

REPORT OF DIRECTORS

The Board of Directors of PetroChina Company Limited is pleased to present its report together with the audited financial statements of the Group for the year ended December 31, 2003.

Group Activities

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

- the exploration, development, 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 petrochemical products and other chemical products; and
- the transmission of natural gas, crude oil and refined products, and sale of natural gas.

The operating segment information on these areas is set out in note 38 to the financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The principal subsidiaries in which the Company had material interests and which could significantly affect the results or assets of the Group are set out in note 17 to the financial statements prepared in accordance with IFRS.

Share Capital Structure

The Company issued 15,824,176,200 H shares (including H shares underlying ADSs) in April 2000. At the same time, CNPC offered 1,758,241,800 shares held by it in the Company to the public. After the issue and offer, 17,582,418,000 shares in the Company were 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, to 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, Inc. and the 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, 2002 was 175,824,176,000 shares, with a par value of RMB1.00 each. As at December 31, 2003, the share capital structure of the Company was as follows:

Shares	Number of shares as at December 31, 2003	Percentage of the total number of shares in issue as at December 31, 2003(%)
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

Shareholding of Substantial Shareholders

As at December 31, 2003, the register of interests and short positions kept by the Company under section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the “SFO”) showed that the persons in the following table and notes held interests or short positions in the Company’s shares:

Shareholder	Shares	Number of Shares	Percentage of the total number of that class in issue (%)	Percentage of the total share capital (%)
CNPC	State-owned shares	158,241,758,000	100.00	90.00
BP Amoco plc ⁽¹⁾	H shares	3,516,484,000	20.00	2.00
Warren E. Buffett ⁽²⁾	H shares	2,347,761,000	13.35	1.335

Notes:

(1) BP Global Investments Limited is deemed to be interested in the 3,516,484,000 H shares held by BP Investments China Limited by virtue of its 100% interest in BP Investments China Limited. BP Amoco plc is deemed to be interested in the 3,516,484,000 H shares held by BP Investments China Limited by virtue of its 100% interest in BP Global Investments Limited.

(2) By virtue of Warren E. Buffett’s 35.4% interest in Berkshire Hathaway Inc., Berkshire Hathaway Inc.’s 100% interest in OBH Inc., OBH Inc.’s 100% interest in National Indemnity Co. and 100% interest in GEICO Corporation, and GEICO Corporation’s 100% interest in Government Employees Inc. Company, each of Warren E. Buffett, Berkshire Hathaway Inc. and OBH Inc. is deemed to be interested in the 2,279,151,000 H shares held by National Indemnity Co. and the 68,610,000 H shares held by Government Employees Inc. Company, totalling 2,347,761,000 H shares.

As at December 31, 2003, save as disclosed above, no person (other than the Directors, senior management or the Supervisors of the Company) had recorded an interest in the register of interests in shares and short positions kept pursuant to section 336 of the SFO.

Repurchase, Sale or Redemption of Securities

The Company or any of its subsidiaries did not sell any other types of securities of the Company, nor did it repurchase or redeem any of the securities of the Company during the twelve months ended December 31, 2003.

Dividends

The Board of Directors recommends to pay a final dividend of RMB0.079324 per share (inclusive of applicable tax) from the balance of 45% of the net profit for the twelve months ended December 31, 2003, less the interim dividend for 2003 paid on October 8, 2003. The proposed final dividend is subject to shareholders' approval at the annual general meeting held on May 18, 2004. The final dividend shall be paid to shareholders whose names appear on the register of members of the Company at the close of business on May 18, 2004. The register of members will be closed from April 18, 2004 to May 18, 2004, both days 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 April 16, 2004.

According to Article 149 of the Articles of Association of the Company, dividends payable to the Company's shareholders shall be declared in Renminbi. Dividends payable to holders of State-owned shares shall be paid in Renminbi 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 Renminbi 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 May 18, 2004.

Final dividend will be paid on or about June 2, 2004.

Brief Biography of Directors, Secretary, Supervisors and Senior Management

◆ Directors

• Chairman

Ma Fucai, aged 57, is Chairman of the Board. Mr Ma is also President of CNPC. Mr Ma is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' experience in the oil and gas industry of the PRC. 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 Company. He worked as an Assistant President of China National Petroleum Company from November 1996 to December 1996, as Vice President of China National Petroleum Company from December 1996 to April 1998, and concurrently as the Director of Daqing Petroleum Administration Bureau from July 1997 to November 1998. Mr Ma has been President of CNPC since April 1998. Mr Ma has been the Chairman of the Company's Board of Directors from November 5, 1999.

- Vice Chairmen

Wu Yaowen, aged 60, is a Vice Chairman of the Company. Mr Wu is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' experience in the oil and gas industry of the PRC. From 1983 to 1986, Mr Wu worked as the Deputy General Manager 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 Commission. He was appointed Director of International Cooperation Office of China National Petroleum Company in May 1994, an Assistant President in March 1996 and a Vice President of China National Petroleum Company in December 1996. He has been a Vice President of CNPC since April 1998. In December 2003, Mr Wu retired from his position as Vice President of CNPC because of his age. Mr Wu has been a Director of the Company since November 5, 1999, and a Vice Chairman since December 3, 2002.

Ren Chuanjun, aged 59, is a Vice Chairman of the Company. Mr Ren is also a Vice President of CNPC. Mr Ren is a senior economist and graduated from Hefei University of Industries. He has over 30 years' experience in the oil and gas and chemical fibres industries of the PRC. Mr Ren worked as the Deputy General Manager and General Manager of China Yizheng Fibre Industrial United Corporation from 1983. From 1994, he worked as the Vice President of China National Textile Council as well as the Vice Chairman of the board of Yizheng Fibre Industrial United Corporation and Yizheng Fibre Company Limited. Mr Ren has been a Vice President of CNPC since April 1998. He was appointed as a Director and Senior Vice President of the Company in November 5, 1999. He has been a Vice Chairman of the Company since December 3, 2002.

- Executive Directors

Chen Geng, aged 57, is a Director and President of the Company. Mr Chen is a senior economist, graduated from the Beijing Economics Institute (now renamed as the Capital University of Economics and Trade) and has over 30 years' work experience in the oil and gas industry of the PRC. 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 China National Petroleum Company, Assistant President of China National Petroleum Company, Vice President of China National Petroleum Company, Deputy Director of the State Petroleum and Chemical Industry Bureau and Vice President of CNPC. He has been a Director of the Company since June 8, 2001 and the President since December 3, 2002.

Su Shulin, aged 41, is a Director and Senior Vice President of the Company. Mr Su has a Master's degree and is a senior engineer, graduated from Daqing Petroleum Institute and Harbin University of Engineering. He has many years of experience in the oil and gas industry of the PRC. Since 1996, Mr Su has worked as Director Assistant of Daqing Petroleum Administration Bureau and the Department Head, Standing Deputy Director and Director of the First Oil and Natural Gas Development Department. He was appointed as a Vice President of the Company on November 5, 1999, and was concurrently the Chairman and General Manager of the Company's subsidiary Daqing Oil Field Company Limited until December 2003. Mr Su has been appointed as a Director of the Company since November 2002, and Senior Vice President since December 3, 2002.

Wang Fucheng, aged 53, is a Director and a Vice President of the Company. Mr Wang is a senior economist, graduated from the Shandong Teacher's University and has over 30 years' working experience in the oil and gas industry of the PRC. 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, Senior Executive 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 2000 and Vice President of the Company since July 2000.

- Non-executive Directors

Zheng Hu, aged 57, is a Director of the Company and a Vice President of CNPC. Mr Zheng is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' work experience in the oil and gas industry of the PRC. From 1990 to 1992, Mr Zheng was the Vice Chancellor of Beijing Petroleum Managers Training Institute. From 1992 to 1999, Mr Zheng worked as Deputy General Manager and General Manager of China Petroleum Technology Development Corporation, China Petroleum Materials and Equipment (Group) Corporation, and as Director of Personnel and Labour Department of CNPC. Mr Zheng is currently Vice President of CNPC. He has been a Director of the Company since June 30 2000.

Gong Huazhang, aged 57, is a Director of the Company. Mr Gong is also General Accountant of CNPC. Mr Gong is a senior accountant, graduated from Yangzhou Business School. He has over 30 years' work experience in the oil and gas industry of the PRC. Mr Gong worked as Chief Accountant, Deputy Director and Director of the Finance Bureau of China National Petroleum Company from 1991. He has been Director of Finance and Assets Department of CNPC since October 1998 and has been General Accountant of CNPC since February 1999. Mr Gong has been a Director of the Company since November 5, 1999.

Zou Haifeng, aged 57, is a Director of the Company. Mr Zou is also a Deputy Manager of Jilin Chemical Industrial Corporation and Chairman of the Supervisory Committee of Jilin Chemical Industrial Company Limited. Mr Zou is a senior engineer, graduated from Northeastern Industry Institute. He has almost 30 years' work experience in the petrochemical industry. Since 1994, Mr Zou has been a Deputy Manager of Jilin Chemical Group Corporation, and Director and Deputy Manager of Jilin Chemical Industrial Company Limited. He has been the Deputy Manager of Jilin Chemical Industrial Corporation, a subsidiary of the Company. Since July 1999, Mr Zou has been a Director of the Company since November 5, 1999.

- Independent Non-executive Directors

Chee-Chen Tung, aged 61, 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 the Hong Kong Shipowners' Association between 1993 and 1995. From 1999 to 2001, he was the Chairman of the Hong Kong General Chamber of Commerce, an independent non-executive Director of Hu Hangyong Expressway Company Ltd., Che Kiang First Bank, Bank of China (Hong Kong) Co. Ltd., Global China Group Holdings Ltd. and Wing Hang Bank, independent non-managing Director of Cathay Pacific Airways, member of the Hong Kong Port Development Board. Mr Tung is also the Chairman of the Institute for Shipboard Education Foundation, the Chairman of the Advisory Council and member of the Board of Directors of the Hong Kong Polytechnic University, the Director of the International Academic Centre of the University of Pittsburgh and is a member of the Board of Visitors of the School of Foreign Service, Georgetown University. Mr Tung has been appointed as an independent non-executive Director of the Company since November 5, 1999.

Liu Hongru, aged 73, is an independent non-executive Director of the Company. Mr Liu graduated from the Faculty of Economics Department of University of Moscow in 1959 with an associate Doctorate's degree. He has worked as a Vice Governor of the Agricultural Bank of China, a Vice Governor of the People's Bank of China, as a Deputy Director of the State Economic Restructuring Committee, and the Chairman of the China Securities Regulatory Commission. Mr Liu is currently a Deputy Director of the Economics 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 President of the Shanghai Institute of Financial and Legal Studies. Mr Liu is also a professor at the Beijing University, the Postgraduate School of the People's Bank of China and the City University of Hong Kong. Mr Liu was appointed as an independent Supervisor of the Company in December 1999. Upon resignation from the post of Supervisor, he was appointed as an independent non-executive Director of the Company on November 19, 2002.

Franco Bernabè, aged 55, 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 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 has also served as a special representative of the Italian government for the reconstruction of the Balkan region. Mr Bernabè joined ENI in 1983 to become an 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. Mr Bernabè has been appointed as an independent non-executive Director of the Company since June 30, 2000.

- Secretary to the Board of Directors

Li Huaiqi, aged 54, is the Secretary to the Board of Directors of the Company and is a senior economist. He has over 30 years' work experience in the oil and gas industry of the PRC. Mr Li has worked in Daqing, Liaohe, Huabei and Nanhai. From 1992 to 1996, Mr Li worked as the Deputy Director of Foreign Affairs Bureau and Chairman of the Foreign Service Company of China National Petroleum Company, and as the Director of Foreign Affairs Bureau of China National Petroleum Company. In 1999 Mr Li was appointed as Director of the International Co-operation Department (Foreign Affairs Bureau) of CNPC. Mr Li has been the Secretary to the Board of Directors of the Company since August 29, 2001.

◆ Supervisors

Li Kecheng, aged 60, is Chairman of the Company's Supervisory Committee. Mr Li is a senior engineer and graduated from Beijing University of Science and Technology. He has over 30 years' experience in the oil and gas industry of the PRC. From 1986 to 1992, Mr Li was the head of the Petroleum Pipeline Bureau and a senior executive of Northeastern Oil Transmission Administration. From November 1992, Mr Li held senior positions in China National Petroleum Company and CNPC. He has been the Chairman of the Company's Supervisory Committee since November 5, 1999.

Chen Weizhong, aged 59, 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' work experience in the oil and gas industry of the PRC. He was a Deputy Director of the Auditing Office of China National Petroleum Company from 1993 to 1998, and a Deputy Director of the Auditing Bureau of China National Petroleum Company. Mr Chen had been a Deputy Director and Director of the Auditing Department of CNPC from October 1998. He has been a Supervisor of the Company since November 5, 1999.

Wen Qingshan, aged 45, is a Supervisor of the Company. Mr Wen is a senior accountant, graduated from Jilin Yanbian University. He was the Deputy Chief Accountant of the Finance and Assets Department of CNPC from November 1998, Deputy Director of the Finance and Assets Department of CNPC from May 1999 and Director of the Finance and Assets Department of CNPC from May 2002. He has been a Supervisor of the Company since November 2002.

Bai Xinhe, aged 60, is a Supervisor of the Company. Mr Bai is a senior auditor and graduated from the Central Finance Institute. He has over 30 years' work experience in the oil and gas industry of the PRC. Mr Bai was Chief Auditor of the Auditing Department of China National Petroleum Company from August 1988 to April 1998. He was the Chief Auditor of the Auditing Department of CNPC since April 1998. Mr Bai had been the Deputy General Manager and General Manager of the Auditing Department of the Company from November 1999 to September 2001, during which period he was also the head of the office of the Supervisory Committee of the Company. Mr Bai was the head of the office of the Supervisory Committee of the Company from September 2001 to October 2003. He has been a Supervisor of the Company since November 5, 1999.

Sun Chongren, aged 53, 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 the oil and gas industry of the PRC. Mr Sun has worked at the Liaohe Petroleum Administration for 30 years. He has been a senior executive of Liaohe Petroleum Administration since 1996 and was the chairman of its labour union. Mr Sun has been a Supervisor of the Company since November 5, 1999.

Zhang Youcai, aged 62, is an independent Supervisor of the Company. Mr Zhang is a professor, graduated from Nanjing University of Industries. He has over 30 years' work experience in corporate and finance. Mr Zhang was the manager of Nantong Chemical Fertilizer Factory, Deputy Director of Nantong Industrial Bureau and Deputy Head of Nantong Commission for Economic Planning as well as Deputy Mayor of Nantong. He has been the Mayor of Nantong from April 1984, Deputy Minister of the Ministry of Finance of the PRC between December 1989 and July 2002, and was also the Director of the State-owned Assets Administration of the PRC between May 1994 and July 1998. He has been an independent Supervisor of the Company since November 2002.

Wu Zhipan, aged 47, is an independent Supervisor of the Company. Mr Wu acquired a Doctor of Laws degree from the School of Law, Beijing University in 1988, and was a visiting scholar at Harvard Law School from 1991 to 1992. Mr Wu is currently the Vice-chancellor of the Beijing University. He is also an expert consultant of the Supreme People's Court of the PRC, an arbitrator of the Arbitration Panel of China International Economic and Trade Arbitration Commission and President of the China Economic Law Research Institute Society. Mr Wu is the author of a large number of legal publications and has extensive work experience in the legal field. Mr Wu has been an independent Supervisor of the Company since December 1999.

◆ Other Senior Management

Duan Wende, aged 52, is a Vice President of the Company and also a Vice President of CNPC. Mr Duan is a senior engineer and a postgraduate, graduated from the Postgraduate School of the Chinese Academy of Social Sciences in investment economics. He has over 30 years' work experience in the petrochemical industry of the PRC. From 1975 to August 2001, he was the Deputy Factory Manager of Fushun Factory No. 628 and a chemical fibres factory, Commander of Command Division of Fushun ethylene project, Deputy Factory Manager of an ethylene factory, the Factory Manager of an acrylic fibres factory and a detergent factory, Deputy Manager and Manager of Fushun Petrochemical Corporation, and General Manager of Fushun Petrochemical Branch Company. He has been an Assistant President of CNPC since August 2001. He has been appointed a Vice President of the Company since March 2002, and a Vice President of CNPC since December 2003.

Wang Guoliang, aged 51, is Chief Financial Officer of the Company. Mr Wang holds a Master's degree and is a senior accountant. He graduated from the Heilongjiang Business College and Hebei University. He has over 20 years' work experience in the oil and gas industry of the PRC. Mr Wang worked as a Vice President of China National Petroleum Company 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. He was the Chief Financial Officer of the Company since November 5, 1999 (and also the General Manager of the Company's Finance Department from November 1999 to March 2002).

Liu Baohe, aged 57, is a Vice President of the Company. Mr Liu is a senior engineer and graduated from Beijing Petroleum Institute. He has over 30 years' work experience in the oil and gas industry of the PRC. Mr Liu was Deputy Director and Director of the Office of Production and Exploitation of China National Petroleum Company from 1994 to 1997. Mr Liu was Director of the Department of Oil and Gas Exploitation of CNPC from 1998 to 1999. From 1999 to August 2001, Mr Liu worked as the Deputy General Manager of the exploration and production branch of the Company. He has been a Vice President of the Company since September 2001 and General Manager of the exploration and production branch of the Company from September 2001 to December 2002.

Jia Chengzao, aged 55, is the Chief Geologist of the Company. Mr Jia is a Doctorate's degree holder and a senior engineer. He graduated from Nanjing University and has over 25 years' work experience in the oil and geological industry of the PRC. From 1994, Mr Jia has 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 CNPC. From 1999, Mr Jia worked as a Deputy General Manager of China Petroleum Tarim Oil Field and a Vice President of the China Oil Exploration and Exploitation Research Institute. He had been the Chief Geologist of the Company from July 2000. Mr Jia served as the President of the China Oil Exploration and Exploitation Research Institute since December 16, 2002.

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

As at December 31, 2003, other than Zou Haifeng, a Director of the Company, who holds 3,550 A shares in Jilin Chemical Industrial Company Limited, a subsidiary of the Company, none of the Directors or Supervisors had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) required to be recorded in the register mentioned under section 352 of the SFO or as otherwise notifiable to the Company and the HKSE by the Directors and Supervisors pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at December 31, 2003, 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 personal interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party to 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 IFRS in this annual report.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2003 are set out in note 26 to the financial statements prepared in accordance with IFRS in this annual report.

Interest Capitalisation

Interest capitalisation for the Group for the year ended December 31, 2003 was RMB1,320 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 IFRS 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, 2003 are set out in note 28 to the financial statements prepared in accordance with IFRS 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 28 to the financial statements prepared in accordance with IFRS in this annual report.

Employees' Retirement Scheme

Details of the Company's employees' retirement scheme are set out in note 31 to the financial statements prepared in accordance with IFRS in this annual report.

Major Suppliers and Customers

CNPC is the Group's largest supplier of goods and services and the aggregate purchase attributable to CNPC was 33% of the total purchase of the Group for 2003. The aggregate purchase attributable to the five largest suppliers of the Group was 42% of the Group's total purchase.

The aggregate revenue derived from the major customers is set out in note 36 to the financial statements prepared in accordance with IFRS 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 the Board of Directors 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 2002 annual general meeting of the Company held on May 28, 2003, the following resolutions were passed:

- (a) the report of the Board of Directors for the year 2002 was approved;
- (b) the report of the Supervisory Committee for the year 2002 was approved;

- (c) the financial and accounting statements of the Company for the year 2002 was approved;
- (d) the proposal for the distribution of profits for the year 2002 was approved;
- (e) the proposal for the authorisation of the Board of Directors to pay the interim dividend for the year 2003 was approved;
- (f) the proposal for the appointment of domestic and international accounting firms as accountants of the Company for 2003 was approved;
- (g) the proposal for the issue of the PetroChina Corporate Bonds was approved;
- (h) the election of Mr Wang Fucheng as a Director of the Company was approved;
- (i) the election of Mr Zheng Hu as a Director of the Company was approved; and
- (j) the election of Mr Franco Bernabè as an independent Director of the Company was approved.

Connected Transactions

As CNPC directly owns an aggregate of approximately 90% of the shares of the Company, transactions between the Group and CNPC constitute connected transactions between the Group and CNPC under the HKSE Listing Rules. The waiver in respect of such connected transactions granted by the HKSE at the time of the listing of the Company in Hong Kong expired on December 31, 2002. Since the connected transactions are ongoing transactions, the Company has further applied and obtained a new connected transactions waiver granted by the HKSE for the period from January 1, 2003 to December 31, 2005.

The Group and CNPC will continue the connected transactions referred to in the following agreements:

1 Comprehensive Products and Services Agreement

The Group and CNPC continue to implement the Comprehensive Products and Services Agreement entered into on March 10, 2000 for the provision (1) by the Group to CNPC and (2) 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.

(A) Products and Services to be provided by the Group to CNPC

Under the Comprehensive Products and Services Agreement, products and services to be provided by the Group to CNPC include such products as crude oil, natural gas, refined oil products, chemical products, and such services as relating to the supply of water, electricity, gas and heating, quantifying and measuring and quality inspection.

(B) Products and Services to be provided by CNPC to the Group

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

- (a) Construction and technical services;
- (b) Production services;
- (c) Supply of materials services;
- (d) Social services;
- (e) Ancillary services; and
- (f) Financial services.

2 Product and Service Implementation Agreements

According to the current arrangements, from time to time and as required, individual product and service implementation agreements may 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 the Group or CNPC, as appropriate, requiring such products or services.

As the product and service implementation agreements are simply further elaborations on the provision of products and services as contemplated by the Comprehensive Products and Services Agreement, as such, they do not constitute new categories of connected transactions.

3 Land Use Rights Leasing Contract

The Company and CNPC continue to implement the Land Use Rights Leasing Contract entered into on March 10, 2000 under which CNPC has leased a total of 42,476 parcels of land in connection with all aspects of the operations and business of the Company covering an aggregate area of approximately 1,145 million square meters, located throughout the PRC, to the Company for a term of 50 years at an annual fee of RMB2 billion. The total fee payable for the lease of all such property may, after the expiration of 10 years from the effective date of the Land Use Rights Leasing Contract, be adjusted (to reflect market conditions prevalent at such time of adjustment, including the then prevailing market prices, inflation or deflation and such other factors considered as important by both parties in negotiating and agreeing to any such adjustment) by agreement between the Company and CNPC. 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, any additional amount of such taxes payable as a result of changes in the PRC government policies after the effective date of the contract shall be shared proportionately on a reasonable basis between CNPC and the Company.

4 Buildings Leasing Contract

The Company and CNPC continue to implement the Buildings Leasing Contract entered into on March 10, 2000 pursuant to which CNPC has leased to the Company a total of 191 buildings covering an aggregate area of 269,770 square meters.

The 191 buildings were leased at a price of RMB145 per square metre per year, that is, at 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 these 191 buildings.

5 Intellectual Property Licensing Contracts

The Company and CNPC continue to implement the three intellectual property licensing contracts entered into on March 10, 2000, being the Trademark Licensing Contract, the Patent and Know-how Licensing Contract and the Computer Software Licensing Contract. Pursuant to these licensing contracts, CNPC has granted the Company the exclusive right to use certain trademarks, patents, know-how and computer software of CNPC at no cost. These intellectual property rights relate to the assets and businesses of CNPC, which were transferred to the Company pursuant to the restructuring.

6 Contract for the Transfer of Rights under Production Sharing Contracts

The Company and CNPC continue to implement the Contract for the Transfer of Rights under Production Sharing Contracts dated March 10, 2000. As part of the restructuring, CNPC transferred to the Company relevant rights and obligations under the 23 Production Sharing Contracts entered into with a number of international oil and natural gas companies, except for the rights and obligations relating to CNPC's supervisory functions.

7 Guarantee of Debts Contract

The Company and CNPC continue to implement the Guarantee of Debts Contract entered into on March 10, 2000, pursuant to which all of the debts of CNPC relating to the assets transferred to the Company in the restructuring were also 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 at no cost. As of the end of 2003, the total amount guaranteed was RMB853 million.

In relation to the connected transactions undertaken by the Group in 2003, the independent non-executive Directors of the Company confirm that:

- (i) the connected transactions mentioned above have been entered into in the ordinary and usual course of the business of the Company;
- (ii) the connected transactions mentioned above have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) the connected transactions mentioned above have been entered into on normal commercial terms either (1) in accordance with the terms of the agreements governing such transactions, or (2) (where there is no such agreement) on terms no less favourable than terms available to independent third parties; and
- (iv) where applicable, the connected transactions have been entered into within the annual limit for years 2003 to 2005. The annual limit for years 2003 to 2005 are as set out in the table below.

The auditors of the Company have reviewed the connected transactions mentioned above and have provided the Board of Directors with a letter stating that:

- (i) all the connected transactions have received the approval of the Board of Directors;
- (ii) all the connected transactions have been conducted in accordance with the terms of the agreements; and
- (iii) all the connected transactions have been conducted within the limit set by the HKSE.

The Company's annual limit for years 2003 to 2005 in respect of the connected transactions waiver are set out in the table below.

Category of Products and Services	Annual limit for years 2003 to 2005
(A) Products and services to be provided by the Group to CNPC	10% of the sales revenue of the Group
(B) Products and services to be provided by CNPC to the Group	
Construction and technical services	20% of the total operating Expenses and capital expenditure of the Group
Production services	10% of the total operating expenses and capital expenditure of the Group
Supply of materials services	2% of the total operating expenses and capital expenditure of the Group
Social and ancillary services	RMB5 billion
Financial Services	
(a) Aggregate of the average daily outstanding principal of loans and the total amount of interest paid in respect of these loans	RMB52.5 billion
(b) Aggregate of the average daily amount of deposits and the total amount of interest receipts in respect of these deposits	RMB4.5 billion

The Company has added a Supplemental Buildings Leasing Agreement in the new connected transaction waiver

Further to the Buildings Leasing Contract mentioned above, the Company entered into a Supplemental Buildings Leasing Agreement (the “**Supplemental Buildings Agreement**”) with CNPC on September 26, 2002 under which CNPC agreed to lease to the Company another 404 buildings in connection with the operation and business of the Company, covering an aggregate of 442,730 square meters. Compared to the Buildings Leasing Contract, the increase in the units being leased in the Supplemental Buildings Agreement is mainly attributable to the expansion of the Company's operations mainly in the areas such as oil and natural gas exploration, the West-East Gas Pipeline Project and the construction of the northeast refineries and chemical operation base. The total rent payable under the Supplemental Buildings Agreement amounts to RMB157,439,540 per annum. The Company and CNPC will, based on any change in their production and operations and changes in the market price, adjust the sizes and quantities of buildings under the Buildings Leasing Contract as well as the Supplemental Buildings Agreement once every three years. The Supplemental Buildings Agreement became effective on January 1, 2003 and will expire at the same time as the Buildings Leasing Contract. The terms and conditions of the

Buildings Leasing Contract will, to the extent not contradictory to the Supplemental Buildings Agreement, continue to apply.

Connected Transactions with CNPC (HK)

As part of the restructuring of CNPC 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. CNPC is also the Company's controlling shareholder which holds approximately 90% of the issued share capital of the Company. Upon the effective novation by CNPC to the Company of the above interest in the PRC Oil Production Sharing Contracts, (the "**Xinjiang Contract and the Liaohe Contract**") certain transactions pursuant to the PRC Oil Production Sharing Contracts constitute connected transactions between the Company 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 CNPC (HK):* The Company and CNPC (HK) shall share the oil and natural gas produced from the Karamay Oilfield, as to 46% by the Company and 54% by CNPC (HK) and from the Leng Jiapu Oilfield, as to 30% by the Company and 70% by CNPC (HK). CNPC (HK) shall be responsible for 100% of the development costs in respect of the Karamay Oilfield. The Company is responsible for 30% and CNPC (HK) is responsible for 70% of the development costs in respect of the Leng Jiapu Oilfield.

(2) *Provision of assistance by the Company to CNPC (HK):* The Company shall provide assistance to CNPC (HK), for *inter alia*: (i) leasing warehouses, terminal facilities, barges, 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, CNPC (HK) will pay an annual assistance fee of US\$50,000 (approximately HK\$389,000) 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 CNPC (HK) 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, CNPC (HK) shall pay the Company an amount of US\$50,000 (approximately HK\$389,000) 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 Company*: CNPC (HK) 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 purchaser of the oil production 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 Company, which will accept delivery of oil produced in the Karamay Oilfield and the Leng Jiapu Oilfield at the market price. Since the entry of the PRC Oil Production Sharing Contracts, CNPC (HK) has sold all of its share of the oil production to CNPC or its affiliates, including the Company. As far as the Board of Directors is aware, CNPC (HK) intends to continue with this arrangement. There is no contractual obligation upon the Company to purchase oil production from the Karamay Oilfield and the Leng Jiapu Oilfield although, from a commercial perspective, the Company intends to continue to accept part of the deliveries. The price of various grades of crude oil sold shall be set either with reference to the price approved by the relevant PRC authorities or determined with reference to the prevailing price in arm's length transactions of crude oil of a similar quality in the main world markets, adjusted to take into account the terms of 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.

The waiver in respect of the connected transactions between the Company and CNPC (HK) granted by the HKSE expired on December 31, 2003. Since the connected transactions are ongoing transactions, the Company applied on November 25, 2003, and obtained a new connected transactions waiver granted by the HKSE on January 2, 2004, for the period from January 1, 2004 to December 31, 2006.

Trust Deposits and Irrecoverable Overdue Time Deposits

As at December 31, 2003, the Company did not have any trust deposits or irrecoverable overdue time deposits.

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 HKSE Listing Rules.

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 2003.

Auditors

PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (certified public accountants in the PRC) were the Company's international and domestic auditors respectively in 2003. The Company has retained the above two firms of accountants since the date of its listing. A resolution to continue the appointment of the international and domestic auditors for 2004 will be proposed at the annual general meeting of the Company which will be held on May 18, 2004.

By Order of the Board

Ma Fucui

Chairman

Beijing, the PRC

March 24, 2004