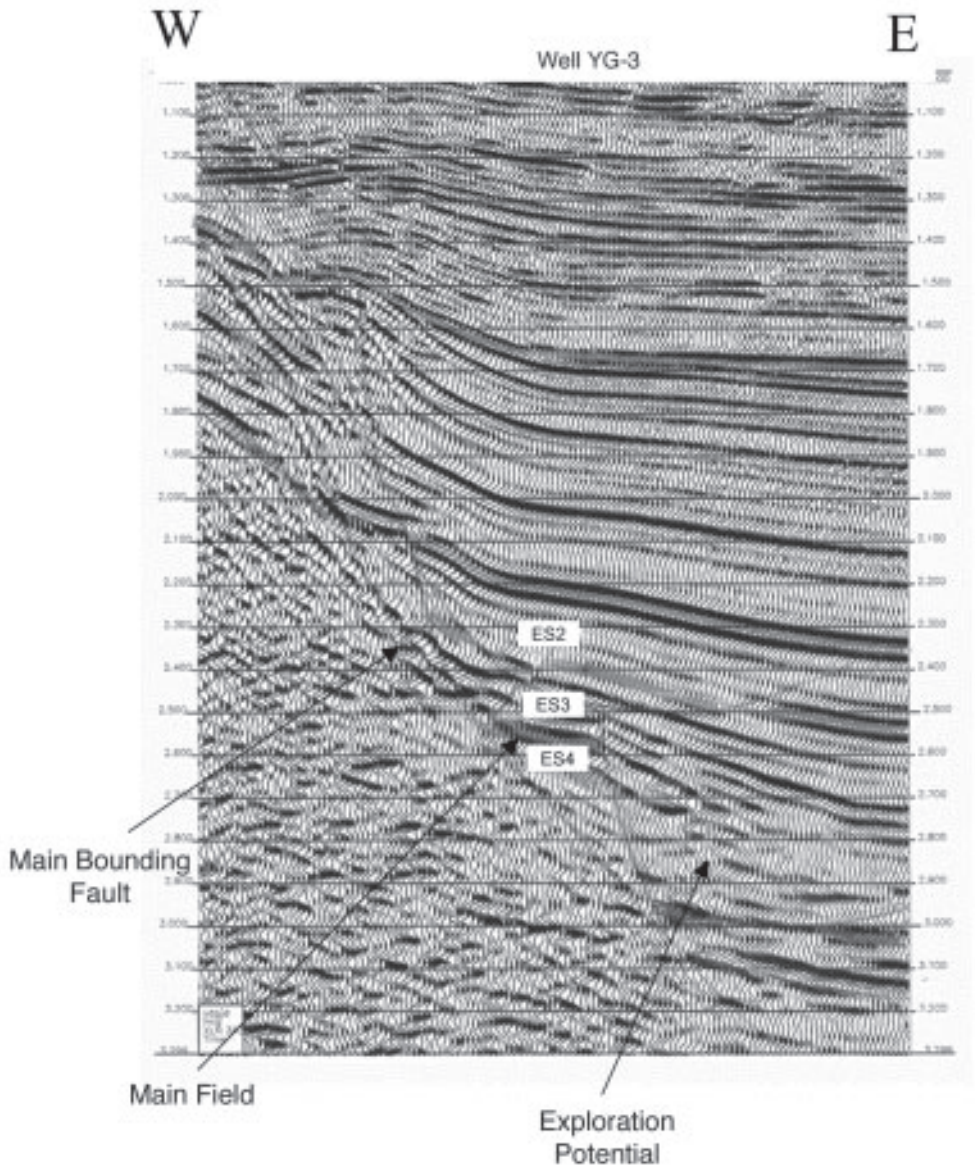
4. ES3 Top Structure



5. ES4 Top Structure Map (m TVDSS)



6. Seismic Line 343 through Block Yishen 3



The freshwater is conducive for algae growth, which can then provide source rocks for oil, although oils sourced from these contain long-chain hydrocarbons that are prone to be waxy and viscous. This type of oil, seen in the deeper reservoirs of Block Yishen 3, namely ES3 and ES4, will be harder to produce and the associated resources are expected to have lower recovery factors. The ES2 formation contains less viscous crude and should be easier to produce and have a higher recovery factor. Indeed, the ES2 formation has contributed almost all of the production to date from the Yidong Field.

The lacustrine sediments are usually sands, (i.e., ES1, ES2 and ES3 formations) or exceptionally, in deep lakes, may be carbonates (i.e., ES4 formation). The difference between these reservoirs can be seen in the porosity and permeability cross-plot obtained from type-well Yishen 3-1 (**Figure 7**). It is observed that the clastic reservoirs (ES1, ES2 and ES3) have a broadly similar poro-perm relationship with a porosity cut-off of around 7-8%. The porosity ranges of these formations vary from 8-30%.

The carbonate ES4 formation, by contrast, is tighter with a maximum porosity of 9%, but may well be fractured, as the permeability is relatively high, so could produce with a lower porosity cutoff of 5-6%. Production from this reservoir is characterized by relatively high initial production rates from fluids in the fractures. This is followed by a lower decline rate, as oil from the matrix starts to contribute. The combination of tight reservoir matrix and viscous crude may result in a reduced ultimate recovery.

The main impact of the reservoir characteristics mentioned above is likely to be on well spacing. The continuity and poro-perm relationship of the shallower clastic formation ES2 would be expected to lead to a typical well spacing of 200 to 250 m, although this may be reduced if the field is compartmentalized by faulting. Closer well spacing may also be required to produce the deeper ES3 and ES4 reservoirs.

1.3 Petrophysics

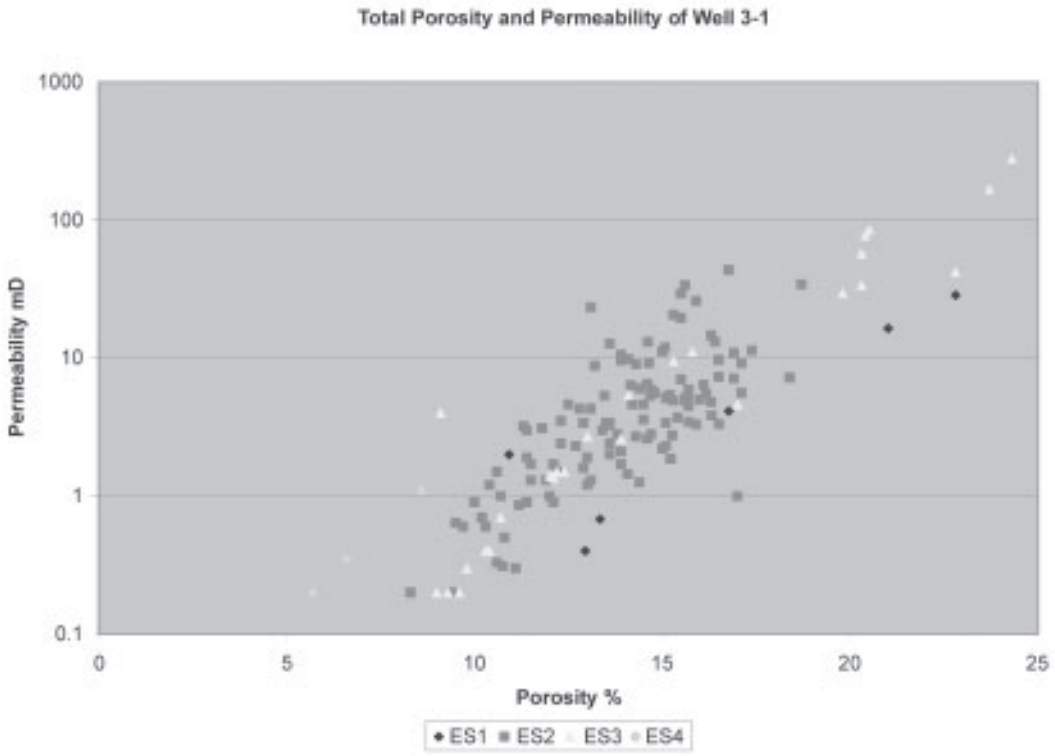
The petrophysical analysis of the Yidong Oilfield was conducted in order to audit the work performed by the SPA Geological Exploration and Development Research Institute and also to provide an independent approach to determine the petrophysical parameters for GCA's Technical Reserves calculations for Block Yishen 3.

The petrophysical interpretation was based on data provided as scanned images of logs and SPA interpretation results for all of the wells on the Block. The quality of these images varied considerably, although a few were suitable for GCA to digitize and interpret using Interactive Petrophysics software. There were no core data, fluid sample analyses or mud logs to assist with the interpretation.

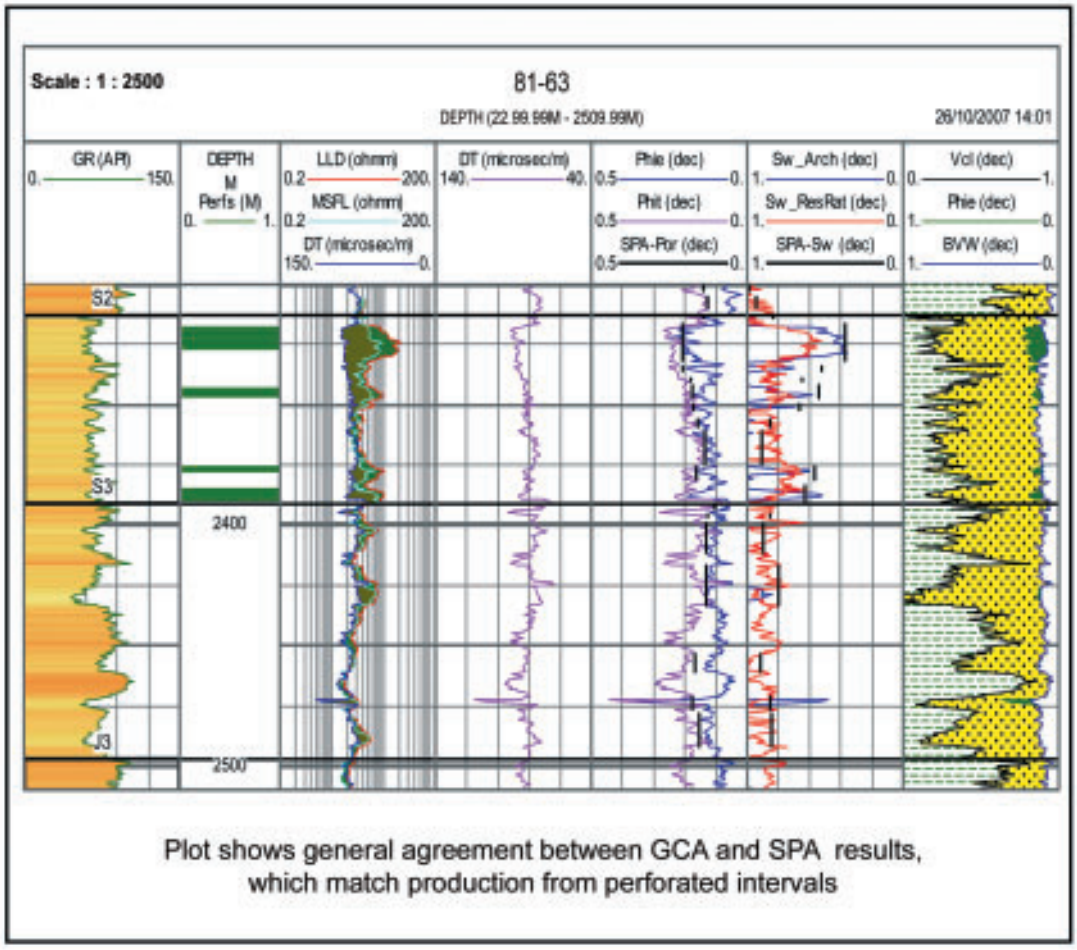
The aim of the interpretation was to determine the shale content, porosity and water saturation of the reservoirs. The interpretations were kept simple due to the relatively few logs available. Sonic and Resistivity overlays were useful in identifying the pay zones. The Gamma Ray was used to calculate the shale content, which was required to correct the total porosity to the effective porosity of the reservoirs. Water saturations were calculated using both the resistivity ratio method and Archie equation in preference to shaley-sand models, due to the nature of the study.

The interpretations, though simple, appear to be reasonably robust and match observed test data in perforated intervals (**Figure 8**). The porosities and saturations are in general agreement with SPA results. The calculated water saturations in the ES2 formation appear to be high.

7. Porosity Permeability Relationship



8. Petrophysical Results Well 81-63



This may be due to the presence of thin beds that cannot be resolved with conventional logs or low resistivity pay.

However, the high saturations may be correct due to the presence of a water injector that has been injecting for several years prior to the oil wells being drilled, and the fact that the ES2 wells had a rapid increase in water cut shortly after production commenced. The distribution of the injected water and any swept oil is an area of considerable uncertainty.

Another uncertainty is the exact pay thickness that should be used, as the logs only record what is in the well, which may have intercepted a partially faulted-out section. The pay thicknesses that have been used in the Technical Reserves calculations are therefore based on geological assumptions of pay seen in more representative wells in the area. GCA has attempted to reflect this range of uncertainty in the Technical Reserves calculations.

There may be some upside potential in the ES1 reservoir which has indications of pay but has not yet been perforated – this may be due to the presence of hydrogen sulphide gas, which is already at 2% concentration in the ES2 reservoir.

1.4 Volumetrics

The volumes of oil were calculated deterministically, which means that for the Proved, Proved plus Probable and Proved plus Probable plus Possible cases the reservoir parameters in these ranges were multiplied together to give the Oil Initially In-Place. Thus the mathematical product of area, net thickness, porosity and oil saturation for low, best and high measured ranges give the oil in-place for each case. However as oil 'shrinks' on production to surface, due to solution gas being evolved, it is necessary to correct this initial volume to Stock Tank conditions by dividing by the formation volume factor (FVF) for the oil in question to give Stock Tank Oil Initially In-Place (STOIIP). The STOIIP calculation is presented below:

$STOIIP = A * h * .\phi * (1-S_w) / FVF * constant$

Where:

STOIIP	Stock Tank Oil Initially In-Place (MM tonnes)
A	Areal extent of structural closure (m^2)
h	Net thickness of reservoir (m)
$.\phi$	Average porosity of the net reservoir rock (%)
S_w	Average water saturation of the reservoir (%)
FVF	Formation volume factor (m^3/stm^3)
Constant	Conversion from m3 to tonnes

The input parameters were obtained from the areal mapping and petrophysical analysis and reflect GCA's interpretations of each reservoir. The net thickness has been adjusted to account for partially faulted-out sections. Higher saturations for the ES2 reservoir are believed to be due to the effect of prolonged water injection prior to production, rather than thin bed effects. As the oil is sold by weight, the volumes have been converted to tonnes using the specific gravity of the crudes for the respective formations. The inputs and results are tabulated in **Tables 3** to **5**.

TABLE 3
Proved STOIIP Summary

Formation	Area *(km^2)*	Net Pay *(m)*	Porosity *(v/v)*	S_w *(v/v)*	FVF Res/Surf	SG Rel water	STOIIP *(MMm^3)*	STOIIP *(MM tonnes)*
ES2	0.209	60	0.18	0.49	1.20	0.87	0.97	0.837
ES3	0.542	24	0.12	0.40	1.20	0.86	0.78	0.675
ES4	0.496	8	0.11	0.40	1.20	0.90	0.23	0.205
Total							**1.98**	**1.718**

TABLE 4
Proved plus Probable STOIIP Summary

Formation	Area (km^2)	Net Pay (m)	Porosity (v/v)	S_w (v/v)	FVF Res/Surf	SG Rel water	STOIIP (MMm^3)	STOIIP (MM tonnes)
ES2	0.220	65	0.19	0.45	1.22	0.885	1.22	1.084
ES3	0.570	32	0.14	0.35	1.22	0.880	1.36	1.197
ES4	0.522	10	0.12	0.35	1.22	0.923	0.33	0.308
Total							**2.92**	**2.589**

TABLE 5
Proved plus Probable plus Possible STOIIP Summary

Formation	Area (km^2)	Net Pay (m)	Porosity (v/v)	S_w (v/v)	FVF Res/Surf	SG Rel water	STOIIP (MMm^3)	STOIIP (MM tonnes)
ES2	0.231	70	0.20	0.41	1.24	0.90	1.53	1.384
ES3	0.599	40	0.16	0.30	1.24	0.90	2.15	1.934
ES4	0.548	12	0.13	0.30	1.24	0.94	0.47	0.439
Total							**4.15**	**3.757**

1.5 PRODUCTION HISTORY

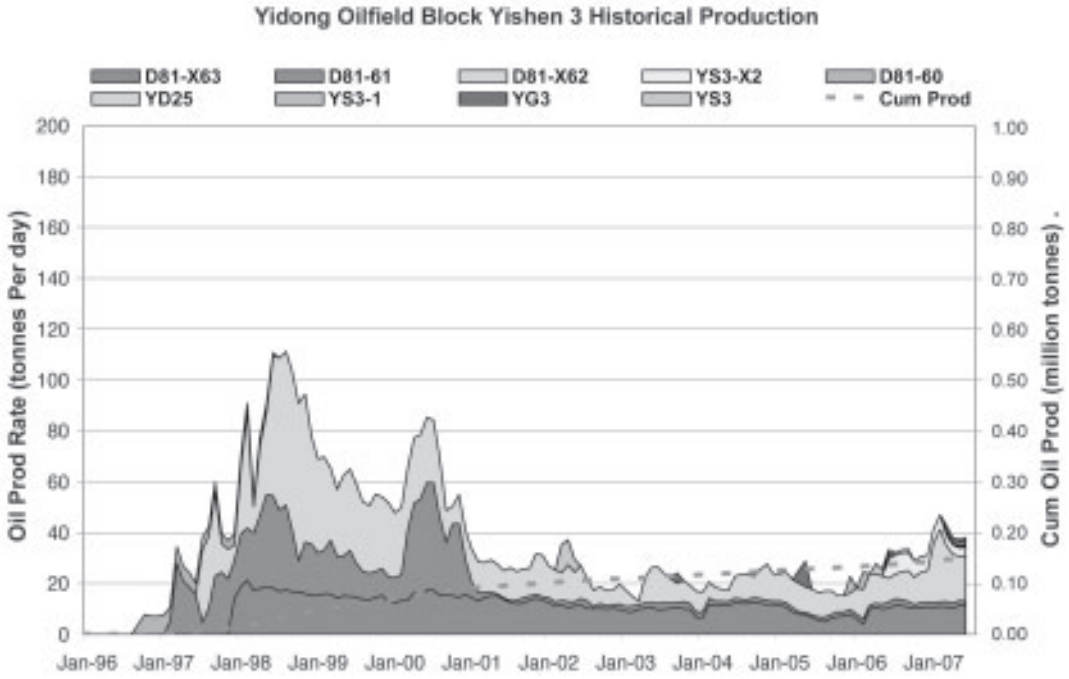
Block Yishen 3 has an areal extent of 1.6 km^2 and is a sub-block of the Yidong Oilfield. The Yidong Oilfield is part of the Shengli Oilfield, which was discovered in the 1970s, and is the second largest oilfield in China after Daqing.

There are three oil-bearing formations, namely ES2, ES3 and ES4 in Block Yishen 3. Oil has been produced from the ES2 and ES4 formations. There has been no production to date from the ES3 formation, although it is a major producing horizon in the greater Shengli field.

There are nine oil wells in Block Yishen 3. Except for the D81-60 well, eight of these wells (D81-X63, D81-61, D81-X62, YS3-X2, YD25, YS3-1, YG-3 and YS-3) have sucker rod pumps installed. There is also a water injection well (YU81-1) that provides pressure support to the ES2 formation.

Continuous production from Block Yishen 3 began in 1996. The production history of the Block is shown in **Figure 9**. Oil production peaked at a rate of 110 tonnes per day in 1998. Since 2001, the field production rate has fluctuated between 13 and 47 tonnes per day. As of 1st July, 2007 the field oil rate is about 38 tonnes per day. Cumulative production to 1st July, 2007 was 0.150 million tonnes.

9. Block Yishen 3 Historical Production



2. SITE VISIT REPORT

A site visit was conducted on 10th and 11th October, 2007. The Yidong Oilfield is a few km from the town of Hekou. While the production from Block Yishen 3 has been predominantly from the ES2 layer, the main Shengli oil field has 70% of production from ES3 followed by 20% from ES2 with the remaining 10% from ES4. The produced crude has traces of H_2S.

2.1 Producing Wells

Together the following four producing wells were contributing around 26.4 tonnes per day at end June, 2007. The contribution from ES2 alone is over 23 tonnes of oil per day.

D81-61: The well is currently on production from the ES2 layer, and has been in continuous production since 1997. The production has gradually decreased from 23 tonnes per day to around 1.5 tonnes per day, along with an increase in water cut from 50% to 98%. The net liquid seems to be almost constant around 50 tonnes per day. The well is not very far from the water injection well YU81-1 and is probably getting some support from it.

D81-X62: This well has been on production from the ES2 layer since July, 1997 with an initial production of 28 tonnes per day and 10% water cut, and currently produces 10.6 tonnes per day with 92% water cut. This well is also showing a similar high water cut trend as in D81-61 and is not very far from YU81-1.

D81-X63: This well has been on production from the ES2 layer since December, 1997 with an initial rate of 14 tonnes per day with no water production, and currently produces 11 tonnes per day with no water. The well is not very far from wells D81-61 and D81-X62 but it appears to have a different production decline trend. The Operator believes that it could be draining a different compartment on the other side of the fault.

YS3-X2: This well has been on production from the ES4 layer since June, 2006. The well has very limited data but it was initially producing 7.7 tonnes per day, and is currently producing 3.3 tonnes per day with no water.

2.2 Minor Producing Wells

Four wells, YD25, YS3-1, YG3 and YS3, are not considered technically to be on production, due to mechanical problems, even though they are currently contributing about 2 tonnes of oil per day, or about 7% of total production. These four wells have produced intermittently over the last few years. GCA was informed that the rod pumps are kept operational since the small amounts of crude production more than cover the operating costs under the current high price environment.

YD25: This well is completed with a 5 inch liner casing and the perforation is around 3,085 m in the ES3 formation. This well was not producing at the time of the site visit. The workover plan is to cut a window above the 5 inch liner top at 2,853 m, sidetrack out of the casing and re-drill the pay sections of ES3 and ES4, and then recomplete the well for ES3.

YS3-1: This well was completed with a 5 inch liner casing. The initial production was very low and the liner perforation was suspected to be choked. The liner was fished out of the hole and in the process the bigger casing (probably 9 5/8 inch) was damaged at 980 m. The oval casing at this depth does not allow a gauge bit to be run in-hole, but tubing has been lowered. The well has been completed with a sucker rod pump, and is producing a small quantity of oil from the ES4 layer. The workover plan is to run a casing cone and try to repair the damage and recomplete the well for ES4.

YG3: This well was on production with high water cut. A production logging (resistivity or temperature) tool was lowered to detect the source of the water for potential water shut off. The logging tool was stuck and the cable snapped and dropped. During the fishing attempt the cable was pushed down and compacted as a coil, making it very difficult to retrieve. The exact workover plan is not currently known. This well is probably not producing much oil because of the blockage caused by waxing around the cable.

YS3: This well was completed with 5 1/2 inch liner casing. There is casing damage just above the perforations at around 3,265 m. This is around the top of the ES4, so the upper reservoir is isolated. The damaged casing does not allow proper cleaning against the well perforations but has been completed with a tubing string and sucker rod pump. The well is producing some oil on a daily basis. The workover plan is either to grind the casing to a proper gauge or cut a window and sidetrack above the damage, re-drill the reservoir section and re-complete it for ES4.

GCA has noted that the amount of casing damage is very high and this probably due to lack of compatibility of the P110 casing with the H_2S in the formation fluid. On enquiry it was found that all the recent casing in the nearby field has been completed with N-80 grade casing, which is the correct grade for these conditions.

2.3 Non-Producing Wells

D81-60: The well was on production from ES2 until June, 1998. A string of tubing was dropped while conducting a workover on the well. The fish could not be recovered and it was not deep enough for lowering fresh tubing or sucker rod. At the time of the workover, the well was producing at around 3.5 tonnes per day without any water production.

2.4 Water Injection Well

YU81-61: The well has been injecting water into the ES2 layer since June, 1984. It started with a rate of 29m^3 per day but gradually the rate has been increased to 391m^3 per day. The cumulative injected water volume was some 1.2 million m^3 to 1st July, 2007 (an injection rate of around 147 m^3 per day). This seems to be quite a large volume considering the relatively small areal extent of the ES2 layer within the Block. Either the water has been moving beyond the Block or to a different layer. It is also surprising why a water injection well was drilled a long time prior to the production wells. GCA has no information as to the reason.

2.5 Production Process

The wells are connected to a drill site storage tank of 80 tonnes capacity. The tanks have an electric heater which keeps the oil at 80°C. This temperature is sufficient to enable transfer by truck to the nearest process station at Hekou. The associated gas has a reasonable proportion of H_2S and is flared in incinerators.

2.6 Fluid Properties

	ES2	ES3	ES4
Specific Gravity gm/cc at 20°C	0.923	0.8814	0.8781-.8861
Viscosity, cp	11.9	23.4	23
Wax Point, °C	–10	32	29
Hydrogen Sulphide %	2.91	0.43	0.5

3. PLAN OF DEVELOPMENT AND PRODUCTION POLICY

3.1 Plan of Development

Several wells in Block Yishen 3 have had a history of casing damage and other mechanical problems since completion. Wells D81-60, YD-25, YS3-1, YG3, and YS3 have produced minimal amounts of oil and have been shut-in for most of the time, and have been considered for workover operations in order to restore oil production. Most of these wells are targeted at the ES3 and ES4 formations.

In addition, three new wells (YS3-X3, YS3-X4, and YS3-X5) are proposed, targeting the ES2, ES3, and ES4 formations (**Figure 10**). An exploration well, YS3-6 is also planned in the eastern part of Block Yishen 3.

The proposed development plan of five workover operations and three new wells is expected to provide significant contribution to the production enhancements.

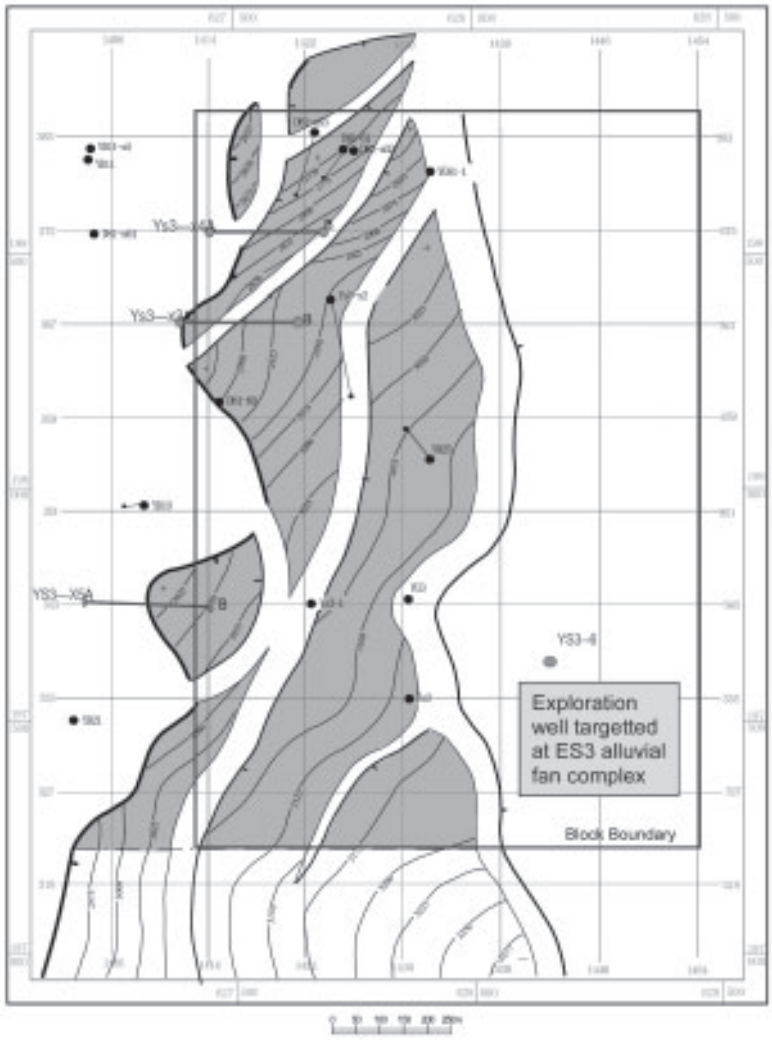
3.2 Production Policy

Dong Ying has advised GCA that as Production Policy will be to undertake the Plan of Development described above progressively in order to respond to the results of each well, so final production and recovery can be optimised. Dong Ying has confirmed to GCA that it will make available the funds necessary to conduct the Plan of Development.

In common with the existing wells, new production wells will be completed with sucker rod pumps. The wells will be connected to onsite storage tanks as described in Section 2.5.

As previously described in Section 1, the field is divided into different compartments by saulting. New wells will be sited in order that each fault block can be drained and the spacing of wells will depend on how field performs in the future, although it can be stated that generally well spacing is in the order of 200 to 250m. GCA has outlined a range of reserves and recovery factions to reflect the range of potential outcomes of the Plan of Development and these are more fully described in Sections 4 and 5 of this report.

10. Planned New Well Locations on ES3 Top Structure Map



4. TECHNICAL RESERVES

GCA applied decline curve analysis techniques as the basis to estimate Technical Reserves associated with Block Yishen 3, and forecast production profiles for existing and new wells. Three scenarios, namely the Proved, Proved plus Probable and Proved plus Probable plus Possible cases, were evaluated bracketing a possible range of uncertainties. As pointed out in the Introduction these volumes must be considered as those volumes which are technically recoverable and they have not been tested for economic limit due to the information provided to GCA.

For existing producers with production history showing decline, GCA first performed regression analysis to fit an exponential decline curve with underlying production data. In general, where a reasonable trend could be achieved, that trend was extrapolated to forecast production profiles and remaining volumes from the production rate measured in July, 2007 through to the end of the contract period in 2026.

For wells having limited production history or with no clear decline trend, GCA assumed an initial oil production rate and production decline rate to forecast the production profiles based on performance analogy with wells in reservoirs of similar characteristics.

The consolidated production forecasts for existing and new wells for the Proved, Proved plus Probable and Proved plus Probable plus Possible Technical Reserves cases to the end of the Co-operation Development Agreement are shown in **Figure 11**. Summaries of Technical Reserves to the end of the Co-operation Development Agreement are shown in **Tables 6** to **9**.

4.1 Proved

Production forecasts associated with the Proved case were generated based on decline curve analysis of the following wells:

- Four existing producers; namely D81-61, D81-X62, D81-X63, and YS3-X2
- Five workover wells; namely D81-60, YD-25, YS3-1, YG3, and YS3, and
- Additional three new producing wells; namely YS3-X3, YS3-X4, and YS3-X5.

An initial oil production rate of 5 tonnes per day was assumed for the workover wells and 8 tonnes per day for the new producing wells. Decline rates of 20% per year for the workover wells and 15% per year for the new producing wells were assumed to forecast the production profiles.

4.2 Proved plus Probable

Production forecasts associated with the Proved plus Probable case were generated based on decline curve analysis of the same wells as in the Proved case. Better performance of workover wells and new producing wells was assumed by allowing a higher initial oil production rate of 7 tonnes per day for the workover wells and 12 tonnes per day for the new producing wells. A more gradual decline rate of 15% per year for the workover wells and 10% per year for the new producing wells were also assumed.

11. Block Yishen 3 Production Performance

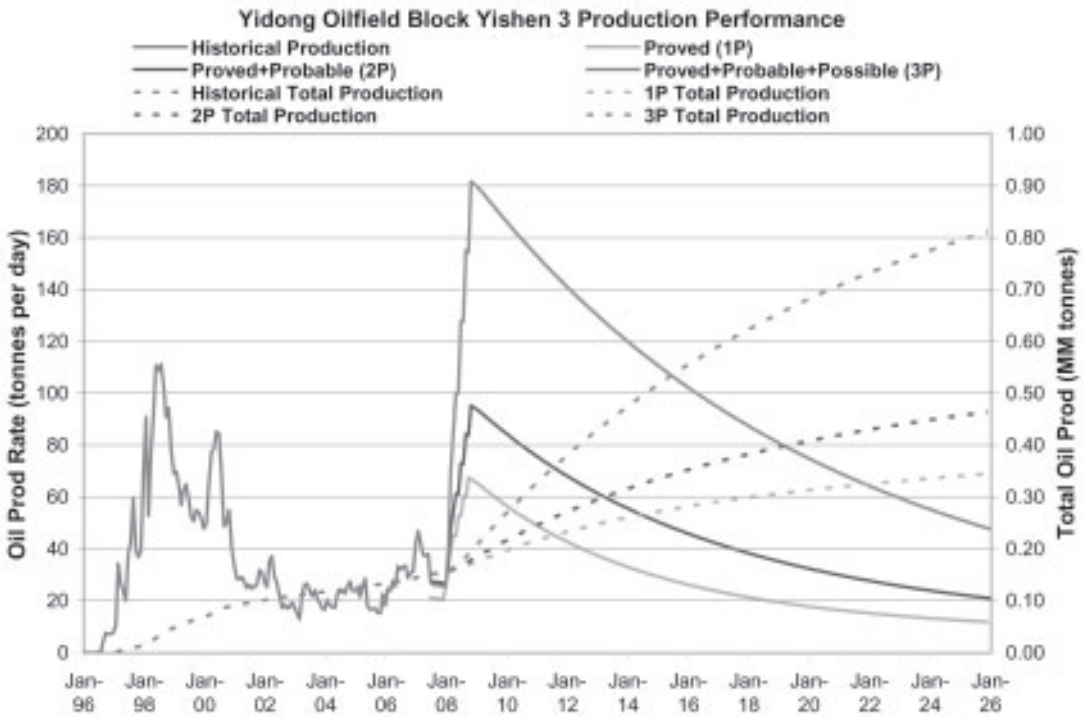


TABLE 6
Total Technical Reserves (MM tonnes) (100% Field)

TOTAL	Proved	Proved plus Probable	Proved plus Probable plus Possible
STOIIP	1.718	2.589	3.757
Cum Oil Produced	0.150	0.150	0.150
Recoverable Volume	0.194	0.314	0.661
EUR 2025	0.345	0.464	0.811
Average RF (%)	20.1	17.9	21.6

TABLE 7
Technical Reserves by Reservoir (MM tonnes) (100% Field)

ES2	Proved	Proved plus Probable	Proved plus Probable plus Possible
STOIIP	0.837	1.084	1.384
Cum Oil Produced	0.145	0.145	0.145
Recoverable Volume	0.092	0.130	0.159
EUR 2025	0.237	0.274	0.304
RF (%)	28.3	25.3	22.0

TABLE 8
Technical Reserves by Reservoir (MM tonnes) (100% Field)

ES3	Proved	Proved plus Probable	Proved plus Probable plus Possible
STOIIP	0.675	1.197	1.934
Cum Oil Produced	0.000	0.000	0.000
Recoverable Volume	0.087	0.158	0.430
EUR 2025	0.087	0.158	0.430
RF (%)	12.8	13.2	22.2

TABLE 9
Technical Reserves by Reservoir (MM tonnes) (100% Field)

ES4	Proved	Proved plus Probable	Proved plus Probable plus Possible
STOIIP	0.205	0.308	0.439
Cum Oil Produced	0.006	0.006	0.006
Recoverable Volume	0.015	0.027	0.072
EUR 2025	0.020	0.032	0.078
RF (%)	9.8	10.4	17.8

4.3 Proved plus Probable plus Possible

Production forecasts associated with the Proved plus Probable plus Possible case were generated based on decline curve analysis of the same wells as in the Proved case. Better performance of workover wells and new producing wells was assumed by allowing a higher initial oil production rate of 15 tonnes per day for the workover wells and 20 tonnes per day for the new producing wells. A more gradual decline rate of 10% per year for the workover wells and 7% per year for the new producing wells were also assumed.

No additional wells other than the three planned producing wells have been included in any of the cases. The current development plan is reasonable based on the typical well spacing in nearby fields. In the event of poorer well performance than that assumed here, more wells could be drilled to increase production either as infill wells and/or to drain other fault blocks.

5. PRODUCTION PROFILES

Forecast production profiles, in tonnes per year, to the end of the expiry of the Co-operation Development Agreement are shown below:

Year	Proved	Proved plus Probable	Proved plus Probable plus Possible
2007 (6 mths)	3,851	4,995	4,763
2008	18,884	26,123	45,908
2009	22,462	32,453	63,058
2010	19,409	29,098	58,087
2011	16,859	26,152	53,524
2012	14,774	23,635	49,485
2013	12,951	21,298	45,517
2014	11,458	19,301	42,008
2015	10,202	17,540	38,789
2016	9,169	16,031	35,938
2017	8,246	14,612	33,127
2018	7,484	13,395	30,639
2019	6,835	12,314	28,353
2020	6,298	11,387	26,326
2021	5,804	10,500	24,321
2022	5,393	9,738	22,545
2023	5,037	9,057	20,910
2024	4,740	8,471	19,461
2025	4,456	7,901	18,021
Total	194,312	313,999	660,779

6. PROSPECTIVE RESOURCES

Although Block Yishen 3 is quite small, there are still undrilled areas with drilling potential. In particular, there is an attractive area in the southeastern area of the Block (**Figure 12**). A large alluvial fan complex has been mapped in the ES3 to the eastern downthrown side of the main fault which represents the eastern limits of the main ES3 and ES4 reservoirs. The complex has a distinct fan shape mapped from seismic, with dimensions of 2 km by 1 km, with a maximum thickness of more than 300 m. Well 301, which has been drilled around 3km to the south of the Block Yishen 3 boundary has encountered a highly productive ES3/ES4 section which has tested at rate of 147 tonnes per day. An exploration well, Yishen-10 is already drilling, further to the south but again outside the Block Yishen 3 boundary in the same main complex. Should this well be a success, it would greatly increase the prospectivity of this ES3 fan within Block Yishen 3.

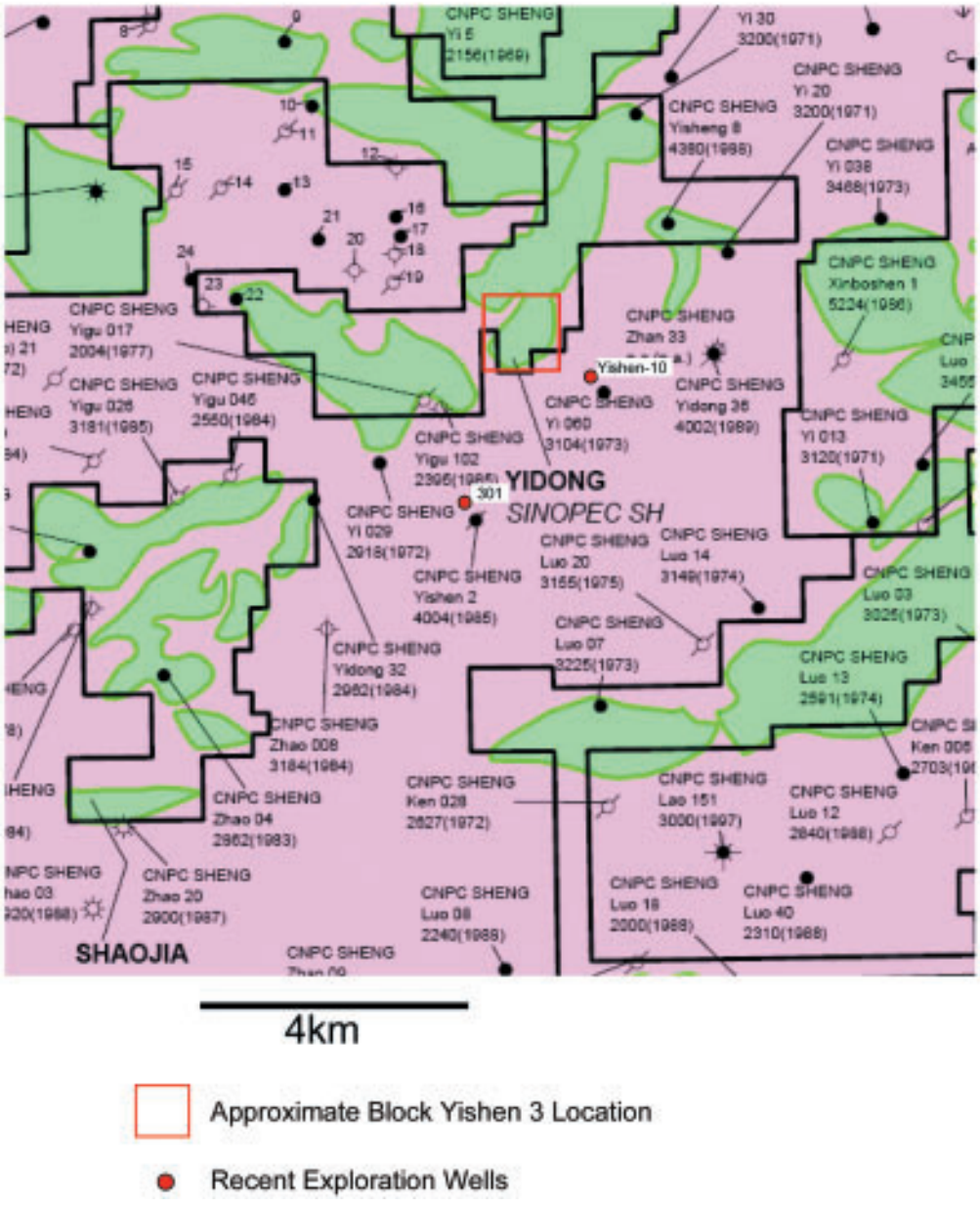
An exploration well, YS3-6, targeting the deeper formations ES3 and ES4 is also proposed. Due to the level of uncertainty associated with this well and the targeted formation, it has been assumed that this well will contribute to the Contingent Resources category. The geological chance of success (GCoS) of this well is estimated at 50%. Although the target area is located across the fault from the main Yishen 3 producing field, the fault has a large throw, the area is down-thrown and from seismic data appears to be a discrete sedimentary package. The well could be considered as a step-out well from a producing field such that a GCoS of 50% is appropriate.

Estimated volumes have been based on maps provided together with reservoir and fluid properties from the main field area. Resource volumes for this area are shown in the following table:

TABLE 10
Unrisked Prospective Resources Summary

Case	Volume *(MMm^3)*	Net to Gross *(v/v)*	Porosity *(v/v)*	S_w *(v/v)*	FVF Res/ Surf	SG Rel water	STOIIP *(MMm^3)*	STOIIP *(MM tonnes)*	RF	EUR *(MM tonnes)*	GCoS *(%)*
Low	30	0.08	0.14	0.35	1.20	0.86	0.18	0.153	0.15	0.022	50
Best	100	0.10	0.16	0.30	1.30	0.88	0.86	0.755	0.20	0.151	50
High	188	0.12	0.18	0.25	1.40	0.90	2.18	1.966	0.25	0.491	50

12. Exploration Wells Location Map



7. FISCAL TERMS

GCA has not been requested to provide any economic analysis as part of its report, and none is required under the terms of the Hong Kong Stock Exchange Listing Rules.

7.1 Contract Terms

The Co-operation Development Agreement between Da Ming Petro and Dong Ying was made effective 15th May, 2006. The contract provides the mechanism whereby Dong Ying recovers its costs in respect of the development and operation of the field and a share of the revenues generated from the sale of crude oil from the field. GCA has, however, not been informed as to the nature, extent or timing of the development costs, nor the timing or amounts of revenue due to Dong Ying under this contract. The contract is clear in that Dong Ying has no entitlement to either the assets or the Reserves volumes associated with the Block – it only has a revenue interest, and so no Reserves or Resources can be booked or reported by Dong Ying.

GCA was not provided with the License that governs the Extraction Rights of Da Ming Petro from the Block. Culturecom has, however, assured GCA that said extraction rights rest with Da Ming Petro for the timeframe envisaged by the Agreement.

The fiscal terms relating to the sharing the revenues generated from crude oil sales are summarized below:

- Total contract term
  - Maximum of 20 years from Effective Date
- Relationship between the Parties
  - Party A (Da Ming Petro) provides the Block, Extraction License and all technicians and know-how
  - Party B (Dong Ying) provides the funds for field development and operations
- Cost Recovery and Profit Share
  - Party B (Dong Ying) is entitled to 70% of the sales revenue until development costs have been recovered, which reverts to 50% once investments have been recovered
- Local Taxes
  - Each Party is responsible for payment of its own tax liability
- Crude Oil Pricing
  - Based on posted price of Shengli crude
- Commercial Natural Gas Project
  - Only covered in general terms. Implication is that terms of Cost Recovery and profit/revenue share are per the terms for crude oil production

- Ownership of Assets
  - Reverts to Party A (Da Ming Petro) upon expiry of the Agreement
- Environmental Protection
  - Party B (Dong Ying) is responsible for all PRC environmental Laws
- There is no Abandonment provision under the agreement

8. UNCERTAINTIES

The areas of uncertainty for the Block are as follows:

1) The remaining term of the Extraction License is not known, but assurance has been provided by Dong Ying that this is longer than the duration of the Co-operation Development Agreement.

2) The ability to implement the development plan depends on various factors. Previous drilling has experienced several problems especially in the deeper ES3 and ES4 reservoirs. This report has assumed that suitable drilling and workover equipment will be used within a timely manner in order to implement the plan.

3) Reservoir properties, especially the net pay thickness is uncertain due to cut-off selection, low resistivity pay, and faulted-out sections.

4) The fault pattern may be different, and more complex than currently mapped. Although 3D data has helped, there is still some uncertainty that will affect maps, and also the amount of faulted out sections in the wells, which affects oil in place estimates.

5) Initial production rates especially in the deeper ES3 and ES4 reservoirs are a key uncertainty that has been incorporated into the analysis.

6) Recovery factors are dependent not only on well performance but also on the number of wells drilled. The development plan assumed within this report appears reasonable and the well spacing is in accordance with standard practice in the area. Following analysis of workover and new drilling results, it may be possible to increase recovery by drilling more wells.

7) The hydrocarbon volumes reported herein are not strictly-speaking Reserves but can be considered as those volumes, which are technically recoverable to the end of the expiry of the Co-operation Development Agreement. It is possible that the volumes could reduce if subjected to the economic limit test.

9. QUALIFICATIONS

GCA is an independent international energy advisory group of 45 years' standing, whose expertise includes petroleum reservoir evaluation and economic analysis. GCA has provided Technical Reports and Competent Persons Reports in support of Listing Circulars on many Stock Exchanges throughout the world; including London, New York, Toronto, Sydney and Hong Kong.

The report is based on information compiled by professional staff members who are full time employees of GCA.

Staff who participated in the compilation of this report includes Mr. Doug Peacock, Mr. Suresh Kumar, Mr. Hai Hong Chew and Mr. Brian Rhodes. All hold at least a bachelor's degree in geoscience, petroleum engineering or related discipline. Mr. Rhodes holds a BSc. (Hons) Geology, is a member of the Energy Institute, the Petroleum Exploration Society of Great Britain, the Society of Petroleum Engineers and the European Association of Geoscientists and Engineers, and has more than 33 years industry experience. Mr. Peacock holds a B.Sc. in Geology and a M.Sc. in Petroleum Geology, has over 23 years of industry experience, and is a member of the Petroleum Exploration Society of Great Britain, the Society of Exploration Geophysicists, and the South East Asian Petroleum Exploration Society. Mr. Kumar holds a B. Tech in Mechanical Engineering, has over 22 years industry experience and is a member of the Society of Petroleum Engineers. Mr. Chew holds a B.E. (Hons) in Engineering, has over 30 years experience, is a Registered Professional Engineer and a member of the Society of Petroleum Engineers.

10. BASIS OF OPINION

This assessment has been conducted within the context of GCA's understanding of the effects of petroleum legislation, taxation, and other regulations that currently apply to the property. However, GCA is not in a position to attest to property title, financial interest relationships or encumbrances thereon for any part of the appraised properties.

It should be understood that any determination of Reserves volumes, particularly involving petroleum developments, may be subject to significant variations over short periods of time as new information becomes available and perceptions change.

Yours sincerely,
GAFFNEY, CLINE & ASSOCIATES (CONSULTANTS) PTE LTD
Brian Rhodes
Principal Advisor

GLOSSARY

List of Standard Oil Industry Terms and Abbreviations.

ABEX	Abandonment Expenditure
ACQ	Annual Contract Quantity
°API	Degrees API (American Petroleum Institute)
AAPG	American Association of Petroleum Geologists
AVO	Amplitude versus Offset
A$	Australian Dollars
B	Billion (10^9)
Bbl	Barrels
/Bbl	per barrel
BBbl	Billion Barrels
BHA	Bottom Hole Assembly
BHC	Bottom Hole Compensated
Bscf or Bcf	Billion standard cubic feet
Bscfd or Bcfd	Billion standard cubic feet per day
Bm^3	Billion cubic metres
bcpd	Barrels of condensate per day
BHP	Bottom Hole Pressure
blpd	Barrels of liquid per day
bpd	Barrels per day
boe	Barrels of oil equivalent @ 6 mcf/bbl
boepd	Barrels of oil equivalent per day @ 6 mcf/bbl
BOP	Blow Out Preventer
bopd	Barrels oil per day
bwpd	Barrels of water per day
BS&W	Basic sediment and water
BTU	British Thermal Units
bwpd	Barrels water per day
CBM	Coal Bed Methane
CO_2	Carbon Dioxide
CAPEX	Capital Expenditure
CCGT	Combined Cycle Gas Turbine
cm	centimetres
CMM	Coal Mine Methane
CNG	Compressed Natural Gas
Cp	Centipoise (a measure of viscosity)
CSG	Coal Seam Gas
CT	Corporation Tax
DCQ	Daily Contract Quantity
Deg C	Degrees Celsius
Deg F	Degrees Fahrenheit
DHI	Direct Hydrocarbon Indicator
DST	Drill Stem Test
DWT	Dead-weight ton

E&A	Exploration & Appraisal
E&P	Exploration and Production
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EI	Entitlement Interest
EIA	Environmental Impact Assessment
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
EUR	Estimated Ultimate Recovery
FDP	Field Development Plan
FEED	Front End Engineering and Design
FPSO	Floating Production, Storage and Offloading
FSO	Floating Storage and Offloading
ft	Foot/feet
Fx	Foreign Exchange Rate
g	gram
g/cc	grams per cubic centimetre
gal	gallon
gal/d	gallons per day
G&A	General and Administrative costs
GBP	Pounds Sterling
GDT	Gas Down to
GIIP	Gas initially in place
Gj	Gigajoules (one billion Joules)
GOR	Gas Oil Ratio
GTL	Gas to Liquids
GWC	Gas water contact
HDT	Hydrocarbons Down to
HSE	Health, Safety and Environment
HSFO	High Sulphur Fuel Oil
HUT	Hydrocarbons up to
H_2S	Hydrogen Sulphide
IOR	Improved Oil Recovery
IPP	Independent Power Producer
IRR	Internal Rate of Return
J	Joule (Metric measurement of energy. 1 kilojoule = 0.9478 BTU)
k	Permeability
KB	Kelly Bushing
KJ	Kilojoules (one Thousand Joules)
kl	Kilolitres
km	Kilometres
km^2	Square kilometres
kPa	Thousands of Pascals (measurement of pressure)
KW	Kilowatt
KWh	Kilowatt hour
LKG	Lowest Known Gas

LKH	Lowest Known Hydrocarbons
LKO	Lowest Known Oil
LNG	Liquefied Natural Gas
LoF	Life of Field
LPG	Liquefied Petroleum Gas
LTI	Lost Time Injury
LWD	Logging while drilling
m	Metres
M	Thousand
m^3	Cubic metres
Mcf or Mscf	Thousand standard cubic feet
MCM	Management Committee Meeting
MMcf or MMscf	Million standard cubic feet
m^3d	Cubic metres per day
mD	Measure of Permeability in millidarcies
MD	Measured Depth
MDT	Modular Dynamic Tester
Mean	Arithmetic average of a set of numbers
Median	Middle value in a set of values
MFT	Multi Formation Tester
mg/l	milligrames per litre
MJ	Megajoules (One Million Joules)
Mm^3	Thousand Cubic metres
Mm^3d	Thousand Cubic metres per day
MM	Million
MMBbl	Millions of barrels
MMBTU	Millions of British Thermal Units
Mode	Value that exists most frequently in a set of values = most likely
Mscfd	Thousand standard cubic feet per day
MMscfd	Million standard cubic feet per day
MW	Megawatt
MWD	Measuring While Drilling
MWh	Megawatt hour
mya	Million years ago
NGL	Natural Gas Liquids
N_2	Nitrogen
NPV	Net Present Value
OBM	Oil Based Mud
OCM	Operating Committee Meeting
ODT	Oil down to
OPEX	Operating Expenditure
OWC	Oil Water Contact
p.a.	Per annum
Pa	Pascals (metric measurement of pressure)
P&A	Plugged and Abandoned
PDP	Proved Developed Non-producing

PI	Productivity Index
PJ	Petajoules (10^{15} Joules)
PSDM	Post Stack Depth Migration
psi	Pounds per square inch
psia	Pounds per square inch absolute
psig	Pounds per square inch gauge
PUD	Proved Undeveloped
PVT	Pressure volume temperature
P10	10% Probability
P50	50% Probability
P90	90% Probability
Rf	Recovery factor
RFT	Repeat Formation Tester
RT	Rotary Table
R_w	Resistivity of water
SCAL	Special core analysis
cf or scf	Standard Cubic Feet
cfd or scfd	Standard Cubic Feet per day
scf/ton	Standard cubic foot per ton
SL	Straight line (for depreciation)
S_o	Oil Saturation
SPE	Society of Petroleum Engineers
SPEE	Society of Petroleum Evaluation Engineers
ss	Subsea
stb	Stock tank barrel
STOIIP	Stock tank oil initially in place
S_w	Water Saturation
T	Tonnes
TD	Total Depth
Te	Tonnes equivalent
THP	Tubing Head Pressure
TJ	Terajoules (10^{12} Joules)
Tscf or Tcf	Trillion standard cubic feet
TCM	Technical Committee Meeting
TOC	Total Organic Carbon
TOP	Take or Pay
Tpd	Tonnes per day
TVD	True Vertical Depth
TVDss	True Vertical Depth Subsea
USGS	United States Geological Survey
U.S.$	United States Dollar
VSP	Vertical Seismic Profiling
WC	Water Cut
WI	Working Interest
WPC	World Petroleum Council
WTI	West Texas Intermediate

wt%	Weight percent
1H05	First half (6 months) of 2005 (example of date)
2Q06	Second quarter (3 months) of 2006 (example of date)
2D	Two dimensional
3D	Three dimensional
4D	Four dimensional
1P	Proved Reserves
2P	Proved plus Probable Reserves
3P	Proved plus Probable plus Possible Reserves
%	Percentage

Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers

Petroleum Resources Management System

Definitions and Guidelines [(1)]

March 2007

Preamble

Petroleum resources are the estimated quantities of hydrocarbons naturally occurring on or within the Earth's crust. Resource assessments estimate total quantities in known and yet-to-be-discovered accumulations; resources evaluations are focused on those quantities that can potentially be recovered and marketed by commercial projects. A petroleum resources management system provides a consistent approach to estimating petroleum quantities, evaluating development projects, and presenting results within a comprehensive classification framework.

International efforts to standardize the definition of petroleum resources and how they are estimated began in the 1930s. Early guidance focused on Proved Reserves. Building on work initiated by the Society of Petroleum Evaluation Engineers (SPEE), SPE published definitions for all Reserves categories in 1987. In the same year, the World Petroleum Council (WPC, then known as the World Petroleum Congress), working independently, published Reserves definitions that were strikingly similar. In 1997, the two organizations jointly released a single set of definitions for Reserves that could be used worldwide. In 2000, the American Association of Petroleum Geologists (AAPG), SPE and WPC jointly developed a classification system for all petroleum resources. This was followed by additional supporting documents: supplemental application evaluation guidelines (2001) and a glossary of terms utilized in Resources definitions (2005). SPE also published standards for estimating and auditing reserves information (revised 2007).

These definitions and the related classification system are now in common use internationally within the petroleum industry. They provide a measure of comparability and reduce the subjective nature of resources estimation. However, the technologies employed in petroleum exploration, development, production and processing continue to evolve and improve. The SPE Oil and Gas Reserves Committee works closely with other organizations to maintain the definitions and issues periodic revisions to keep current with evolving technologies and changing commercial opportunities.

The SPE PRMS document consolidates, builds on, and replaces guidance previously contained in the 1997 Petroleum Reserves Definitions, the 2000 Petroleum Resources Classification and Definitions publications, and the 2001 "Guidelines for the Evaluation of Petroleum Reserves and Resources"; the latter document remains a valuable source of more detailed background information.

---

[1] These Definitions and Guidelines are extracted from the Society of Petroleum Engineers/World Petroleum Council/American Association of Petroleum Geologists/Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/SPEE) Petroleum Resources Management System document ("SPE PRMS"), approved in March 2007.

These definitions and guidelines are designed to provide a common reference for the international petroleum industry, including national reporting and regulatory disclosure agencies, and to support petroleum project and portfolio management requirements. They are intended to improve clarity in global communications regarding petroleum resources. It is expected that SPE PRMS will be supplemented with industry education programs and application guides addressing their implementation in a wide spectrum of technical and/or commercial settings.

It is understood that these definitions and guidelines allow flexibility for users and agencies to tailor application for their particular needs; however, any modifications to the guidance contained herein should be clearly identified. The definitions and guidelines contained in this document must not be construed as modifying the interpretation or application of any existing regulatory reporting requirements.

The full text of the SPE PRMS Definitions and Guidelines can be viewed at:

www.spe.org/specma/binary/files/6859916Petroleum_Resources_Management_System_2007.pdf

RESERVES

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status. To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented. To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production

The development project is currently producing and selling petroleum to market.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Justified for Development

Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/ contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/ contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class). The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The area of the reservoir considered as Proved includes:

(1) the area delineated by drilling and defined by fluid contacts, if any, and

(2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see "2001 Supplemental Guidelines," Chapter 8). Reserves in undeveloped locations may be classified as Proved provided that the locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive. Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations. For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate. Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria. Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate. Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project. Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects. In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area. Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e., absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources. In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves

Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves

Developed Non-Producing Reserves include shut-in and behind-pipe Reserves

Shut-in Reserves are expected to be recovered from:

(1) completion intervals which are open at the time of the estimate but which have not yet started producing,

(2) wells which were shut-in for market conditions or pipeline connections, or

(3) wells not capable of production for mechanical reasons.

Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future re-completion prior to start of production. In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments:

(1) from new wells on undrilled acreage in known accumulations,

(2) from deepening existing wells to a different (but known) reservoir,

(3) from infill wells that will increase recovery, or

(4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to

  (a) recomplete an existing well, or

  (b) install production or transportation facilities for primary or improved recovery projects.

CONTINGENT RESOURCES

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending

A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status. The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold

A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a reclassification of the project to "Not Viable" status. The project "decision gate" is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable

A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions. The project "decision gate" is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

PROSPECTIVE RESOURCES

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect

A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target.

Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead

A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect.

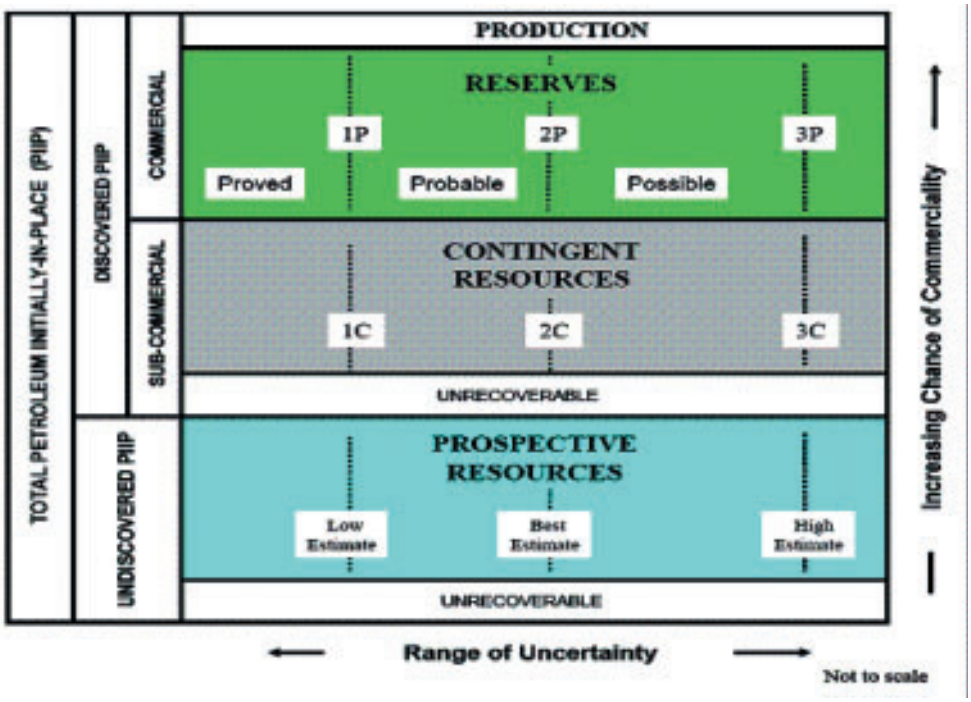
Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play

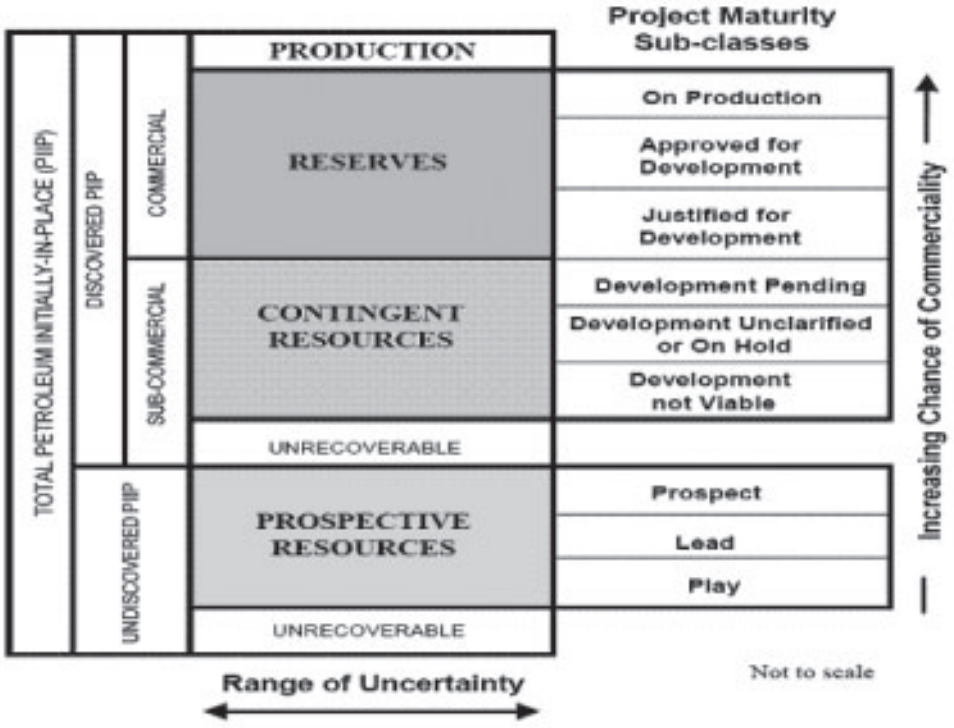
A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects.

Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

RESOURCES CLASSIFICATION



PROJECT MATURITY



1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(A) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Directors had or were deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

Interests in the Shares

Name of Director	Capacity	Nature of interests	Number of Shares held
Mr. Cheung Wai Tung	Beneficial owner	Personal interest	1,886,000
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	160,180,000
	(ii) Interest of a controlled corporation	Corporate interest	122,872,000 *(Note)*
Mr. Henry Chang Manayan	Beneficial owner	Personal interest	2,000,000
Mr. Wan Xiaolin	Beneficial owner	Personal interest	500,000

Note: 122,872,000 Shares are held by Bay-Club Enterprises Inc., the entire issued share capital of which is beneficially owned by Mr. Chu Bong Foo.

All interests stated above represent long positions.

Interests in the share options of the Company

Name of Director	Capacity	Nature of interests	Number of share options	Exercise price per Share	Exercisable period
				HK$	
Mr. Cheung Wai Tung	(i) Beneficial owner	Personal interest	4,565,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	4,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Chu Bong Foo	(i) Beneficial owner	Personal interest	10,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	2,000,000	1.680	3 March 2000 to 2 March 2010
Mr. Henry Chang Manayan	(i) Beneficial owner	Personal interest	1,000,000	0.264	27 August 1999 to 26 August 2009
	(ii) Beneficial owner	Personal interest	500,000	1.680	3 March 2000 to 2 March 2010
	(iii) Beneficial owner	Personal interest	1,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Wan Xiaolin	(i) Beneficial owner	Personal interest	1,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	3,000,000	0.265	19 December 2003 to 18 December 2013
Mr. Tai Cheong Sao	(i) Beneficial owner	Personal interest	3,000,000	1.680	3 March 2000 to 2 March 2010
	(ii) Beneficial owner	Personal interest	2,000,000	0.265	19 December 2003 to 18 December 2013
	(iii) Beneficial owner	Personal interest	1,500,000	0.295	24 March 2005 to 23 March 2015

All interests stated above represent long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to

therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(B) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Interests in the Shares

Name of Shareholder	***Note***	**Nature of interest**	***No. of Shares held***	**Position**	**Approximate percentage of issued share capital**
Wealthy Concept Holdings Limited	1	Beneficial	1,000,000,000	Long	16.45%
Mr. Liao Chang Yuan	1	Interest in controlled company	1,000,000,000	Long	16.45%
Harvest Smart Overseas Limited		Beneficial	843,052,000	Long	13.87%

Note:

1. The entire issued share capital of Wealthy Concept Holdings Limited, being the Vendor, is beneficially owned as to 30%, 30% and 40% by Mr. Tai Pang, Mr. Chen Chunpei and Mr. Liao Chang Yuan respectively. The 1,000,000,000 Shares represent the total number of Consideration Shares to which the Vendor is entitled under the S&P Agreement. Given Mr. Liao Chang Yuan is interested in 40% of the issued share capital of the Vendor, he is deemed to be interested in 1,000,000,000 Shares to be issued to the Vendor under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company), including companies of which the Director/proposed directors is an employee, who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

4. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors are aware of, no Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries is a party and in which any Director has a material interest, whether directly or indirectly, subsist at the date of this circular.

None of the Directors and experts referred in the paragraph headed "Experts" in this appendix has any direct or indirect interest in any assets which has been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period of two years immediately preceding the issue of this circular.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

6. SHARE CAPITAL

Authorised:		*HK$*
10,000,000,000	Shares	1,000,000,000.00
Issued and to be issued, fully paid or credited as fully paid:		
6,077,259,642	Shares in issue as at the Latest Practicable Date	607,725,964.20
1,000,000,000	Consideration Shares to be allotted and issued pursuant to the S&P Agreement	100,000,000.00
7,077,259,642		707,725,964.20

7. EXPERTS

The following is the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Shengli Geological Research Institute	Independent Technical Advisers
Shengli Oilfield Administrative Bureau	Independent Technical Advisers
Gaffney, Cline & Associates (Consultants) Pte Ltd	Independent Technical Advisers

As at the Latest Practicable Date, each of Shengli Geological Research Institute, Shengli Oilfield Administrative Bureau and Gaffney, Cline & Associates (Consultants) Pte Ltd did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2007, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of Shengli Geological Research Institute, Shengli Oilfield Administrative Bureau and Gaffney, Cline & Associates (Consultants) Pte Ltd was not interested beneficially or non-beneficially in any Shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of Shengli Geological Research Institute, Shengli Oilfield Administrative Bureau and Gaffney, Cline & Associates (Consultants) Pte Ltd has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

8. MISCELLANEOUS

(a) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(b) The head office and principal place of business of the Company in Hong Kong is located at Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

(c) The company secretary and the qualified accountant of the Company is Cheung Wai Keung, Cecil, who is a fellow member of the Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountant.

(d) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(e) For the purpose of this circular, unless otherwise specified, conversions of RMB into HK$ are based on the approximate exchange rate of RMB0.98 to HK$1.00.

(f) For the purpose of this circular, unless otherwise specified, conversions of US$ into HK$ are based on the approximate exchange rate of US$1.00 to HK$7.80.

(g) The English text of this circular prevails over its Chinese translation in case of discrepancy.

CULTURECOM HOLDINGS LIMITED

文化傳信集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 343)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Culturecom Holdings Limited (the "**Company**") will be held at The Penthouse, Culturecom Centre, 47 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Thursday, 27 December 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** subject to the fulfillment or waiver of the terms and conditions set out in the conditional sale and purchase agreement dated 16 July 2007 (the "**S&P Agreement**") entered into among Success Dynasty Limited, an indirect wholly-owned subsidiary of the Company, as purchaser, Wealthy Concept Holdings Limited as vendor and Mr. Liao Chang Yuan, as guarantor (a copy of the S&P Agreement having been produced to the SGM and marked "A" and initialed by the chairman of the SGM for the purpose of identification) in respect of the sale and purchase of six ordinary shares of par value of US$1.00 each in the issued share capital of Raise Beauty Investments Limited, representing its entire issued share capital at a total consideration of HK$213,000,000 payable by 1,000,000,000 ordinary shares of par value of HK$0.10 each in the capital of the Company (the "**Consideration Shares**") at an issue price of HK$0.213 each (the "**Issue Price**") (the "**Acquisition**"):

(i) the Acquisition, including the S&P Agreement entered into in relation thereto, and all matters contemplated thereby be and are hereby approved, confirmed and ratified in all respects;

(ii) the issue of the Consideration Shares at the Issue Price pursuant to the S&P Agreement be and is hereby approved and the directors of the Company (the "**Directors**") be and are hereby specifically authorised to allot and issue the Consideration Shares pursuant to the S&P Agreement; and

(iii) the Directors be and are hereby authorised to do all such acts and things and execute all such documents, including under seal where applicable, as they consider necessary or expedient in connection with and to give effect to the Acquisition and the S&P Agreement."

Hong Kong, 11 December 2007

By Order of the Board
Culturecom Holdings Limited
Cheung Wai Tung
Chairman

* *for identification purpose only*

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business in Hong Kong:
Culturecom Centre
47 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Notes:

1 Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent and vote on his behalf at a general meeting of the Company. A proxy need not be a member of the Company. On a poll, votes may be given either personally or by proxy.

2 In order to be valid, the form of proxy enclosed with the circular of the Company dated 11 December 2007 must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.

3. In the case of joint holders of shares, any one of such joint holders may vote at the SGM, either personally or by proxy, in respect of such share as if he/she/it was solely entitled thereto, but if more than one of such joint holders are present at the SGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.