

REPORT OF DIRECTORS

The board of directors (the “Board”) of PetroChina Company Limited (the “Company”) is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended December 31, 2001.

Group Activities

The Group is engaged in a broad range of petroleum-related activities, including:

- the exploration, development and production and sale of crude oil and natural gas;
- the refining, transportation, storage and marketing of crude oil and petroleum products;
- the production and sale of basic petrochemical products, derivative chemical products, and other chemical products; and
- the transmission of natural gas and crude oil, and the sale of natural gas.

All assets and operations of the Group are located in the People’s Republic of China (the “PRC”).

The operating segment information for these areas is set out in note 36 to the financial statements prepared in accordance with International Accounting Standards (“IAS”).

The principal subsidiaries in which the Company had interests and which significantly affected the results or assets of the Group are set out in note 16 to the financial statements prepared in accordance with IAS.

New Share Issue and Share Capital Structure

The Company issued 15,824,176,200 H shares (including H shares underlying American Depositary Shares (“ADSs”)) in April 2000. At the same time, China National Petroleum Corporation offered 1,758,241,800 shares of the shares held by it in the Company to the public. After the issue and offer, 17,582,418,000 shares in the Company are held by the public, representing 10% of the total share capital of the Company immediately after the issue. The net proceeds from the share issue amounting to RMB20,337 million were intended to fund the Company’s capital expenditures and investments, provide additional funds for general corporate purposes, and to repay short-term borrowings from third party financial institutions. The Company’s ADSs and H shares were listed on The New York Stock Exchange (“NYSE”) and The Stock Exchange of Hong Kong Limited (“HKSE”) on April 6, 2000 and April 7, 2000 respectively.

The share capital of the Company in issue as fully paid or credited as fully paid as at December 31, 2001 was 175,824,176,000 shares, with a par value of RMB1.00 each. As at December 31, 2001, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31,2001	Percentage of the total number of shares in issue as at December 31,2001(%)
State-owned shares	158,241,758,000	90
Foreign invested shares (H shares and ADSs)	17,582,418,000	10
Total	175,824,176,000	100

Repurchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has sold any other types of securities of the Company, nor has it repurchased or redeemed any of the securities of the Company during the twelve months ended December 31, 2001.

Dividends

The Board proposes to pay a final dividend of RMB0.050272 per share from the balance of 45% of the net profits for the twelve months ended December 31, 2001, less the interim dividend for 2001 paid on October 8, 2001. The proposed final dividend is subject to shareholders' approval at the annual general meeting to be held on June 6, 2002. The final dividend of RMB0.050272 per share (applicable tax inclusive) shall be paid to shareholders whose names appear on the register of members of the Company at the close of business on June 5, 2002. The register of members will be closed from May 7, 2002 to June 6, 2002 inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents must be lodged, together with the relevant share certificates, at the Hong Kong Registrars Limited no later than 4:00 p.m. on May 6, 2002.

According to Article 149 of the articles of association of the Company, dividends payable to the Company's shareholders shall be declared in RMB. Dividends payable to holders of State-owned shares shall be paid in RMB while dividends payable to holders of H shares shall be paid in Hong Kong dollars. The exchange rate of Hong Kong Dollars shall be based on the average of the closing exchange rates for RMB to Hong Kong Dollars, as announced by the People's Bank of China for the week prior to the announcement of the dividend at the shareholders' meeting to be held on June 6, 2002.

Such final dividend will be paid on or about June 21, 2002.

Brief Biography of Directors, Company Secretary, Supervisors and Senior Management

Directors

Chairman

Ma Fucai, aged 55, is Chairman of the Board. Mr Ma is also President of China National Petroleum Corporation (the "CNPC Group"). Mr Ma is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' experience in China's oil and gas industry. From February 1990 to December 1996, Mr Ma worked as a Deputy Director, Standing Deputy Director, and Director of Shengli Petroleum Administration Bureau, a subsidiary of China National Petroleum Corporation ("CNPC"). He worked as an Assistant President from November 1996 to December 1996, as Vice President of CNPC from December 1996 to April 1998, and as Director of Daqing Petroleum Administration Bureau from June 1997 to November 1998. Mr Ma has been President of the CNPC Group since April 1998.

Executive Directors

Huang Yan, aged 60, is a Vice Chairman of the Board and President of the Company. Mr Huang is a senior engineer and graduated from Nanjing Industry Institute. He has over 30 years' experience in China's oil and gas industry. From 1984 to 1993, Mr Huang worked as a Deputy Director and Director of Huabei Petroleum Administration Bureau. He worked as Assistant President of CNPC from 1993, and as a Vice President from 1996. He was a Vice President of the CNPC Group from April 1998 until November 5, 1999 when he was appointed President of the Company.

Ren Chuanjun, aged 57, is a Director and a Senior Vice President of the Company. Mr Ren is a senior economist and graduated from Hefei Industry University. He has over 30

years' experience in China's oil and gas and chemical fibres industries. Mr Ren became a Deputy General Manager and General Manager of China Yizheng Fibre Industrial United Corporation in 1983. From 1994, he worked as a Vice Minister of China National Textile Council as well as a Vice Chairman of the board of directors of Yizheng Fibre United Corporation and Yizheng Fibre Company Limited. Mr Ren was a Vice President of the CNPC Group from April 1998 until November 5, 1999 when he was appointed Senior Vice President of the Company.

Wang Fucheng, aged 52, is a Director and a Vice President of the Company. Mr Wang graduated from the Shandong Teacher's University and has over 30 years' working experience in China's oil and gas industry. Mr Wang has worked in the Shengli Oil Field, Zhongyuan Oil Field and Liaohe Oil Field. From 1986 to 1999, Mr Wang worked as Senior Executive of the Shengli Oil Field, Deputy Director of the Liaohe Oil Exploration Bureau, Director of the Liaohe Oil Exploration Bureau and General Manager of the Branch Office of Liaohe Oil Field. Mr Wang has been a Director of the Company since June 30, 2000 and Vice President of the Company since July 12, 2000.

Non-executive Directors

Yan Sanzhong, aged 60, is a Vice Chairman of the Board. Mr Yan is also a Vice President of the CNPC Group. Mr Yan is a senior engineer and graduated from the Science and Technology University of China. He has over 30 years' experience in China's oil and gas industry and chemical industry. From 1983 to 1988, he was a senior executive of Lanzhou Refinery. From 1988 to 1998, he worked as a Vice President of China Petrochemical Corporation. In April 1998, Mr Yan was appointed a Deputy Director of the State Petroleum and Chemical Industry Bureau. Mr Yan has been a Vice President of the CNPC Group since July 1999.

Wu Yaowen, aged 58, is a Director of the Company. Mr Wu is a Vice President of the CNPC Group. Mr Wu is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' experience in China's oil and gas industry. From 1983 to 1986, Mr Wu worked as a Vice President of the Nanhuanghai Oil Company under the Ministry of Petroleum Industry. From 1986 to 1988, Mr Wu was the Director of Qinghai Petroleum Administration Bureau. From 1988 to 1994, Mr Wu worked as chief petroleum engineer of the Ministry of Energy, Head of the Energy Industry Department and Vice Director of the Preparatory Committee of the Communications and Energy Department under the State Planning Committee. He was appointed Director of International Cooperation Bureau of CNPC in May 1994, an Assistant President in March 1996, and a Vice President of CNPC in December 1996. He has been a Vice President of the CNPC Group since April 1998. Mr Wu has been a Director of the Company since November 5, 1999.

Chen Geng, aged 54, graduated from the Faculty of Labour Economics of Beijing Economics Institute and has over 30 years' experience in China's oil and gas industry. From 1983 to 2001, Mr Chen was Deputy Director of Changqing Petroleum Exploration Bureau, Deputy Director of the Labour Department under the Ministry of Petroleum Industry, Director of Labour Bureau of CNPC, Assistant President of CNPC, Vice President of CNPC, and Deputy Director of the State Petroleum and Chemical Industry Bureau. Mr Chen is currently Vice President of the CNPC Group. He has been a Director of the Company since June 8, 2001.

Zheng Hu, aged 55, is a Director of the Company and a Vice President of the CNPC Group. Mr Zheng is a senior engineer and graduated from the Mining Industry and Machinery Department of the Beijing Petroleum Institute in 1970. He has over 30 years' experience in China's oil and gas industry. From 1992 to 1999, Mr Zheng worked as Deputy

General Manager and General Manager of China Petroleum Materials and Equipment (Group) Corporation, and as Director of Personnel and Labour Department of the CNPC Group. Mr Zheng is currently Vice President of the CNPC Group. He has been a Director of the Company since 30 June 2000.

Gong Huazhang, aged 55, is a Director of the Company. Mr Gong is General Accountant of CNPC Group and graduated from Yangzhou Business School. He has over 30 years' experience in China's oil and gas industry. Mr Gong worked as Chief Accountant, Deputy Director and Director of Finance Bureau of CNPC from 1991. He has been Director of Finance and Assets Department of the CNPC Group since October 1998 and has been General Accountant of the CNPC Group since February 1999. Mr Gong has been a Director of the Company since November 5, 1999.

Zou Haifeng, aged 55, is a Director of the Company. Mr Zou is a Deputy Manager of Jilin Chemical Industrial Corporation and the Chairman of the Supervisory Committee of Jilin Chemical Industrial Company Limited. Mr Zou is a senior engineer and graduated from Northeastern Industry Institute. He has almost 30 years' experience in the petrochemical industry. Since 1994, Mr Zou has been a Deputy Manager of Jilin Chemical Group Corporation, and a Director and Deputy Manager of Jilin Chemical Industrial Company Limited. He has been a Deputy Manager of Jilin Chemical Industrial Company Limited, a subsidiary of the Company, since 1999. Mr Zou has been a Director of the Company since November 5, 1999.

Independent Non-executive Directors

Chee-Chen Tung, aged 59, is an independent non-executive Director of the Company. Mr Tung is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited and was educated at the University of Liverpool, England, where he received his Bachelor of Science degree. He later acquired a Master's degree in Mechanical Engineering at the Massachusetts Institute of Technology in the United States. He served as Chairman of Hong Kong Shipowner's Association between 1993 and 1995. He currently holds the positions of Chairman of the Hong Kong General Chamber of Commerce, non-executive director of Sing Tao Holdings Ltd. and Zhejiang Expressway Company Ltd, member of the Port Development Board, Council member of the Hong Kong Trade Development Council and International Councillor of the Centre for Strategic & International Studies. Mr Tung is also the Chairman of the Hong Kong-America Centre, the Institute for Shipboard Education Foundation, and the Court, and is a member of the Council of the Hong Kong Polytechnic University, the Board of Trustees of the University of Pittsburgh and the Board of Visitors of the School of Foreign Service, Georgetown University.

Wu Jinglian, aged 72, is an independent non-executive Director of the Company. Mr Wu is a senior researcher at the Development Research Centre of the State Council and a professor at the Graduate School of Chinese Academy of Social Sciences and the University of Beijing. He is a committee member of the Currency Policy Committee of the People's Bank of China and graduated from Fudan University. He was previously a Deputy Director of the Programming Office for Economic Reform of the State Council. Mr Wu is an Honourable Doctor of the Hong Kong Baptist University and was also a visiting scholar at Yale University, a member of the Appraisal Committee of St. Anthony's College of the Oxford University, a visiting professor at the Asia-Pacific Research Centre of Stanford University and a visiting researcher at the Massachusetts Institute of Technology.

Franco Bernabè, aged 53, is an independent non-executive Director of the Company. Mr Bernabè is the Chairman of the Franco Bernabè Group and Vice Chairman of H3G, a mobile telephone company which owns a third generation mobile licence in Italy. He is also

Chairman of Kelyan, an internet professional services company of the Franco Bernabè Group. Mr Bernabè is at present a member of the board of Fiat and the TNT Post Group. He serves in the Executive Committee of Confindustria, the Italian confederation of industry, in the Board of the Peres Centre for Peace and in the International Board of the World Economic Forum. He also serves as a special representative of the Italian government for the reconstruction of the Balkan region. Mr Bernabè joined ENI in 1983 to become the assistant to the chairman; in 1986 he became director for development, planning and control; and between 1992 and 1998 was the Chief Executive Officer of ENI. Mr Bernabè led the restructuring program of the ENI Group, making it one of the world's most profitable oil companies. Between 1998 and 1999, Mr Bernabè was the Chief Executive Officer of Telecom Italia. Prior to his joining ENI, Mr Bernabè was the head of economic studies at FIAT. He was also a senior economist at the OECD Department of Economics and Statistics in Paris. Earlier, he was a professor of economic politics at the School of Industrial Administration, Turin University.

Secretary to the Board of Directors

Li Huaiqi, aged 52, is the Secretary to the Board and is a senior economist. He has over 30 years' experience in China's oil and gas industry. From 1992 to 1996, Mr Li worked as Deputy Director of Foreign Affairs Bureau and Chairman of the Foreign Service Company of CNPC, and as Director of Foreign Affairs Bureau of CNPC. In 1999 Mr Li was appointed as Director of the International Co-operation Department (Foreign Affairs Bureau) of the CNPC Group. Mr Li has been Secretary to the Board of Directors of the Company since November 26, 2001.

Supervisors

Li Kecheng, aged 58, is Chairman of the Company's Supervisory Committee. Mr Li is a senior engineer and graduated from Beijing Science and Technology University. He has over 30 years' experience in China's oil and gas industry. From 1986 to 1992, Mr Li was the head of the Petroleum Pipeline Bureau and a senior executive of Northeastern Oil Transmission Administration Bureau. Prior to November 5, 1999, Mr Li held several senior administrative positions at the CNPC Group.

Lin Jingao, aged 57, is a Supervisor of the Company. Mr Lin is a senior accountant and graduated from Beijing Petroleum Institute. He has over 30 years' experience in China's oil and gas industry. From 1994 to 1998, Mr Lin was Chief Accountant and a Deputy Director of the Finance Bureau of CNPC. Mr Lin has been a Deputy Director and Director of the Finance and Assets Department of the CNPC Group since October 1998.

Chen Weizhong, aged 57, is a Supervisor of the Company. Mr Chen is a senior auditor and graduated from Anhui Finance and Trade Institute. He has over 30 years' experience in China's oil and gas industry. He was a Deputy Director of the Auditing Office of CNPC from 1993 to 1998, and a Deputy Director of the Auditing Bureau of CNPC. Mr Chen was a Deputy Director of the Auditing Department of the CNPC Group from October 1998 and has been Director of the Department since October 2000.

Bai Xinhe, aged 58, is a Supervisor and the head of the office of the Supervisory Committee of the Company. Mr Bai is a senior auditor and graduated from Central Finance Institute. He has over 30 years' experience in China's oil and gas industry. Mr Bai has been Chief Auditor of the Auditing Department of the CNPC Group since October 1998. Mr Bai has been the Deputy General Manager and General Manager of the Auditing Department of the Company since 1999. Mr Bai has ceased to be the General Manager of the Auditing Department of the Company since December 2001.

Sun Chongren, aged 51, is a Supervisor of the Company and an employee representative of the Company's Supervisory Committee. Mr Sun graduated from Huadong Petroleum Institute and has 30 years' experience in China's oil and gas industry. Mr Sun has been working at Liaohe Petroleum Administration Bureau for 30 years. He has been a senior executive of Liaohe Petroleum Administration Bureau since 1996.

Liu Hongru, aged 71, is an independent Supervisor of the Company. Mr Liu graduated from the Economics Department of University of Moscow in 1959 with an associate doctor's degree. He has worked as President of China Institute of Finance and Banking, as a Vice Governor of the People's Bank of China, as a Deputy Director of the State Economic Restructuring Committee, as the First Deputy Director of the Securities Commission of the State Council and the Chairman of the China Securities Regulatory Commission. Mr Liu is currently a Deputy Director of the Economic Committee under the Chinese People's Political Consultative Conference, and concurrently serves as a Vice President of China Finance and Banking Society, a Vice President of China National Debt Association and an honorary director of two Chinese insurance companies.

Wu Zhipan, aged 45, is an independent Supervisor of the Company. Mr Wu acquired a Doctor in Laws degree from Beijing University School of Law in 1988, and was a visiting scholar at Harvard Law School from 1991 to 1992. Mr Wu is Dean of School of Law of Beijing University and Assistant to President of Beijing University. He is concurrently an expert consultant of the Supreme People's Court, an arbitrator on the Arbitrator Panel of China International Economic and Trade Arbitration Commission and a Deputy Director of China Civil and Economic Law Society. Mr Wu is the author of a large number of legal publications.

Senior Management

Su Shulin, aged 39, is a Vice President of the Company and General Manager of Daqing Oilfield Company, a subsidiary of the Company. Mr Su is a senior engineer and graduated from Daqing Petroleum Institute. He has many years' experience in China's oil and gas industry. Since 1996, Mr Su had worked as a Director Assistant, Director of the First Oil and Natural Gas Development Department, a Standing Deputy Director, and Director of Daqing Petroleum Administration Bureau. He was appointed a Vice President of the Company on November 5, 1999.

Wang Guoliang, aged 49, is Chief Financial Officer and Director of the Financial Department of the Company. Mr Wang owns a master degree and is a senior accountant. He graduated from Heilongjiang Business College. He has 20 years experience in China's oil and gas industry. Mr Wang worked as a Vice President of CNPC Finance Co. Ltd. from 1995 to 1997 and as a Deputy General Manager and General Accountant of China National Oil & Gas Exploration and Exploitation Corporation from 1998 to 1999, until his appointment as Chief Financial Officer of the Company on November 5, 1999.

Shi Xingquan, aged 59, is a Vice President of the Company and General Manager of the Company in charge of natural gas and pipeline. Mr Shi is a senior engineer and graduated from Northeastern Petroleum Institute. He has over 30 years' experience in China's oil and gas industry. Since 1983, Mr Shi has worked as a Director of Sichuan Petroleum Administration and a Director of Changqing Petroleum Exploration Bureau. In February 1999, Mr Shi was appointed Assistant President of the CNPC Group. He was appointed as a Vice President of the Company on November 5, 1999.

Liu Baohe, aged 55, is a Vice President of the Company and General Manager of the Company in charge of exploration and production. Mr Liu is a senior engineer of professor grade and graduated from Beijing Petroleum Institute. He has over 30 years' experience in

China's oil and gas industry. Mr Liu was Director of the Department of Oil and Gas Exploitation of the CNPC Group from 1996 to 1999. From 1999 to September 2001, Mr Liu worked as Deputy General Manager of the exploration and production branch of the Company. He has been a Vice President of the Company since September 3, 1999.

Lin Qingshan, aged 57, is a Vice President of the Company and General Manager of the Company in charge of refining and marketing. Mr Lin is a senior economist and graduated from Beijing Petroleum Institute. He has over 30 years' experience in China's oil and gas industry. In 1990, Mr Lin was appointed a Deputy Director of Liaohe Petroleum Exploration Bureau. In 1996, Mr Lin became General Manager of the China United Petroleum Corporation. He was appointed General Manager of the Sales Department of CNPC in 1998. On November 5, 1999, he was appointed General Manager of the refining and marketing branch of the Company. He has been a Vice President of the Company since July 2000.

Zhang Xinzhi, aged 57, is a Vice President of the Company and General Manager of the Company in charge of chemicals and marketing. Mr Zhang is a senior engineer and has 32 years' experience in China's petrochemical industry. Mr Zhang graduated from China Science and Technology University. Mr Zhang was appointed a deputy general engineer in 1990, worked as a Deputy Manager in 1992, and served as Manager in 1995 of Fushun Petrochemical Industrial Corporation. Mr Zhang was Director of the Refining and Chemical Department of the CNPC Group in 1999. On November 5, 1999, he was appointed General Manager of the chemicals and marketing branch of the Company. He has been a Vice President of the Company since July 2000.

Shen Pingping, aged 61, is a Vice President of the Company. Mr Shen is also the Director of China Oil Exploration and Exploitation Research Institute. Mr Shen is a senior engineer and graduated from Shanghai Fudan University. He has 35 years' experience in China's oil and gas industry. From 1990, Mr Shen worked as a Vice Director, Managing Vice Director and Director of the Oil Exploration and Exploitation Scientific Research Institute of the CNPC Group. From 1999, Mr Shen has been Director of China Oil Exploration and Exploitation Research Institute. He has been a Vice President of the Company since July 2000.

Jia Chengzao, aged 53, is the Chief Geologist of the Company. Mr Jia is a doctorate degree holder and a senior engineer. He graduated from Nanjing University and has over 25 years' experience in China's oil and geological industry. From 1994, Mr Jia worked as a Deputy Chief Geologist, Chief Geologist and Deputy Commander of Tarim Oil Exploration and Exploitation Headquarters. Since 1998 he has also been a Vice Director of the Oil Exploration and Exploitation Scientific Research Institute of the CNPC Group. From 1999, Mr Jia worked as a Deputy General Manager of China Petroleum Tarim Oil Field Branch Company and a Vice Director of the China Oil Exploration and Exploitation Research Institute. He has been Chief Geologist of the Company since July 2000.

Interests of Directors and Supervisors in the Share Capital of the Company

As at December 31, 2001, other than Zou Haifeng, a Director of the Company, who holds 3,550 A shares in Jilin Chemical Industrial Company, a subsidiary of the Company, none of the Directors or Supervisors had any interest in any shares or debentures of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (Cap.396 of the Laws of Hong Kong) (the "SDI Ordinance")), as recorded in the register required to be kept under section 29 of the SDI Ordinance, or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or, in the case of Supervisors, which would

be required to be notified as above if they had been Directors.

As at December 31, 2001, the Company has not granted its Directors, Supervisors or their respective spouses or children below 18 any rights to subscribe for its equity securities or debt securities.

Service Contracts of Directors and Supervisors

No service contract existed or has been proposed between the Company or any of its subsidiaries with any of the above Directors or Supervisors. No Director or Supervisor has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Interests of Directors and Supervisors in Contracts

None of the Directors or Supervisors have had a material interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

Remuneration of Directors and Supervisors

Details of remuneration of Directors and Supervisors are set out in note 9 to the financial statements prepared in accordance with IAS in this Annual Report.

Corporate Governance Structure

Corporate Governance

In accordance with the requirements of the Company Law and the Securities Law of the PRC, relevant laws and regulations of the China Securities Regulatory Commission, The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and other relevant laws, the Company has continued to regulate and improve its corporate governance structure through its shareholders' meetings, its Board and respective committees, its Supervisory Committee, and its management team headed by the President. These organs check and balance the powers of each other and discharge their functions in a regulated manner. In accordance with the requirements of the Guidelines on the Governance of Listed Companies promulgated by the China Securities Regulatory Commission and the State Economic and Trade Commission on January 7, 2002, the Company has formulated documents such as its Articles of Association, Work Manual of the Board, and Organisation and Rules of Procedure of the Supervisory Committee for the internal management and operation of the Company. The gist of these rules is as follows:

Shareholders and shareholders' meetings: In order to ensure that all shareholders of the Company enjoy equal status and are able to exercise their rights effectively, the Company holds shareholders' meetings each year in strict compliance with the requirements of the Standard Opinion Regarding Shareholders' Meetings promulgated by the China Securities Regulatory Commission. In order to ensure that connected transactions of the Company are conducted in a fair and reasonable manner, connected shareholders are refrained from voting at respective shareholders' meeting. Independent non-executive Directors of the Company have also ensured that full disclosure of the details and performance of the connected transactions has been made each year.

The relationship between CNPC and the Company: CNPC, the controlling shareholder of the Company, has exercised its legal rights and interests as a shareholder at the shareholders' meetings. CNPC has neither interfered with the Company's decision-making, production and operation, nor has it prejudiced against the lawful interests of the Company and other shareholders. CNPC is independent of the Company in all aspects,

including personnel deployment, assets, finance, organisation and operation. The Board, the Supervisory Committee, and the management team of the Company headed by the President, are functioning independently.

Directors and Board of Directors: The Company has elected its Directors in strict compliance with the procedures as set out in its Articles of Association. The size and composition of the Board are in compliance with relevant laws and regulations, and the Company's Articles of Association. The Board has also formulated a Work Manual of the Board. All Directors have attended Board meetings in a conscientious and responsible manner and have performed their duties conscientiously and diligently. The Company has appointed three independent non-executive Directors to the Board, and has set up four committees: audit committee, investment and development committee, assessment and remuneration committee, and health, safety and environmental protection committee under the Board.

Supervisors and Supervisory Committee: The size and composition of the Supervisory Committee of the Company are in compliance with relevant laws, regulations and the Company's Articles of Association. Members of the Supervisory Committee include one Supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisory Committee has formulated an Organisation and Rules of Procedure of the Supervisory Committee. The Supervisors have performed their duties conscientiously and attended all Board meetings as non-voting delegates. In line with the spirit of accountability to all the shareholders, the Supervisory Committee has supervised the legality and regularity of the Company's financial affairs, the performance of the Company's Directors and the senior management, and has actively participated in the Company's material affairs such as production, operation and investment projects and has made many helpful proposals.

Mechanism for assessment of performance and for encouragement and restriction: The appointment and dismissal of the senior management of the Company has been conducted in an open and transparent manner and in compliance with relevant laws, regulations and the Company's Articles of Association.

Disclosure of information and transparency: The Company Secretary and the respective Secretariat under his leadership, together with other departments of the Company, are responsible for the disclosure of corresponding information as required by the place of listing. The Company has also provided its investors with disclosed information and documents for inspection, and has actively communicated with the media. In strict compliance with relevant laws, regulations, the Company's Articles of Association and the regulations of the place of listing, the Company has disclosed true, accurate and complete information in a timely manner through various channels in order to ensure that all shareholders have equal opportunities to receive information.

Role of Independent Non-executive Directors

There are three independent non-executive Directors on the Board who are nominated and elected by the shareholders. They are independent of the Company and its substantial shareholders, do not hold any position in the Company, and have conscientiously performed their duties in accordance with the Company's Articles of Association and relevant laws and regulations. They have attended meetings of the Board, participated in discussions on material issues, commented on the operations of the Company with their expertise and experience, commented on whether connected transactions of the Company are complied with the waiver requirements of regulators of the place of listing, ensured these connected transactions are fair and reasonable, reviewed and formed independent

views on the asset restructuring and the connected transactions etc.. Independent non-executive Directors also participate in the audit committee and the assessment and remuneration committee. The independent non-executive Directors have made important contributions to the protection of the Company's interest and the lawful rights and interests of all the shareholders as well as the promotion of the healthy development of the Company.

Separation from the controlling shareholder of the Company in terms of personnel, assets, finance, organisation and operations

Personnel: The labour, personnel and salaries are subjected to independent management of the Company. Remuneration of the senior management such as the President, Senior Vice President and Vice President are paid by the Company.

Assets: The Company has independent production and operations and comprises four segments: exploration and production, refining and marketing, chemicals and marketing, and natural gas and pipeline.

Finance: The Company has set up an independent finance department, an independent accounting system and a financial management system. It has also opened independent bank accounts.

Organisation: The Company has established a sound organisation under which the Board, the Supervisory Committee, and the management led by the President are all functioning independently. The functional departments of the Company are not subordinated to its controlling shareholder.

Operations: The Company has an independent and complete production and operations as well as the ability to operate independently. Upon the listing of the Company, the Company has entered into a Non-Competition Agreement with CNPC in order to ensure that CNPC will not engage in business which is or may be in direct or indirect competition with the core business of the Company.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2001 are set out in note 25 to the financial statements prepared in accordance with IAS in this Annual Report.

Interest Capitalisation

Interest capitalised for the Group for the year ended December 31, 2001 was RMB653 million.

Fixed Assets

Movements of fixed assets of the Company and the Group during the year are summarised in note 14 to the financial statements prepared in accordance with IAS in this Annual Report.

Land Value Appreciation Tax

No land value appreciation tax was payable by the Group during the year.

Reserves

Details of movements in reserves of the Company and the Group for the year ended December 31, 2001 are set out in note 27 to the financial statements prepared in accordance with IAS in this Annual Report.

Statutory Common Welfare Fund

Details of the statutory common welfare fund, such as the nature, application and

movements of the fund and the basis of its calculation, including the percentage and profit figure used for calculating the amounts, are set out in note 27 to the financial statements prepared in accordance with IAS in this Annual Report.

Employees' Retirement Scheme

Details of the Company's employees' retirement scheme are set out in note 30 to the financial statements prepared in accordance with IAS in this Annual Report.

Major Suppliers and Customers

CNPC is the Group's largest supplier of goods and services and the aggregate purchases attributable to CNPC was 36% of the total purchase by the Group's in 2001. The aggregate purchases attributable to the five largest suppliers of the Group was 38% of the Group's total purchases.

The aggregate revenue derived from the major customers is set out in note 34 to the financial statements prepared in accordance with IAS in this Annual Report. The aggregate revenue derived from the five largest customers was less than 30% of the Group's total sales.

None of the Directors, Supervisors and their associates or any shareholder (who to the knowledge of Board were holding 5% or more of the Company's share capital) had any interest in any of the above-mentioned suppliers and customers.

Annual General Meeting

At the 2000 annual general meeting of the Company held on June 8, 2001, the following resolutions were passed:

- (a) the report of the Board for the year 2000 was approved;
- (b) the report of the Supervisory Committee for the year 2000 was approved;
- (c) the audited financial statement of the Company for the year 2000 was approved;
- (d) the proposal for the payment of final dividend for the year 2000 was approved;
- (e) the authorisation of the Board to pay the interim dividend for the year 2001 was approved;
- (f) the amendment of the articles of association of the Company was approved;
- (g) the resignation of Mr Jiang Jinchu as Director was approved; Mr Chen Geng was appointed as Director, and the Board was authorised to fix the emoluments thereof; and
- (h) the appointment of PricewaterhouseCoopers, Certified Public Accountants, as the international auditor of the Company for the year 2001 and PricewaterhouseCoopers Zhong Tian CPAs Limited Company , Certified Public Accountants, as the domestic auditor of the Company for the year 2001 was approved, and the Board was authorised to fix the remuneration thereof.

Share Capital Structure

The share capital of the Company in issue as at December 31, 2001 was 175,824,176,000 shares, with a par value of RMB1.00 each. As at December 31, 2001, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31, 2001	Percentage of the total number of shares in issue as at December 31, 2001 (%)
State-owned shares	158,241,758,000	90.00
H shares	17,582,418,000	10.00

Shareholding of Substantial Shareholders

As at December 31, 2001, the register of substantial shareholders kept by the Company under Section 16(1) of the SDI Ordinance showed that the persons in the following table and notes are interested in 10% or more of the Company's H shares in issue:

Shareholder	Shares	Number of shares	Percentage of the total number of shares in that class in issue (%)	Percentage of the total share capital (%)
CNPC	State-owned shares	158,241,758,000	100.00	90.00
BP Investments China Limited	H shares	3,516,484,000	20.00	2.00 ⁽¹⁾
Franklin Resources, Inc.	H shares	2,098,818,212	11.94	1.19 ⁽²⁾
Templeton International, Inc.	H shares	2,043,244,993	11.62	1.16 ⁽³⁾

Notes:

1. BP Global Investments Limited has the same holdings through BP investments China Limited. BP Amoco plc also has the same holdings through BP Global Investments Ltd. and BP Investments China Limited.
2. Includes duplications of holdings of Templeton Investment Counsel, Inc. (which in turn holds part of its shares through Templeton Global Advisors, Ltd.). Templeton Worldwide, Inc. also has the same holdings through the same persons.
3. Includes holdings of shares through Templeton Global Advisors, Ltd.

As at December 31, 2001, save as disclosed above, no person (other than the Directors, senior management or the Supervisors of the Company) had recorded an interest in the substantial shareholder register kept pursuant to section 16(1) of the SDI Ordinance.

Connected Transactions

In 2001, the Company has continued to implement the following transactions with CNPC, the controlling shareholder of the Company which holds in aggregate approximately 90% of the share capital of the Company, and other members of the CNPC group. All of these transactions will constitute connected transactions for the Company under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1 Comprehensive Products and Services Agreement

CNPC and the Group continue to implement the Comprehensive Products and Services Agreement entered into on March 10, 2000 for the provision by the Group to CNPC and by CNPC to the Group of a range of products and services which may be required and requested from time to time by either party and/or its subsidiary companies and affiliates.

1.1 Products and Services to be provided by the Group to CNPC

Under the Comprehensive Products and Services Agreement, a limited range of products and services are to be provided by the Group to CNPC including those relating to refined products, chemical products, natural gas and crude oil, supply of water, electricity, gas, heating, quantifying and measuring, quality inspection and other products and services as may be requested by the CNPC group for its own consumption, use or sale from time to time.

1.2 Products and Services to be provided by CNPC to the Group

The Company expects that the products and services to be provided by CNPC to the Group to be more numerous, both in terms of quantity and variety, than those to be provided by the Group to CNPC. They have therefore been grouped together and categorised according to the following types of products and services:

- construction and technical services
- production services
- supply of material services
- social services
- ancillary services
- financial services

It is envisaged that from time to time and as required, individual Product and Service Implementation Agreements will be entered into between the relevant service companies and affiliates of CNPC or the Group, as appropriate, providing the relevant products or services and the relevant members of CNPC or the Group, as appropriate, requiring such products or services.

2 Land Use Rights Leasing Contract

The Company and CNPC continue to implement the Land Use Rights Leasing Contract dated March 10, 2000 under which CNPC has leased a total of 42,476 parcels of land in connection with and for the purposes of all aspects of the Group's business and operations covering an aggregate area of approximately 1,145 million square meters located throughout the PRC to members of the Company for a term of 50 years at an annual fee of RMB2,000 million. The total fee payable for the lease of all such property may, after 10 years from the effective date of the land use rights leasing contract, be adjusted (to reflect market conditions prevailing at such time of adjustment, including current market prices, inflation or deflation and such other pertinent factors as may reasonably be considered in negotiating and agreeing to any such adjustment) by agreement between CNPC and the Group. In addition, any governmental, legal or other administrative taxes and fees required to be paid in connection with the leased properties will be borne by CNPC. However, both parties will share proportionately on a reasonable basis any additional amount of such taxes and fees payable as a result of changes in policies of the PRC government after the date of the contract.

3 Buildings Leasing Contract

The Company and CNPC continue to implement the Buildings Leasing Contract dated March 10, 2000 under which CNPC has leased a total of 191 buildings covering an aggregate area of 269,770 square meters located throughout the PRC, together with the Company's headquarters, comprising approximately 10,000 square meters, to the Company, its subsidiaries and branches.

The 191 buildings were leased at a price of RMB145 per square meter per year, which amounts to an aggregate annual fee of RMB39,116,650, for a term of 20 years. The Company is responsible for the payment of any governmental, legal or other administrative taxes and maintenance charges required to be paid in connection with those buildings.

4 Intellectual Property Licensing Contracts

CNPC and the Company continue to implement three Intellectual Property Licensing Agreements, being a Trademark Licensing Contract, a Patent and Know-how Licensing Contract and a Computer Software Licensing Contract, all dated March 10, 2000. In these Licensing Contracts, CNPC has granted the Company exclusive rights to use certain trademarks (including the "CNPC" trademark), patents, know-how of CNPC and computer

software of CNPC (as more particularly detailed in those three contracts) at no cost. These intellectual property rights relate to the assets and businesses of CNPC which were transferred to the Company in the restructuring of the CNPC group.

5 Contract for the Transfer of Rights under Production Sharing Contracts

CNPC and the Company continue to implement the Contract for the Transfer of Rights under Production Sharing Contracts dated March 10, 2000. Under this contract, CNPC transferred to the Company relevant rights and obligations under 23 production sharing contracts with a number of international oil companies, except for the rights and obligations relating to CNPC's supervisory functions.

6 Guarantee of Debts Contract

CNPC and the Company continue to implement the Guarantee of Debts Contract dated March 10, 2000. All the debts of CNPC relating to assets transferred to the Company in the restructuring of the CNPC group were transferred to, and assumed by, the Company. In the Guarantee of Debts Contract, CNPC has agreed to guarantee certain of the debts of the Company. As of the end of 2001, bank loans guaranteed by CNPC and its subsidiaries amounted to RMB1.697 million.

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 independent non-executive Directors of the Company:

(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 CNPC	12% of the sales revenue of the Group
ii. Products and services to be provided by CNPC 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

Connected Transactions with CNPC (HK)

As part of the CNPC restructuring and in preparation for the listing of the Company on HKSE, and as disclosed in the Company's prospectus dated March 27, 2000, CNPC and the Company entered into the Contract for the Transfer of Rights under Production Sharing Contracts whereby the relevant rights and obligations (other than the supervisory functions related to CNPC's role as representative of the PRC government) of CNPC under certain contracts - including the Xinjiang Oil Field Production Sharing Contract, dated July 1, 1996, entered into between CNPC and Hafnium Limited ("Xinjiang Contract") and the Leng Jiapu Area Petroleum Contract, dated December 30, 1997, entered into between CNPC and Beckbury International Limited ("Liaohe Contract") - were novated to the Company.

CNPC (Hong Kong) Limited ("CNPC (HK)") is a 57.5% owned subsidiary of CNPC, the Company's controlling shareholder which holds approximately 90% of the issued share capital of the Company. Upon the effective novation of the above interest in the PRC Oil Production Sharing Contracts (i.e. the Xinjiang Contract and the Liaohe Contract), certain transactions pursuant to the PRC Oil Production Sharing Contracts constitute connected transactions between the Group and CNPC (HK).

Summary of the major terms and conditions of these connected transactions under the Xinjiang Contract and the Liaohe Contract are as follows:

(1) Production and development cost sharing between the Company and the CNPC (HK) Group: The Company and CNPC (HK) together with its subsidiaries ("CNPC (HK) Group") shall share in the oil and natural gas produced from the Karamay Oilfield, as to 46% by the Company and 54% by the CNPC (HK) Group and from the Leng Jiapu Oilfield, as to 30% by the Company and 70% by the CNPC (HK) Group. The CNPC (HK) Group shall be responsible for 100% of the development costs in respect of the Karamay Oilfield. The Company is responsible for 30% and the CNPC (HK) Group is responsible for 70% of the development costs in respect of the Leng Jiapu Oilfield.

(2) Provision of assistance by the Company to the CNPC (HK) Group: The Company shall provide assistance to the CNPC (HK) Group, inter alia: (i) leasing warehouses, terminal facilities, barges, aircraft, pipeline and land, etc.; (ii) obtaining approvals necessary for the conduct of the petroleum operations; and (iii) obtaining office space, office supplies, transportation and communication facilities. For such assistance, the CNPC (HK) Group will pay an annual assistance fee of US\$50,000 (approximately HK\$390,000) for each of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and taking into account the actual circumstances and conditions, including the scope of the projects and the level of demand for such assistance. This fee shall be accounted for as operating costs and shared by the Company and the CNPC (HK) Group in accordance with procedures described in the Xinjiang Contract and the Liaohe Contract.

(3) Payment of training fees: In the course of development and operations of each

oilfield, the CNPC (HK) Group shall pay the Company an amount of US\$50,000 (approximately HK\$390,000) annually for training of the personnel of the Company for each of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and taking into account the actual circumstances and conditions, including the scope of the projects and the level of demand for training.

(4) Sale of crude oil by CNPC (HK) to the Group: The CNPC (HK) Group has the right to deliver its share of oil production from each of the Karamay Oilfield and the Leng Jiapu Oilfield to a destination of its choice, except for destinations which infringe on the political interests of the PRC. However, given the transportation costs and the prevailing oil prices, the likely purchaser of all the oil production share attributable to CNPC (HK) from each of the Karamay Oilfield and the Leng Jiapu Oilfield is likely to be CNPC or its affiliates, including the Group, which will accept delivery of crude oil produced in the Karamay Oilfield and the Leng Jiapu Oilfield at the average price adopted by them from time to time. Since the entering into of the PRC Oil Production Sharing Contracts by CNPC (HK), CNPC (HK) has sold all of its share of the oil production to CNPC or its affiliates, including the Group. As far as the Board of Directors is aware, CNPC (HK) intends to continue with the arrangement. There is no contractual obligation upon the Group to purchase oil production from the Karamay Oilfield and the Leng Jiapu Oilfield although, from a commercial perspective, the Group intends to continue to accept part of the deliveries. The price of various grades of crude oil sold shall be set either with the approval of the competent PRC authorities or determined with reference to the prevailing price in arm's length transactions of a similar quality crude oil in the main world markets, adjusted to take into account the terms of delivery, transportation, payment and other terms.

In the opinion of the independent non-executive Directors of the Company, the connected transactions have been:

(i) conducted on normal commercial terms and entered into in the ordinary and usual course of business of the Company; and

(ii) entered into: (a) in accordance with the terms of the PRC Oil Production Sharing Contracts; or (b) on terms no less favourable than the terms available to or from independent third parties.

Trust Deposits and Overdue Time Deposits

As at December 31, 2001, 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) on 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 has not exercised the mandate 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 2001.

Auditors

PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (certified accountants in the PRC) were the Company's international and domestic auditors respectively in 2001. The Company has retained the above two firms since the date of its listing. A resolution to continue to appoint international and domestic auditors for 2002 will be proposed at the annual general meeting of the Company which will be held on June 6, 2002.

On behalf of the Board
Ma Fucui
Chairman of the Board
Beijing, the PRC
April 15, 2002