



Wang Fucheng Chairman of the Supervisory Committee

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year 2006, the Supervisory Committee has carried out their duties conscientiously and in accordance with the relevant provisions of the Companies Law of the PRC, the Articles of Association of the Company and the Organisation and Rules of Procedures of the Supervisory Committee. During the year, the Supervisory Committee held two meetings, considered and passed seven resolutions and completed review of the Company's

2005 annual report and 2006 interim report; attended the annual general meeting for the year 2005 and an extraordinary general meeting in 2006 and submitted two resolutions to the extraordinary general meeting; attended four meetings of the Board of Directors of the Company and submitted five written opinions of the Supervisory Committee in respect of its review of the financial reports of the Company, the draft profit distribution plan and assessment of the performance of the President's Work Team. The Supervisory Committee conducted two supervisory hearings, received fourteen reports submitted by the Finance Department, Audit Department, Human Resources Department, Supervisory Department and PricewaterhouseCoopers (Certified Public Accountants, Hong Kong), and reviewed and issued relevant opinions on the Company's financial reports, profit distribution, connected transactions and assessment of the performance of the President's Work Team. The Supervisory Committee completed two random financial auditing investigations, performed random auditing on eight departments, prepared a total of ten investigation reports and general reports and put forward 41 recommendations. The Supervisory Committee also conducted two special audit investigations on various aspects of companies located in four regions including the investment aspect, shareholding aspect and asset management aspect, prepared two reports and put forward 22 recommendations. The Supervisory Committee also made two supervisory inspection tours, prepared two reports and put forward ten recommendations. Through the above

activities, the Supervisory Committee has reinforced its supervision on the financial affairs of the Company and the performance of duties by the senior management. 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 2006, the Company has, with a view to enhancing quality and efficiency, organised steady production, operated positively and soundly, and strengthened micro management. Results of the Company in these areas were prominent. The Company achieved fruitful results in oil and gas exploration. The Company's oil and gas output and sales volume both hit another historical high. Production operations of the refining and chemicals segments were running steadily. More investments were made to tap potential in the oil and gas market. The international operations of the Company were growing steadily with continuous expansion in the operational scale. The construction of various key projects proceeded in an orderly manner and a number of projects were completed and commenced production. The Company placed more emphasis on improving safety, environmental protection and energy saving. The Company also attained eminent results in technological innovations to support its operations more effectively. Businesses of the Company were further integrated. Risk management kept on improving. There were also marked improvements in the overall competitiveness, corporate value and corporate image of the Company.

In year 2006, the Company's overall financial position was further improved. Quality of the current assets of the Company kept on improving, the outstanding debts due to the Company incurred over past years decreased. The quality and the profit-generating potential of the Company's fixed assets improved. The total amount of the Company's interest-bearing debts reduced. Both the debt to asset ratio and the gearing ratio dropped, reflecting the Company has improved repayment and financing ability. Shareholders' equity increased steadily, providing high returns for the shareholders of the Company.

Continuing connected transactions of the Company were carried out with HKSE's approval and within the limits approved on the extraordinary general meetings of the Company.

The President's Work Team completely fulfilled the assessment targets on their performance of duty. None of the senior management of the Company was found by the Supervisory Committee to be in breach of any applicable laws and regulations of the PRC and the Company's places of listing and the Company's Articles of Association in the performance of their duties.

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COMMITTEE**

The Supervisory Committee is satisfied with the results achieved by the Company in 2006 and is confident of the prospects of the Company.

The Supervisory Committee is of the opinion that the financial reports audited by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) pursuant to the IFRS gives a true and fair view on the financial position, operating results and cash flows of the Company. The Supervisory Committee considers the unqualified opinion issued by PricewaterhouseCoopers (Certified Public Accountants, Hong Kong) is objective and fair. The Supervisory Committee approves the financial report.

The Supervisory Committee hopes that the Company will fully implement the concept of efficient and scientific development, make solid progress in organisational restructuring, optimisation of resources allocation and change the mode of economic growth, improve safety, environmental protection and energy saving, promote institutional, technological and management innovations, build up a team of high-calibre personnel, enhance operational efficiency, establish a balanced and harmonious enterprise and further enable the healthy development of the Company.

In 2007, the Supervisory Committee will continue to fulfil its various duties conscientiously and in compliance with the Companies Law, the Articles of Association of the Company and other relevant regulations.

By Order of the Supervisory Committee

Wang Fucheng

Chairman of the Supervisory Committee

Beijing, the PRC

March 19, 2007