



REPORT OF THE SUPERVISORY COMMITTEE



Li Kecheng
Chairman of the Supervisory
Committee

Dear Shareholders,

During the year 2004, 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 two meetings, considered and passed seven resolutions, completed the review of the 2003 annual report and the 2004 interim report; attended the annual general meeting for the year 2003 with the submission of two resolutions to the meeting, and attended four meetings of the Board of Directors of the Company with the submission of five 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 President's office. The Supervisory Committee conducted two supervisory hearings, received fourteen reports submitted by the Finance Department, Audit Department, Human Resources Department, Supervisory Department and PricewaterhouseCoopers Zhong Tian CPAs Co Ltd, and reviewed and issued its opinion on the Company's finance, profit distribution, connected transactions and the assessment of the performance of the members of the President's office. The Supervisory Committee carried out two random financial auditing investigations, sampling eight departments and prepared ten auditing investigation reports and consolidated reports, and put forward 36 recommendations. The Supervisory Committee conducted four supervisory inspection tours, prepared four inspection tour reports and put forward twelve recommendations. Through the above activities, the Supervisory Committee has reinforced its supervision on the financial matters of the Company and on the senior management in the performance of their duties. It has enhanced the effect of supervision and protected the rights of the shareholders as well as the interests of the Company.

The Supervisory Committee is of the opinion that in 2004, all members of the Board of Directors and the senior management of the Company have worked diligently towards fulfilling their duties. They have grasped the favourable market opportunity created by strong market demand and surging oil prices, unified in their efforts at breaking new grounds, promoted technology advancement and management innovation, optimised production, operation and management, and achieved continuous, effective, rapid and co-ordinated development for the Company. The business results and the value of the Company improved remarkably. There was breakthrough in the exploration of oil and natural gas. The oil equivalent production, processed volume of crude oil and sales of refined products reached historical highs. International operations also improved substantially. Commercial transmission of gas through the West-East Pipeline project commenced. As far as the Supervisory Committee is aware, none of the senior management of the Company was in breach of any applicable laws and regulations of the PRC and the Company's places of listing and the Articles of Association of the Company while performing their management responsibilities.

In 2004, financial management of the Company continued to regularize and innovate. This had led to further improvement in the financial position of the Company. Financial indices reached historical high. Ratios including revenue ratio and net profit ratio from sales improved significantly; asset structure and asset quality also improved, and the utilisation of capital increased further.

The Company's connected transactions position continue to improve and are more 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 2004 and is fully confident in the prospects of the Company.

The Supervisory Committee is of the opinion that the unqualified financial report prepared by PricewaterhouseCoopers pursuant to IFRS gives a true and fair view of the Company's financial position, operating results and cash flow. The Supervisory Committee approves the financial report.

The Supervisory Committee hopes that the Company will continue in its adherence to the guiding policy of maintaining a sustained, effective, fast and co-ordinated development, further enhance its efforts in technical development and management innovations, strengthen exploration and development of oil and gas, strive for an increase in the storage and production volume; speed up the optimisation and restructuring of its refining and chemicals business and enhance its competitiveness and profitability; further strengthen its efforts for market development, improve sales and marketing, and proactively develop new prospects for business growth; enhance the development of international business, improve its competitiveness in the international market and risk-taking capability; and persist in perfecting its internal control mechanism and management, so as to maximize the long term value of the Company.

In 2005, the Supervisory Committee will continue to fulfil its duties to verify the truthfulness of the financial information, ensure legal compliance of the Company's connected transactions, supervise the discharge of the duties by senior management of the Company, and complete other duties 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 16, 2005