



DIRECTORS' REPORT

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, 2004.

Key Activities of the Group and Geographical Analysis

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 the above areas is set out in note 38 to the financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The businesses of the principal subsidiaries in which the Company had material interest 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, the public held 17,582,418,000 shares in the Company, 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 loans borrowed 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, 2004 was 175,824,176,000 shares, with a par value of RMB1.00 each. As at December 31, 2004, the share capital structure of the Company was as follows:



Shares	Number of shares as at December 31, 2004	Percentage of the total number of shares in issue as at December 31, 2004 (%)
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

Changes in the share capital of the Company are set out in note 28 to the financial statements.

Results and Distribution

The results for the year are set out in the Consolidated Profit and Loss Account on page 70.

The financial condition of the Group as at December 31, 2004 are set out in the Consolidated Balance Sheet on page 71.

The consolidated cashflow of the Group for the year is set out in the statements on page 73.

Dividends

The Board of Directors recommends to pay a final dividend of RMB0.147511 per share (inclusive of applicable tax) from the balance of 45% of the net profit for the twelve months ended December 31, 2004 less the interim dividend for 2004 paid on October 8, 2004. The proposed final dividend is subject to shareholders' approval at the annual general meeting to be held on May 26, 2005. The final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on May 26, 2005. The register of members will be closed from April 26, 2005 to May 26, 2005 (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 Hong Kong Registrars Limited no later than 4 p.m. on April 25, 2005.





In accordance with Article 149 of its Articles of Association, dividends payable to the Company's shareholders shall be declared in Renminbi. Dividends payable to the holders of State-owned shares shall be paid in Renminbi while dividends payable to the holders of H shares shall be paid in Hong Kong Dollars. The amount of Hong Kong Dollars payable shall be calculated on the basis of the average of the closing exchange rates for Renminbi to Hong Kong Dollar as published by the People's Bank of China for the week prior to the declaration of the dividend at the shareholders' meeting to be held on May 26, 2005.

Final dividend will be paid on or around June 10, 2005.

Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2004 are set out in note 27 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, 2004 was RMB1,005 million.

Fixed Assets

Changes to the 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 changes to the reserves of the Company and the Group for the year ended December 31, 2004 are set out in note 29 to the financial statements prepared in accordance with IFRS in this annual report.

Distributable Reserves

As at December 31, 2004, the reserves of the Company that can be distributed as dividend were RMB121,184 million (2003: RMB73,051 million).

Statutory Common Welfare Fund

Details of the statutory welfare fund, such as the nature, application and movements in the fund and the basis of its calculation, including the percentage and profit figure used for calculating the amounts, are set out in note 29 to the financial statements prepared in accordance with IFRS in this annual report.



Management Contract

During the year, the Company did not enter into any management contracts concerning the management or administration of its overall business or any of its material business, nor did any such management contract exist.

Employees' Retirement Scheme

Details of the Company's employees' retirement scheme are set out in note 32 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 2004. The aggregate purchase attributable to the five largest suppliers of the Group was 43% 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 Directors were holding 5% or more of the Company's share capital) had any interest in any of the above-mentioned suppliers and customers.

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, 2004.

Trust Deposits and Irrecoverable Overdue Time Deposits

As at December 31, 2004, the Company did not have any trust deposits or irrecoverable overdue time deposits.

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 dispute in 2004.



Launch of New Trademark

The Company started to use a uniform new logo on December 26, 2004. The Company and CNPC jointly owned the new logo.

The new logo inherits the existing registered trademarks of PetroChina and CNPC. While reflecting the corporations' characteristics, it aims to enhance the awareness among consumers and the general public, and unifies the logos of PetroChina and CNPC. The new logo also functionally serves as a service logo and a product logo.

The new logo will better reflect the combined market value of PetroChina and CNPC, and will establish "PetroChina" as a brand name. PetroChina can take full advantage of the advantages enjoyed by CNPC in various business areas in China and abroad, broaden its social and international influence, enhance and upgrade its image, and create better value for society at large and for its investors.

Annual General Meeting

At the 2003 annual general meeting held on May 18, 2004, the following resolutions were passed:

- (a) the report of the Board of Directors for the year 2003 was approved;
- (b) the report of the Supervisory Committee for the year 2003 was approved;
- (c) the financial and accounting statements of the Company for the year 2003 was approved;
- (d) the proposal for the distribution of profit for 2003 was approved;
- (e) the proposal for the authorisation of the Board of Directors to pay interim dividend for 2004 was approved;
- (f) the proposal for the appointment of domestic and international accounting firms as accountants of the Company for 2004 was approved;
- (g) the re-election of Mr Chen Geng as a Director of the Company was approved;
- (h) the addition of Mr Jiang Jiemin as a Director of the Company was approved;
- (i) the addition of Mr Zhou Jiping as a Director of the Company was approved;
- (j) the addition of Mr Duan Wende as a Director of the Company was approved;
- (k) the addition of Mr Sun Xianfeng as a Supervisor of the Company was approved;
- (l) the addition of Mr Xu Fengli as a Supervisor of the Company was approved; and
- (m) the proposal for the authorisation of the Board of Directors to issue shares of the Company was approved.



Directors

During the year and as at the date of this annual report, the Directors of the Company are as follows:

◆ Chairman

Mr Chen Geng

◆ Vice Chairman

Mr Jiang Jiemin

Mr Ren Chuanjun

◆ Executive Directors

Mr Su Shulin

Mr Duan Wende

Mr Wang Fucheng

◆ Non-executive Directors

Mr Zheng Hu

Mr Zhou Jiping

Mr Gong Huazhang

Mr Zou Haifeng

◆ Independent Non-executive Directors

Mr Chee-Chen Tung

Mr Liu Hongru

Mr Franco Bernabè





Brief Biography of Directors, Secretary to the Board of Directors, Supervisors and Senior Management

◆ Directors

● Chairman

Chen Geng, aged 58, is Chairman of the Board of the Company and the General Manager of CNPC. Mr Chen is a senior economist. He graduated from the Beijing Economics Institute (now renamed as the Capital University of Economics and Trade), majoring in labour economics. He has over 30 years of work experience in the Chinese oil and gas industry. Mr Chen was appointed Deputy Director of Changqing Petroleum Exploration Bureau in October 1983, Deputy Director of the Labour Department under the Ministry of Petroleum Industry in April 1985, Director of the Labour Bureau of China National Petroleum Company from August 1988, Assistant to the President of China National Petroleum Company in December 1993, Vice President of China National Petroleum Company in September 1997, Deputy Director of the State Petroleum and Chemical Industry Bureau in March 1998, and Vice President of CNPC in February 2001. Mr Chen was appointed as a Director of the Company in June 2001. He was the President of the Company from December 2002 to May 2004. Mr Chen became President of CNPC in April 2004. He became the Chairman of the Company in May 2004.

● Vice Chairman

Jiang Jiemin, aged 49, is the Vice Chairman and President of the Company. Mr Jiang is a senior economist. He graduated from the Shandong University in 1982, majoring in Industrial and Economics Management. He graduated from the Central Party School in 2001, pursuing distance learning Economics Management courses for leading cadres. Mr Jiang has over 30 years of work experience in the Chinese oil and gas industry. He was made Deputy Director of the Shengli Petroleum Administration Bureau in March 1993, Director of the Qinghai Petroleum Administration Bureau in November 1994, and Assistant to the President and Team Leader for the Restructuring and Listing Preparatory Team of CNPC in February 1999. Mr Jiang was a Director and Vice President of the Company from November 1999 to June 2000. Mr Jiang was appointed Deputy Provincial Governor of the Qinghai Province since June 2000, was made a member of the provincial party committee of the Qinghai Province and Deputy Provincial Governor of Qinghai in November 2000, and the deputy secretary of the provincial party committee of Qinghai Province and Deputy Provincial Governor of Qinghai in June 2003. He has been the Vice President of CNPC since April 2004. Mr Jiang became the Vice Chairman and President of the Company in May 2004.



Ren Chuanjun, aged 60, is the Vice Chairman of the Company and the Vice President of CNPC. Mr Ren is a senior economist. He graduated from Hefei Industrial University. He has over 30 years of work experience in the Chinese oil and gas industry and the chemical fibre industry. Mr Ren acted as Deputy General Manager and then General Manager of Yizheng Fibre Industrial United Corporation since 1983. In 1994, he became the Vice President of the China National Textile Council and the Vice Chairman of both Yizheng Fibre Industrial United Corporation and Yizheng Fibre Company Limited. Mr Ren became the Vice President of CNPC in April 1998. He was appointed as a Director and Senior Vice President of the Company on November 5, 1999. Mr Ren became Vice Chairman of the Company on December 3, 2002.

● Executive Directors

Su Shulin, aged 42, is a Director and Senior Vice President of the Company. Mr Su has a Master's degree and is a senior engineer. He graduated from Daqing Petroleum Institute and Harbin University of Engineering. He has many years of experience in the Chinese oil and gas industry. 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 Vice President of the Company on November 5, 1999, and was concurrently the Chairman and General Manager of the Company's subsidiary Daqing Oilfield Company Limited. Mr Su ceased to act as the Chairman and the General Manager of Daqing Oilfield Company Limited in December 2003. Mr Su has been a Director of the Company since November 2002, and has been Senior Vice President since December 3, 2002.

Duan Wende, aged 53, is a Director and Vice President of the Company. He is a senior engineer and he graduated from the Nankai University and studied Economics Management in its Faculty of Economics Management. He also attended the distance learning programme of the Central Party School and majored in economics. He also pursued courses in the Postgraduate School of the Chinese Academy of Social Sciences in Investment Economics. He has over 30 years of work experience in the Chinese oil and gas industry. From April 1975 to June 1999, Mr Duan was the Deputy Factory Manager of Fushun No. 628 Factory and of the chemical fibres factory, the Commander of the Fushun Ethylene Project Command Division, Deputy Factory Manager of the ethylene factory, the Factory Manager of the acrylic fibres factory and the detergent factory, and eventually Deputy Manager of Fushun Petrochemical Corporation. He has been the Manager of Fushun Petrochemical Corporation since May 1999; he has been appointed as the General Manager of Fushun Petrochemical Branch Company since October 1999. He has been an Assistant to the President of CNPC since August 2001. He has been a Vice President of the Company since March 2002, and a Vice President of CNPC since December 2003. He was appointed as a Director of the Company in May 2004.



Wang Fucheng, aged 54, is a Director and Vice President of the Company. Mr Wang is a senior economist. He graduated from the Shandong Normal University. He has over 30 years of working experience in the Chinese oil and gas industry. Mr Wang has worked in the Shengli Oilfield, Zhongyuan Oilfield and Liaohe Oilfield. From 1986 to 1999, Mr Wang worked as Senior Executive of the Shengli Oilfield, Senior Executive of the Liaohe Oil Exploration Bureau, Director of the Liaohe Oil Exploration Bureau and General Manager of the Branch Office of Liaohe Oilfield. 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 58, 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 of 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. Since August 2000, Mr Zheng has been a Vice President of CNPC. He has been a Director of the Company since June 30, 2000.

Zhou Jiping, aged 52, is a Director of the Company and a Vice President of CNPC. Mr Zhou is a senior engineer and a Masters student in marine geologic structure from Nanhai Marine Research Institute of the Chinese Academy of Sciences. He has over 30 years working experience in the Chinese oil and gas industry. Mr Zhou was the Exploration Manager of the Exploration and Development Department of China National Offshore Oil Corporation, Manager of the Overseas Department of the International Co-operation Bureau of China National Petroleum Company, President of China National Oil & Gas Exploration and Development Corporation in Vanuatu and President of China National Oil & Gas Exploration and Development Corporation in Papua New Guinea. Since November 1996, he was Deputy Director of the International Exploration and Development Co-operation Bureau of China National Petroleum Company, Deputy General Manager of China National Oil & Gas Exploration and Development Corporation and concurrently as President of the Greater Nile Petroleum Operating Company (Sudan). In December 1997, he was appointed President of China National Oil & Gas Exploration and Development Corporation and Deputy Director of the International Exploration and Development Co-operation Bureau of China National Petroleum Company. He became President of China Oil & Gas Exploration and Development Corporation in October 1998. Since August 2001, he was Assistant to the President of the CNPC Group and President of China National Oil & Gas Exploration and Development Corporation. Since December 2003, Mr Zhou has been Vice President of CNPC. Mr Zhou was appointed a Director of the Company in May 2004.



Gong Huazhang, aged 58, is a Director of the Company. Mr Gong is also the General Accountant of CNPC. Mr Gong is a senior accountant and a graduate of Yangzhou Business School. He has over 30 years of working experience in the Chinese oil and gas industry. Mr Gong worked as Chief Accountant, Deputy Director and Director of the Finance Bureau of China National Petroleum Company from 1991. He was the Director of Finance and Assets Department of CNPC in October 1998 and has been the General Accountant of CNPC since February 1999. Mr Gong has been a Director of the Company since November 5, 1999.

Zou Haifeng, aged 58, is a Director of the Company. Mr Zou is also the 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 and a graduate of the Northeastern Industry Institute. He has almost 30 years of working experience in the petrochemical industry. In 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 the Deputy Manager of Jilin Chemical Industrial Branch 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 62, 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. He is an independent non-executive director of Hu Hangyong Expressway Company Ltd., Chekiang First Bank, Bank of China (Hong Kong) Co Ltd., Global China Group Holdings Ltd. and Wing Hang Bank, an independent non-managing director of Cathay Pacific Airways, and a 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 74, is an independent non-executive Director of the Company. Mr Liu graduated from the Faculty of Economics of the University of Moscow in 1959 with an associate Doctorate's degree.



He worked as Vice-Governor of the Agricultural Bank of China, Vice-Governor of the People's Bank of China, 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 Vice President of China Finance and Banking Society, Vice President of the China National Debt Association and President of the Shanghai Institute of Financial and Legal Studies. Mr Liu is also a professor at the Peking University, the Postgraduate School of the People's Bank of China and the City University of Hong Kong. Mr Liu serves as an independent non-executive director or non-executive director in four listed companies in Hong Kong, and possesses the accounting or financial management qualification required under the Listing Rules. Mr Liu was appointed as an independent Supervisor of the Company in December 1999. Upon his resignation from this post, he was appointed as an independent non-executive Director of the Company on 19 November 2002.

Franco Bernabè, aged 56, is an independent non-executive Director of the Company. Mr Bernabè is the Chairman of the Franco Bernabè Group and Vice Chairman of H3G. He is also a vice chairman of Rothschild Europe. He is a former CEO of ENI and of Telecom Italia. 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. Mr Bernabè was 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 Huaqi, aged 55, is the Secretary to the Board of Directors of the Company. Mr Li is a senior economist. He has over 30 years of working experience in the Chinese oil and gas industry. Mr Li has worked in Daqing, Liaohe, Huabei and Nanhai. From 1992 to 1996, Mr Li worked as Deputy Director of the 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

● Chairman

Li Kecheng, aged 61, is the Chairman of the Company's Supervisory Committee. Mr Li is a senior engineer and a graduate of the Beijing University of Science and Technology. He has over 30 years of experience in the Chinese 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. 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.

● Supervisors

Wen Qingshan, aged 46, is a Supervisor of the Company. Mr Wen is a senior accountant and a graduate of the 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.

Sun Xianfeng, aged 52, is a Supervisor of the Company. Mr Sun graduated from the Huadong Petroleum Institute in September 1977. Mr Sun worked as Deputy Director of the Supervisory Bureau of China National Petroleum Company from November 1996, before being transferred to the Eighth Office of the State Council Compliance Inspectors' General Office (Supervisory Committee of Central Enterprises Working Commission) as its temporary head in June 1998. He has been the Deputy Director of the Audit Department of the CNPC Group from October 2000, and as the Director of the Audit Services Centre of the CNPC Group in December 2000. He has been a Supervisor of the Company since May 2004.

Xu Fengli, aged 57, is a Supervisor of the Company. Mr Xu is a senior accountant. He graduated from the Xi'an Petroleum Institute in July 1985. Mr Xu has been the Chief Accountant of Fushun Petrochemical Corporation in November 1995, Deputy Director of the Finance and Assets Department of the CNPC Group in November 1998, Deputy General Manager of the Finance Department of the Company since December 1999, and Director of the Administrative Office of the Supervisory Committee of the Company since October 2003. He has been a Supervisor of the Company since May 2004.

Sun Chongren, aged 54, is a Supervisor of the Company and an employee representative in the Company's Supervisory Committee. Mr Sun graduated from the Huadong Petroleum Institute and has 30 years of experience in the Chinese oil and gas industry. Mr Sun has worked at the Liaohé



Petroleum Administration Bureau for 30 years. He has been a senior executive of the Liaohe Petroleum Administration Bureau since 1996 and was the chairman of its labour union. Mr Sun has been a Supervisor of the Company since November 5, 1999.

● Independent Supervisors

Zhang Youcai, aged 63, is an independent Supervisor of the Company. Mr Zhang is a professor who graduated from Nanjing University of Technology. He has over 30 years of work experience in corporate and finance work. Mr Zhang was the manager of the Nantong Chemical Fertiliser Factory, Deputy Director of the Nantong Industrial Bureau and Deputy Head of the Nantong Commission for Economic Planning as well as the Deputy Mayor of Nantong. He was appointed the Mayor of Nantong in 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 48, is an independent Supervisor of the Company. Mr Wu obtained a Doctor of Laws degree from the School of Law, Peking 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 Peking 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 Societies. 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

Wang Guoliang, aged 52, 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 the Hebei University. He has over 20 years of experience in the Chinese oil and gas industry. Mr Wang worked as the Vice President of China National Petroleum Company Finance Co. Ltd. from 1995 to 1997. From 1998 to 1999, he was the Deputy General Manager and General Accountant of China National Oil & Gas Exploration and Exploitation Corporation. Mr Wang was appointed as the Chief Financial Officer of the Company since November 5, 1999. From November 1999 to March 2002, he was also the General Manager of the Company's Finance Department.



Liu Baohe, aged 58, is the Vice President of the Company. Mr Liu is senior engineer and graduated from the Beijing Petroleum Institute. He has over 30 years of experience in the oil and gas industry of the PRC. Mr Liu was the Deputy Director and then the Director of the Office of Production and Exploitation of China National Petroleum Company from 1994 to 1997. Mr Liu was the 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 the Vice President of the Company since September 2001 and also the General Manager of the exploration and production branch of the Company from September 2001 to December 2002.

Jia Chengzao, aged 56, is the Chief Geologist of the Company. Mr. Jia is a Doctorate degree holder, a senior engineer and an academic in the Chinese Academy of Sciences. He graduated from the Nanjing University and has over 25 years of work experience in the oil and geological industry of the PRC. From 1994, Mr. Jia has worked as the Deputy Chief Geologist and then the Chief Geologist and Deputy Commander of the 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 the Deputy General Manager of the China Petroleum Tarim Oil Field and the Vice President of the China Oil Exploration and Exploitation Research Institute. He has been the Chief Geologist of the Company from July 2000. Mr. Jia also served as the President of the China Oil Exploration and Exploitation Research Institute since December 16, 2002.

◆ Qualified Accountant

In an announcement dated October 18, 2004, the Company announced that it had not been able to find a suitable accountant with professional accounting qualifications recognised to assume the position of qualified accountant as required under Rule 3.24 of the Listing Rules by September 30, 2004. The Company is still in the process of identifying suitable candidates with professional accounting qualifications to assist the Chief Financial Officer to oversee the compliance by the Company of the financial reporting and other related accounting matters. However, despite numerous attempts to find such a candidate, given the importance of the role and the function of the qualified accountant, the Company has still not been able to find a suitable candidate that meets all the requirements in Rule 3.24 of the Listing Rules. The Company is trying its best to identify a candidate with the appropriate qualifications, experience and understanding of the oil and gas industry to act as the joint qualified accountant to assist the Chief Financial Officer of the Company to carry out his duties. The Company will make an application for a 3-year waiver to the HKSE when it has identified the joint qualified accountant.



Shareholdings of Majority Shareholders

As at December 31, 2004, 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:

Name of Shareholder	Type of Shares	No. 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
Warren E. Buffett ⁽¹⁾	H shares	2,347,761,000	13.35	1.335
Credit Suisse Group ⁽²⁾	H shares	2,774,536,979 ⁽³⁾	15.78	1.578

- (1) By virtue of Warren E. Buffett's 35.4% interest in Berkshire Hathaway Inc., Berkshire Hathaway'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 2,279,151,000 H shares held by National Indemnity Co. and 68,610,000 H shares held by Government Employees Inc. Company, totalling 2,347,761,000 H shares.
- (2) (i) By virtue of Credit Suisse Group's 100% interest in Credit Suisse First Boston, Credit Suisse First Boston's 100% interest in Credit Suisse First Boston (International) Holdings AG, Credit Suisse First Boston (International) Holdings AG's 100% interest in Credit Suisse First Boston International (Guernsey) Limited and 70.2% interest in Credit Suisse First Boston (Hong Kong) Limited; and Credit Suisse First Boston International (Guernsey) Limited also owns 29.8% interest in Credit Suisse First Boston (Hong Kong) Limited, each of Credit Suisse Group, Credit Suisse First Boston and Credit Suisse First Boston (International) Holdings AG is deemed to be interested in 2,415,515,347 H shares in the Company directly held by Credit Suisse First Boston (Hong Kong) Limited.
- (ii) By virtue of Credit Suisse Group's 100% interest in Credit Suisse First Boston, Credit Suisse First Boston's 57% interest in Credit Suisse First Boston, Inc, Credit Suisse First Boston, Inc's 100% interest in Credit Suisse First Boston (USA), Inc, and Credit Suisse First Boston (USA), Inc's 100% interest in Credit Suisse First Boston LLC, each of Credit Suisse Group, Credit Suisse First Boston, Credit Suisse First Boston, Inc and Credit Suisse First Boston (USA) is deemed to be interested in 1,876,400 H shares in the Company directly held by Credit Suisse First Boston LLC.
- (iii) By virtue of Credit Suisse Group's 100% interest in Credit Suisse First Boston, Credit Suisse Boston's 100% interest in Credit Suisse First Boston (International) Holdings AG and 56% interest in Credit Suisse First Boston International, and Credit Suisse Group's 20% interest in Credit Suisse First Boston International, and Credit Suisse First Boston (International) Holdings AG's 24% interest in Credit Suisse First Boston International, each of Credit Suisse Group, Credit Suisse First Boston and Credit Suisse First



Boston (International) Holdings AG is deemed to be interested in 323,586,626 H shares in the Company directly held by Credit Suisse First Boston International.

- (iv) By virtue of Credit Suisse Group's 100% interest in Credit Suisse, Credit Suisse Group is deemed to be interested in 18,817,000 H shares in the Company held directly by Credit Suisse.
- (v) By virtue of Credit Suisse Group's 100% interest in Credit Suisse First Boston, Credit Suisse First Boston's 100% interest in Credit Suisse First Boston New York Branch, each of Credit Suisse Group and Credit Suisse First Boston is deemed to be interested in 7,370,803 H shares directly held by Credit Suisse First Boston New York Branch.
- (3) Comprising 7,370,803 shares in the lending pool as described in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong). The term "lending pool" is defined as (i) shares that the approved lending agent holds as agent for a third party which he is authorized to lend and other shares that can be lent according to the requirements of the Securities Borrowing and Lending Rules; and (ii) shares that have been lent by the approved lending agent, and only if the right of the approved lending agent to require the return of the shares has not yet been extinguished.



As at December 31, 2004, 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 shares and short positions kept pursuant to section 336 of the SFO.

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

As at December 31, 2004, other than Zou Haifeng, a non-executive 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 interest 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 Issuers (the “**Model Code**”).

As at December 31, 2004, 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 had any 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.

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 Listing Rules. The waiver in respect of such connected transactions granted by the HKSE became valid on January 1, 2003 and will expire on December 31, 2005.



The Group and CNPC will continue to carry out 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) Material supply 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 providing the relevant products or services (as appropriate), and the relevant members of the Group or CNPC, requiring such products or services (as appropriate).

As the product or service implementation agreements are simply further elaborations on the provision of products and services as contemplated by the Comprehensive Products and Services Agreement, they do not as such 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 metres, 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 marketing 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 and Buildings Supplementary Leasing Agreement

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 of area of 269,770 square metres. The 191 buildings were leased at a price of RMB145 per square metre per year, that is, 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.

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 changes in their production and operations, and changes in the market price, adjust the sizes and quantities of buildings leased under the Buildings Leasing Contract as well as the Supplemental Buildings Agreement 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.

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 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 2004, the total amount guaranteed was RMB756 million.

In relation to the connected transactions undertaken by the Group in 2004, 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 business of the Company;
- (ii) the connected transactions mentioned above have been entered into on terms that are fair and reasonable to the shareholders of the Company;
- (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 the years mentioned below. The annual limit for such transactions is 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 not exceeded the limit set by the HKSE.

The Company's annual limit for the 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
Material supply 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



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 Blocks 9-1 to 9-5 of the Xinjiang Karamay Oilfield Petroleum 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 Beekbury 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 blocks 9-1 to 9-5 of 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 blocks 9-1 to 9-5 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), including: (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 blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and has taken 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 the 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 the training of personnel carried out by the Company for each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and has taken 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 blocks 9-1 to 9-5 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 only likely purchaser of the oil production attributable to CNPC (HK) from each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield is CNPC or its affiliates, including the Company, which will accept delivery of oil produced in blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield at the market price. Since the signing





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 of CNPC (HK) intends to continue with this arrangement. There is no contractual obligation upon the Company to purchase oil produced from blocks 9-1 to 9-5 of 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 as determined with reference to the prevailing fair market price for transactions of crude oil of a similar quality in the major oil markets. This will be 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 will be valid between January 1, 2004 to December 31, 2006.

The Model Code

Having made specific enquiries with all the Directors of the Company, the Directors have in the year covered by this Report complied with the Model Code as set out in Appendix 10 of the Listing Rules. The Company has not adopted a code of conduct less stringent than the Model Code regarding securities transactions of the Directors.

Compliance with the 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 the Listing Rules which is applicable to the reporting period.

Accounting Principle

For the year 2004, the Company did not adopt any new accounting principles.



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 2004. 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 2005 will be proposed at the annual general meeting of the Company which will be held on May 26, 2005.

By Order of the Board
Chen Geng
Chairman
Beijing, the PRC
March 16, 2005