

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year 2003, the Supervisory Committee has carried out their duties conscientiously and strictly in accordance with the relevant provisions of the Company Law of the PRC, the Articles of Association of the Company, and the Organisation and Rules of Procedure of the Supervisory Committee. During the year, the Supervisory Committee held meetings, considered and passed six resolutions, completed the review of the 2002 annual report and the 2003 interim report; attended the annual general meeting for the year 2002 with the submission of two resolutions to the meeting, and attended three meetings of the Board of Directors of the Company with the submission of four written opinions of the Supervisory Committee in respect of its review of the final accounts, profit distribution plan (draft) and the assessment of the performance of the members of the office of the President. The Supervisory Committee received fourteen reports submitted respectively by the Finance Department, Audit Department, Supervisory Department Human Resources Department and PricewaterhouseCoopers and reviewed and issued its opinion on the Company's finance, profit distribution, connected transactions and the assessment of the performance of the members office of the President. The Supervisory Committee carried out two random auditing investigations into the finance of the Company, sampled eight departments to conduct auditing investigation and prepared ten auditing investigation reports and consolidated reports, put forward 37 recommendations. The Supervisory Committee conducted one supervisor inspection tour, prepared one inspection tour report, and raised two recommendations. Through the above activities, the Supervisory Committee has reinforced its supervision on the finance of the Company and on the senior management in the performance of their duties. It has enhanced the effect of supervision and protected the interests of the shareholders as well as the interests of the Company.

The Supervisory Committee is of the opinion that in 2003, all members of the Board of Directors and the senior management of the Company have worked diligently towards fulfilling their duties. In light of the guiding thought to maintain a sustained effective and fast development, they have grasped every favourable market opportunity, intensified oil and gas exploration, strived to enhance reserves and increased production. They have pushed forward the resousce rationalisation and structural adjustment of the oil refining and chemicals segment, enhanced market competitiveness and sales performance, expanded the natural gas business and international business, added new contributors for economic growth, promoted technology advancement and management innovation, and realised a sound and stable development for the Company. The production trend of the Company is better than originally anticipated and the operating results are

profoundly outstanding with the Company's profits reached a record high and a significant appreciation of the value of the Company. While performing their management responsibilities, they did not breach any applicable laws and regulations of the PRC and the Company's places of listing and the Articles of Association of the Company.

The Company's connected transactions are further perfected and regulated and all such transactions are conducted within the limits as approved by the HKSE.

The Supervisory Committee is satisfied with the results achieved by the Company in 2003 and is fully confident in the prospects of the Company.

The Supervisory Committee has reviewed the unqualified financial statements prepared by Pricewaterhouse Coopers on the basis of IFRS and is of the opinion that the report gives an objective and true view of the Company's operating results and financial position.

The Supervisory Committee hopes that the Company will continue in its adherence to the guiding policy of maintaining a sustained effective and fast development in a way to strive for an increase in the production volume of oil and gas, continuously implement a rationalisation of its product structure, further strengthen its efforts for market development, proactively develop new contributions for economic growth, and enhance the management proficiency and profitability of the Company in all aspects.

In 2004, the Supervisory Committee will continue to fulfill its duties to protect the interests of the shareholders and to endeavour in carrying out its duties satisfactorily and in strict compliance with the Articles of Association of the Company and the relevant laws and regulations.

By Order of the Supervisory Committee

Li Kecheng

Chairman of the Supervisory Committee

Beijing, the PRC

March 24, 2004