

# Report of the Supervisory Committee

*To the shareholders:*

In 2003, the Supervisory Committee of the Company complied with the State laws and regulations, especially the “Company Law” and the Company’s articles of association, and performed its work in accordance with the law to safeguard the interests of the Company and the shareholders.

In 2003, the management of the Company remained composed amid turmoil and calmly responded to the sudden outbreak of SARS and the impact of the international situation after the end of Iraqi war on international crude oil prices and domestic petroleum product prices, after formulating at the start of the year the direction of “taking full advantage of its competitiveness, increasing its total operating volume, continuing with enhancement and innovation, and achieving efficiency”. The management had carried out its various tasks with a good start. It rose to the challenge and successfully completed the overhauls of refining facilities in three lots. The management had established the largest refining base in China, with a 16 million tpa comprehensive processing capacity, and expanded into the downstream chemical industry. The Company seized on the opportunities arising from the rapid growth in domestic petroleum products consumption during the second half of the year. Taking advantage of its scale of capacity and high adaptability, the Company reached new highs in its production and operation.

During the year under review, the Supervisory Committee convened four meetings and elected Gu Yueguang as the chairman of the Fourth Supervisory Committee of the Company. The committee revised the “Rules Governing the Convention of Supervisory Committee Meetings”, formulated “Rules Governing the Investigation and Research Work of the Supervisory Committee”, summarised the work of 2002 and first half of 2003 and proposed the work plan of 2003. At the second meeting of the Fourth Supervisory Committee, the Supervisory Committee revised the work plan for the year and reviewed the Company’s financial statements and profit appropriation proposal.

During the year under review, the Supervisory Committee, through attending all the meetings of the Board of Directors and the General Manager’s office, reviewed the financial statements and other accounting information of the Company on a regular basis; investigated (or researched) and analysed issues under four topics including the Company’s long-term investment, connected transactions, property insurance, appropriation of the provision for diminution in asset value, formulation and implementation of the write-off system, and participated in the supervision of the Company’s production and management through various channels.

After reviewing the financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2003 (audited by KPMG), the Supervisory Committee considered that these financial statements reflect the financial condition and the business results of the Company on a fair and all-around basis, and the comments on relevant items are objective and fair.

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The Supervisory Committee has examined the Report of the Board of Directors, 2003 financial statements and the annual profit appropriation proposal, which has been put forward by the Board of Directors to be considered and approved at the fourth meeting of the Fourth Board of Directors and which are intended for consideration at the annual general meeting. In our opinion, these reports have reflected the 2003 results and the assets position of the Company on a fair and all-around basis, and the profit appropriation proposal has taken into consideration shareholders' interests and the Company's long-term development interests. The transfers of statutory surplus reserve and public welfare fund during the year were in accordance with law, regulations and the articles of association of the Company. The directors, general manager and other senior management officers of the Company had adhered to the articles of association of the Company and the Listing Rules of the Stock Exchange when they performed their duties. There had been no violation of law and regulations and no harmful act against the benefit of the Company or the interests of the shareholders and staff.

The Supervisory Committee agrees with the Company's Board of Directors' 2003 Annual Report, and is very confident about the future development prospects of the Company.

By order of the Supervisory Committee

**Gu Yueguang**

*Chairman*

16 April 2004, Ningbo, the PRC