

7 Contract for the Supervision of Certain Sales Enterprises

CNPC and the Company continue to implement the Contract for the Supervision of Certain Sales Enterprises dated March 10, 2000, under which the Company has agreed to supervise the operation of certain sales enterprises primarily comprising service stations wholly-owned by CNPC. In return, CNPC has undertaken that those sales enterprises will only sell oil products supplied by the Company and use the Company's brand and logos.

In the opinion of the Company's independent non-executive Directors:

(i) the transactions have been entered into by the Group in the ordinary and usual course of its business;

(ii) the transactions have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(iii) the transactions have been entered into on normal commercial terms and either (1) in accordance with the terms of the agreement governing such transactions or (2) (where there is no such agreement) on terms no less favourable than terms available to third parties; and

(iv) where applicable, the transactions have been entered into within the relevant annual limit stated below:

Category of products and services	Annual limit
i. Products and services to be provided by the Group to the CNPC group	12% of the sales revenue of the Group
ii. Products and services to be provided by the CNPC group to the Group	
Construction and technical services	27% of the total of operating expenses and capital expenditure of the Group
Production services	10% of the total of operating expenses and capital expenditure of the Group
Supply of materials services	8% of the total of operating expenses and capital expenditures of the Group
Social and ancillary services	RMB5,607 million
Financial services	
Aggregate of	
i. the average daily outstanding principal of loans; and	
ii. the total amount of interest paid in respect of these loans	RMB52,500 million

- Aggregate of
- i. the average daily amount of deposits; and
 - ii. the total amount of interest receipts in
respect of these deposits RMB4,500 million

The Directors have received from the auditors a letter confirming that the above transactions:

- (a) have received the approval of the Directors; and
- (b) have been conducted in the manner stated in paragraph (iii) and (iv) above.

Properties

According to the Restructuring Agreement entered into between the Company and CNPC, CNPC has undertaken to the Company the following:

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

To date, the tasks of obtaining formal land use right certificates and obtaining individual building ownership certificates have been partially completed. The necessary governmental procedures for the above-mentioned service stations located on collectively-owned land have not been completed to date. The Directors of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed.

Staff Quarters

On September 6, 2000, the Ministry of Finance issued a directive regarding issues on the financial treatment concerning the reform of corporate staff quarters system (Cai Qi 2000 No. 295) (the “Directive”), which was implemented on the date of issuance. The Company has examined the Directive and concluded that the relevant policies will not have any material financial impact on the Group.

Share Option Scheme

Share option schemes for members of senior management were deliberated and passed in a Board meeting and an extraordinary shareholders' meeting held on March 7, 2000 and April 6, 2000, respectively. The Company has started granting share options to members of the senior management. Upon exercise of these share options, members of the senior management will not receive any shares in the Company, but will, by way of stock appreciation rights, receive a monetary sum which is calculated on the basis of the share price of the H shares listed on the HKSE.

Trust Deposits and Overdue Time Deposits

As at December 31, 2000, the Group did not have any trust deposits or irrecoverable overdue time deposits.

Repurchase of Securities

Pursuant to a written resolution passed by the shareholders of the Company on February 23, 2000, the Company approved, that a general unconditional mandate be given to the Board of Directors authorising any repurchase by the Company of up to 10% of the total amount of H shares to be issued (including any H shares to be issued pursuant to the exercise of the over-allotment options), such mandate to expire (whichever shall first occur):(a) at the conclusion of the annual general meeting of the Company for the year 2000 to be held in the year 2001; (b) the date by which the annual general meeting of the Company for the year 2000 to be held in the year 2001 is required by applicable laws or the articles of association to be held, or (c) when revoked or varied by a special resolution of the Company's shareholders in general meeting and special resolutions of the holders of H shares and domestic shares at separate meetings of such holders.

As at the date of this report, the Board of Directors has not exercised this mandate granted to it to authorise the repurchase by the Company of the H shares issued.

Compliance with Code of Best Practice

Following its listing of H Shares on the HKSE, the Company has complied with the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on the HKSE.

Pre-emptive Rights

There is no provision regarding pre-emptive rights under the articles of association of the Company or the PRC laws.

Material Litigation

The Group was not involved in any material litigation or disputes in 2000.

Auditors

PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (formerly known as Price Waterhouse Da Hua) (certified accountants in the PRC) were the Company's international and domestic auditors, respectively, in 2000. A resolution to appoint international auditors and domestic auditors, respectively, for 2001 will be proposed at the annual general meeting of the Company which will be held on June 8, 2001.

On behalf of the Board

Ma Fucui

Chairman of the Board

Beijing, the PRC

April 23, 2001