

PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2000
(Amounts in millions except for per share data)

	<u>Notes</u>	<u>2000</u> <u>RMB</u>	<u>1999</u> <u>RMB</u>
TURNOVER	4	241,992	175,969
OPERATING EXPENSES			
Purchases, services and other		(62,598)	(61,470)
Employee compensation costs	6	(14,430)	(11,064)
Exploration expenses, including exploratory dry holes		(8,680)	(7,344)
Depreciation, depletion and amortisation		(33,760)	(23,533)
Selling, general and administrative expenses		(16,649)	(12,596)
Employee separation costs and shut down of	7	(6,579)	-
Revaluation loss	14	-	(1,122)
Impairment loss on assets retained by CNPC	28	-	(2,007)
Taxes other than income taxes		(13,230)	(10,278)
Other (expense)/income		(307)	345
TOTAL OPERATING EXPENSES		<u>(156,233)</u>	<u>(129,069)</u>
PROFIT FROM OPERATIONS		<u>85,759</u>	<u>46,900</u>
FINANCE COSTS			
Exchange gain		1,406	129
Exchange loss		(234)	(2,362)
Interest income		584	632
Interest expense	8	(6,048)	(8,896)
TOTAL FINANCE COSTS		<u>(4,292)</u>	<u>(10,497)</u>
SHARE OF PROFIT OF ASSOCIATED		<u>584</u>	<u>128</u>
PROFIT BEFORE TAXATION	5	82,051	36,531
TAXATION	10	(26,985)	(9,403)
PROFIT BEFORE MINORITY INTERESTS		<u>55,066</u>	<u>27,128</u>
MINORITY INTERESTS		<u>165</u>	<u>(127)</u>
NET PROFIT	12	<u>55,231</u>	<u>27,001</u>
		<u>0.32</u>	<u>0.17</u>

The accompanying notes are an integral part of these financial statements.

PETROCHINA COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

As of December 31, 2000
(Amounts in millions)

	Notes	2000 RMB	1999 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	341,229	324,990
Long-term investments	15	4,784	3,799
Intangible and other assets	17	2,586	1,888
		348,599	330,677
CURRENT ASSETS			
Inventories	18	31,514	17,602
Accounts receivable	19	12,695	14,883
Prepaid expenses and other current assets	20	11,397	28,788
Unlisted short-term investments		5,815	1,487
Cash and cash equivalents	21	18,060	17,848
TOTAL CURRENT ASSETS		79,481	80,608
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	22	36,802	45,190
Income tax payable		9,399	1,133
Other taxes payable		7,171	3,606
Short-term borrowings	23	39,076	59,959
		92,448	109,888
NET CURRENT LIABILITIES		(12,967)	(29,280)
TOTAL ASSETS LESS CURRENT LIABILITIES		335,632	301,397
FINANCED BY:			
Share capital	24	175,824	160,000
Retained earnings		33,057	3,326
Reserves	25	64,076	47,085
Shareholders' equity		272,957	210,411
Minority interests		4,989	4,200
NON CURRENT LIABILITIES			
Long-term borrowings	23	53,341	84,458
Deferred credits and other long-term obligations		1,176	1,146
Deferred taxation	26	3,169	1,182
		57,686	86,786
		335,632	301,397

The accompanying notes are an integral part of these financial statements.

Chairman
Ma Fucai

President
Huang Yan

PETROCHINA COMPANY LIMITED
BALANCE SHEET

As of December 31, 2000
(Amounts in millions)

	Notes	2000 RMB	1999 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	244,375	297,010
Long-term investments	15	4,564	3,480
Subsidiaries	16	81,673	10,511
Intangible and other assets	17	1,822	1,340
		<u>332,434</u>	<u>312,341</u>
CURRENT ASSETS			
Inventories	18	26,434	14,725
Accounts receivable	19	11,237	12,931
Prepaid expenses and other current assets	20	17,357	33,590
Unlisted short-term investments		5,763	1,017
Cash and cash equivalents	21	15,055	15,490
TOTAL CURRENT ASSETS		<u>75,846</u>	<u>77,753</u>
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	22	39,936	41,043
Income tax payable		8,977	888
Other taxes payable		3,093	3,617
Short-term borrowings	23	36,485	55,666
		<u>88,491</u>	<u>101,214</u>
NET CURRENT LIABILITIES		<u>(12,645)</u>	<u>(23,461)</u>
TOTAL ASSETS LESS CURRENT		<u>319,789</u>	<u>288,880</u>
FINANCED BY:			
Share capital	24	175,824	160,000
Retained earnings		39,251	3,326
Reserves	25	57,882	47,085
Shareholders' equity		<u>272,957</u>	<u>210,411</u>
NON CURRENT LIABILITIES			
Long-term borrowings	23	43,036	76,056
Deferred credits and other long-term obligations		1,090	1,031
Deferred taxation	26	2,706	1,382
		<u>46,832</u>	<u>78,469</u>
		<u>319,789</u>	<u>288,880</u>

The accompanying notes are an integral part of these financial statements.

Chairman
Ma Fucai

President
Huang Yan

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2000
(Amounts in millions)

	<u>Notes</u>	<u>2000</u> <u>RMB</u>	<u>1999</u> <u>RMB</u>
CASH FLOWS FROM OPERATING ACTIVITIES	27	104,169	54,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(56,759)	(42,870)
Capital expenditures for assets retained by CNPC		-	(111)
Acquisition of associated companies		(380)	(73)
Share of profit of associated companies		(584)	(128)
Repayment of capital by associated companies		278	-
Acquisition of long-term investments		(947)	(287)
Acquisition of short-term investments		(4,328)	(1,434)
Purchase of intangible assets		(249)	(452)
Purchase of other assets		(934)	(138)
Proceeds from disposal of property, plant and equipment		3,149	4,986
Dividends received		353	89
NET CASH USED FOR INVESTING ACTIVITIES		<u>(60,401)</u>	<u>(40,418)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New short-term borrowings		26,136	53,166
Repayments of short-term borrowings		(37,731)	(57,497)
New long-term borrowings		45,198	34,341
Repayments of long-term borrowings		(85,462)	(54,280)
Principal payment on finance lease obligations		(141)	(141)
Dividends paid to minority interests		(33)	(18)
Capital contribution from minority interests		1,132	128
Cash proceeds on issue of shares		20,336	-
(Distribution to)/contribution from CNPC		(2,640)	14,267
Interim dividend		(10,381)	-
Contributions from CNPC for assets retained by CNPC		-	111
Change in deferred credits and other long-term		30	(973)
NET CASH USED FOR FINANCING ACTIVITIES		<u>(43,556)</u>	<u>(10,896)</u>
Increase in cash and cash equivalents		212	2,739
Cash and cash equivalents at beginning of year		17,848	15,109
Cash and cash equivalents at end of year		<u>18,060</u>	<u>17,848</u>

The accompanying notes are an integral part of these financial statements.

PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY

For the Year Ended December 31, 2000
(Amounts in millions)

	Share Capital (Note 24)	Retained Earnings	Capital and Undistrib uted Earnings	Reserves (Note 25)	Total
	RMB	RMB	RMB	RMB	RMB
Balance at January 1, 1999	-	-	78,133	-	78,133
Revaluation surplus (Note 14)	-	-	-	79,945	79,945
Net profit from January 1 to November 4, 1999	-	-	23,439	-	23,439
Net contribution by owner	-	-	16,631	-	16,631
Deferred tax transferred to capital reserve (Note 26(i))	-	-	-	8,701	8,701
Capitalisation upon establishment of the Company (Note 1)	160,000	-	(118,203)	(41,797)	-
Balance at November 4, 1999	160,000	-	-	46,849	206,849
Net profit from November 5, 1999 to December 31, 1999	-	3,562	-	-	3,562
Transfer to reserves	-	(236)	-	236	-
Balance at December 31, 1999	160,000	3,326	-	47,085	210,411
Net profit for the year ended December 31, 2000	-	55,231	-	-	55,231
Issue of shares (Notes 24 and 25)	15,824	-	-	4,512	20,336
Transfer to reserves by subsidiaries (Note 25)	-	(6,194)	-	6,194	-
Transfer to reserves (Note 25)	-	(8,925)	-	8,925	-
Distribution to CNPC (Note 13(i))	-	-	-	(2,640)	(2,640)
Interim dividend (Note 13(ii))	-	(10,381)	-	-	(10,381)
Balance at December 31, 2000	175,824	33,057	-	64,076	272,957

The accompanying notes are an integral part of these financial statements

1 ORGANISATION AND PRINCIPAL ACTIVITIES

PetroChina Company Limited (the “Company”) was established in the People's Republic of China (the “PRC” or “China”) on November 5, 1999 as a joint stock company with limited liability as a result of a group restructuring (the “Restructuring”) of China National Petroleum Corporation (“CNPC”) in preparation for the listing of the Company’s shares on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited.

China National Petroleum Company (the predecessor of CNPC) was established in 1988 to take over the onshore oil and gas exploration and production entities formerly under the administration of the Ministry of Petroleum Industry. In 1998, in accordance with the decisions made at the Ninth Session of the National People's Congress, the State Council approved a comprehensive restructuring plan for China's oil and gas industry and to form CNPC. The principal goal of this restructuring was to eventually create two nationwide vertically integrated oil and gas companies. As part of the restructuring, which became effective on June 1, 1998, CNPC transferred to China Petrochemical Corporation (“Sinopec”) certain crude oil and natural gas production enterprises located in the eastern and coastal regions of China, and Sinopec transferred to CNPC certain refineries and petrochemical plants located in the north-eastern, northern and western regions of China.

In accordance with the restructuring agreement between CNPC and the Company effective as of November 5, 1999, the Company issued 160 billion shares in exchange for the assets and liabilities transferred to the Company by CNPC. The 160 billion shares were the initial registered capital of the Company with a par value of RMB 1.00 per share.

CNPC transferred to the Company certain assets, liabilities and interests in China related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, (iii) the production and sale of chemicals, and (iv) the transmission, marketing and sale of natural gas. The assets, liabilities and interests transferred by CNPC to the Company include (i) 13 crude oil and natural gas exploration and production enterprises and one exploration unit, (ii) 15 refining and petrochemical production enterprises, (iii) 21 marketing companies, (iv) one pipeline transmission company, (v) two research institutions, and (vi) production sharing contracts (collectively the “Core Units”). CNPC retained five chemical production facilities (Note 28) and certain other assets, liabilities and interests relating to its remaining business and operations, including units providing ancillary and support services, as well as certain domestic and all foreign subsidiaries and joint ventures.

2 BASIS OF PREPARATION

The financial statements are presented on the consolidated basis beginning November 5, 1999 (date of formation of the Company) and on a carve-out combined basis for the periods prior to November 5, 1999. The carve-out combined basis, presents the results of the Company and its subsidiaries (the “Group”) as if the Group had been in existence throughout all periods prior to November 5, 1999 and as if the predecessor operations and businesses of the Core Units and the five chemical production facilities retained by CNPC (Note 28) were transferred to the Company from CNPC as of the earliest period presented. In this context, no direct ownership existed in the historical periods among all the Core Units and accordingly, owner's equity is shown in lieu of shareholders’ equity in the combined financial statements until November 5, 1999.

The Restructuring has been accounted for as a reorganisation of business under common control and the Group is regarded as a continuing entity.

The consolidated financial statements reflect assets, liabilities, revenues and expenses that were directly applicable to the businesses and operations transferred to the Group by CNPC including those for which the management may restructure or close although no specific plans have been approved. Management believes that all historical costs of operations, including those that were and are expected to be disposed of or eliminated, have been included in the consolidated financial statements.

Expenses that could be specifically identified include the following:

- purchases, services and other
- field employee compensation costs
- exploration expenses
- depreciation, depletion and amortisation
- taxes other than income taxes
- exchange gains and losses
- interest expense

For the periods prior to November 5, 1999, for those expenses for which a specific identification method was not practical, the allocation was made for each business segment as a percentage of the historical employee numbers, revenues or respective assets which existed during the period for which they are being used to allocate costs. Costs allocated to the Group from CNPC include two expense categories, employee compensation costs and selling, general and administrative expenses. Employee compensation costs related to housing subsidies and wages, salaries and social security costs of administration departments were allocated to the Group based on the percentage of number of employees of the Group to the total historical number of employees of CNPC. Selling, general and administrative expenses not specifically identifiable to the carved-out operations were allocated to the Group based on the total historical revenues, assets or employee numbers as follows: (i) transportation expenses were allocated to the Group based on the percentage of revenues of the Group to total historical revenues of CNPC, (ii) land use fees, property taxes and vehicle taxes were allocated to the Group based on the percentage of respective assets of the Group to total historical respective assets of CNPC, (iii) other selling, general and administrative expenses primarily including advertising, water, power, travel and office expenses were allocated to the Group based on the percentage of number of employees of the Group to the total historical number of employees of CNPC. The allocation methodology used for each business segment is the same as that used to allocate costs from CNPC to the Group. Management believes that the foregoing presents a reasonable basis of estimating what the Group's expenses would have been on a historical basis. Subsequent to the formation of the Company, these costs are specifically identified and certain products and services are billed directly under the Comprehensive Products and Services Agreement.

The Group is part of a larger group of companies under CNPC and has conducted a portion of its operations through arrangements with related parties. In accordance with the terms of the Comprehensive Products and Services Agreement, the Land Use Rights Leasing Contract and the Buildings Leasing Contract entered into between the Company and CNPC upon the formation of the Company, the Group incurred additional operating expenses of

PETROCHINA COMPANY LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(continued)
approximately RMB 429 for the period from November 5, 1999 to December 31, 1999.

The consolidated financial statements have been prepared in accordance with and comply with International Accounting Standards (“IAS”). The statements are prepared on the historical cost convention as modified by the revaluation of certain property, plant and equipment.

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries in which the Company directly or indirectly owns more than 50 percent voting interest and has the power to exercise control over their operations. The results of operations of subsidiaries are included in the consolidated profit and loss account, and the share attributable to minority interests is excluded from the consolidated net profit. Intercompany balances and transactions have been eliminated.

Investments in subsidiaries are accounted for using the equity method in the Company’s financial statements. Equity accounting involves recognising in the profit and loss account the Company’s share of the subsidiaries’ profit or loss for the year. The Company’s interests in the subsidiaries are carried in the balance sheet at amounts that reflect its share of the net assets of the subsidiaries and include goodwill on acquisition.

A listing of the Group's principal subsidiaries is set out in Note 16.

(b) Investments in associated companies

Associated companies are entities in which the Group holds between 20% and 50% of the voting rights and has significant influence and are accounted for using the equity method. Such equity interests are carried in the balance sheet at amounts that reflect its share of the net assets of the associated companies and include goodwill on acquisition. Equity accounting involves recognising in the consolidated profit and loss account the Group's share of the profit or loss for the year of the associated companies.

Investments in associated companies are accounted for using the equity method in the Company’s financial statements.

A listing of the Group's principal associated companies is shown in Note 15.

(c) Foreign currencies

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account. Monetary assets and liabilities are translated at balance sheet date exchange rates unless hedged by forward foreign exchange contracts, in which case, the rates specified in such forward contracts are used.

The Group did not enter into any hedge contracts during any of the periods presented. No foreign currency exchange gains or losses were capitalised for any periods presented.

(d) Financial instruments

Financial instruments carried at the balance sheet date include cash and bank balances, investments, receivables, accounts payable, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group had no derivative financial instruments in any of the years presented.

(e) Investments

Long-term investments other than investments in subsidiaries and associated companies are shown at cost and provision is only made where, in the opinion of the directors, there is a permanent diminution in the value of an investment, and the provision so made is recognised as an expense in the period in which the diminution is identified.

Short-term investments are stated at fair value. Increases/decreases in the fair values of the short-term investments are credited/charged to the consolidated profit and loss account. There were no differences between fair value and cost in any period presented.

On disposal of short-term investments, the difference between the net disposal proceeds and the carrying amount is charged or credited to the consolidated profit and loss account.

(f) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3 (g)), are initially recorded at cost less accumulated depreciation, depletion and amortisation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at a revalued amount. Revaluations are performed by independent qualified valuers on a regular basis. As disclosed in Note 14, fixed assets, excluding oil and gas reserves, were revalued as of June 30, 1999.

Depreciation, depletion and amortisation to write off the cost or valuation of each asset, other than oil and gas properties, to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation, depletion and amortisation purposes:

Land use rights	over the land use right period of 30-50 years
Buildings	25-40 years
Plant and machinery	10-15 years
Equipment and motor vehicles	3-16 years

No depreciation is provided for construction in progress until they are completed and put in use.

The Group adopted IAS 36, "Impairment of Assets", effective January 1, 2000. Property, plant and equipment are reviewed for possible impairment by evaluating whether the carrying amount of an individual asset exceeds the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the asset and from its ultimate disposal. Prior to adoption of IAS 36, review for possible impairment was based on the criteria in Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of". Adoption of IAS 36 did not have a material effect on the financial statements of the Group.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Revaluation surpluses pertaining to revalued assets depreciated or disposed of are retained in the revaluation reserve and will not be available for offsetting against possible future revaluation losses.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the property for its intended use. Costs for planned major maintenance activities, primarily related to refinery turnarounds, are expensed as incurred except for costs of components that result in improvements and betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives, which is generally the period until the next scheduled major maintenance.

(g) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Costs of wells with proved reserves remain capitalised. All other exploratory wells and geological and geophysical costs are expensed. The Group has no costs of unproved properties capitalized in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. However, in accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses effective March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms coextensive with the projected production life of those reservoirs, ranging up to 55 years. Production licenses to be issued to the Group in the future will be subject to the 30 year maximum unless additional special approvals can be obtained from the State Council. Each of the Group's production licenses is renewable upon application by the Group 30 days prior to expiration. Future oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses. Payments on such licenses are made annually and are expensed as incurred. The cost of oil and gas properties is amortised at the field level on the unit of production method. Unit of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group's production licenses. The Group's reserve estimates include only crude oil and natural gas which management believes can be reasonably produced within the current terms of these production licenses. The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current PRC regulations governing such activities.

(h) Intangible assets

Expenditure on acquired patents, trademarks, technical know-hows and licenses is capitalised and amortised using the straight-line method over their useful lives, generally over 14 to 20 years. Intangible assets are not revalued. The Group does not capitalise internally generated intangible assets. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the consolidated profit and loss account. The recoverable amount is measured as the higher of net selling price and value in use which is the present value of estimated future cash flows to be derived from continuing use of the asset and from its ultimate disposal.

(i) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of leased property or the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Property, plant and equipment acquired under finance lease are generally depreciated over the useful life of the asset as the Group usually obtains ownership of such leased assets by the end of the leased term.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are expensed on the straight-line basis over the lease term.

(j) Related parties

Related parties are corporations in which CNPC is a major shareholder and is able to exercise significant influence.

(k) Inventories

Inventories are oil products, chemical products, and materials and supplies which are stated at the lower of cost or net realisable value. Cost is determined by the weighted average cost method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(l) Trade receivables

Trade receivables are carried at estimated realisable value. An estimate is made for doubtful debts based on a review of the outstanding amounts at the balance sheet dates.

(m) Cash and cash equivalents

Cash equivalents comprise cash in hand and investments with maturities of three months or less from the time of purchase.

(n) Taxation

Approval was obtained from the State Administration for Taxation to report taxable income on a consolidated basis commencing from the formation of the Company. Prior to the formation of the Company, income tax was provided on the taxable income of each of the individual Core Units which filed separate tax returns.

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

The principal temporary differences arise from depreciation on oil and gas properties and equipment and provision for doubtful debts, inventories and permanent diminution in value of investments. Deferred tax assets relating to the carry-forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

The Group also incurs various other taxes which are not income taxes. “Taxes other than income taxes”, which form part of the operating expenses, primarily comprise consumption tax, resource tax, urban construction tax, education surcharges and business tax.

(o) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of sales taxes and discounts. Revenues are recognised only when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(p) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(q) Research and development expenses

Research expenditure incurred is recognised as an expense. Cost incurred on development projects are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits.

(r) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments under which it is required to make monthly contributions to these plans at rates prescribed by the related municipal and provincial governments. The municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group. Contributions to these plans are charged to expense as incurred.

(s) New accounting developments

The International Accounting Standards Committee (“IASC”) has recently issued IAS 22 “Business Combinations”, IAS 36 “Impairment of Assets”, IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and IAS 38 “Intangible Assets”, effective for financial statements covering periods beginning on or after July 1, 1999, and IAS 10 (Revised) “Events After the Balance Sheet Date”, effective for financial statements covering periods beginning on or after January 1, 2000. The Group has implemented these standards commencing January 1, 2000 and the adoption of these new standards did not have a material impact on the reported financial position or results of the Group.

In addition, the IASC has recently issued IAS 39 “Financial Instruments” and IAS 40

PETROCHINA COMPANY LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(continued)
 “Investment Property”, effective for financial statements covering periods beginning on or after January 1, 2001, and IAS 41 “Agriculture”, effective for financial statements covering periods beginning on or after January 1, 2003. The Group has implemented IAS 39 commencing January 1, 2001 and the adoption of this new standard did not have a material impact on the Group's financial statements. The Group does not have investment property and does not engage in agricultural activity, therefore IAS 40 and IAS 41 are not currently applicable to the Group.

4 TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil and natural gas. Analysis of turnover by segment is shown in Note 35.

5 PROFIT BEFORE TAXATION

	<u>2000</u>	<u>1999</u>
	RMB	RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from other investments	33	46
Charging		
Amortisation on intangible and other assets	485	300
Auditors' remuneration	33	25
Cost of inventory (approximates cost of goods sold) recognised	113,055	93,795
Depreciation on property, plant and equipment		
- owned assets	33,249	22,853
- assets under finance leases	26	35
Interest expense (Note 8)	6,048	8,896
Loss on disposal of property, plant and equipment	368	331
Net loss of five chemical production facilities retained by CNPC (Note 28)	-	2,302
Operating lease rentals on land and buildings	2,536	347
Provision for doubtful debts	1,577	751
Provision for diminution in value of inventories	1,236	19
Repair and maintenance	4,883	4,376
Research and development expenditure	1,751	1,023

6 EMPLOYEE COMPENSATION COSTS

	<u>2000</u>	<u>1999</u>
	RMB	RMB
Wages and salaries	9,082	7,807
Social security costs	5,348	3,257
	<u>14,430</u>	<u>11,064</u>

(i) Social security costs

The amounts represent contributions to funds for staff welfare organised by the municipal and provincial governments including contribution to the retirement benefit

PETROCHINA COMPANY LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(continued)
plans (Note 29).

(ii) One time remedial payments for staff housing

The Ministry of Finance of the PRC issued several public notices and regulations during the year ended December 31, 2000 and in January 2001 with respect to the one-time remedial payments for staff housing payable to certain employees who joined the workforce prior to December 31, 1998 and have housing conditions below local standards as determined in accordance with government regulations and guidelines. These Ministry of Finance notices and regulations also provided that the portion of remedial payments attributable to the periods prior to a restructuring of the employer enterprise from a wholly state-owned status to a less than wholly state-owned status is to be borne by the state shareholder of the enterprise.

As described in Note 1, the restructuring that resulted in the formation of the Group took place in November 1999. As such, the one-time remedial housing payments payable to the eligible employees of the Group are to be borne by the state shareholder of the Group, CNPC, and will not have a material adverse effect on the results of operations of the Group or its financial position. The Group is evaluating available information and pending additional local standards and guidelines of a number of locations in which it has operations in order to determine a reliable estimate of the amounts payable to the qualifying employees and reimbursable by the state shareholder of the Group.

7 EMPLOYEE SEPARATION COSTS AND SHUT DOWN OF MANUFACTURING ASSETS

During the year ended December 31, 2000 the Group recorded direct charges totaling RMB 6,579 directly related to management decisions to implement group-wide productivity improvement initiatives and write-down of certain less efficient manufacturing facilities in the following segments: Exploration and Production-RMB 2,694; Refining and Marketing-RMB 1,918; Chemicals-RMB 1,922; Natural Gas-RMB 45.

These charges included RMB 4,215 related to employee separation costs payable at the time of completion of separation procedures for approximately 52,300 employees. As of December 31, 2000, approximately 38,400 employees have been separated with payments totaling RMB 3,180. The remaining 13,900 separations were processed in 2001 at payments of approximately RMB 1,035. The total cost and the total number of employees that might be separated for the entire year 2001 could differ from the amounts incurred in the year 2000.

The remaining charge of RMB 2,364 related to the write-down of certain less efficient operating facilities in the refining (RMB 945) and chemical (RMB 1,419) manufacturing plants. The charge of RMB 2,364 represented the net book value of the facilities. The amount of estimated dismantlement and removal costs less estimated proceeds from the sale of equipment and scrap is not expected to be significant. Dismantlement and removal activities are expected to be completed in 2001.

8 INTEREST EXPENSE

	2000	1999
	RMB	RMB
Interest on		
Bank loans		
- wholly repayable within five years	3,126	4,081
- not wholly repayable within five years	1,606	2,940
Other loans		
- wholly repayable within five years	1,467	2,280
- not wholly repayable within five years	330	144
Finance leases	27	62
Less: amounts capitalised	(508)	(611)
	<u>6,048</u>	<u>8,896</u>

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. Interest rates on such capitalised borrowings ranged from 5.54% to 7.94%. (1999: 5.60% to 10.98%).

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the directors' and supervisors' emoluments are as follows:

	2000	1999
	RMB'0	RMB'0
Fee for directors and supervisors	140	-
Salaries, allowances and other benefits	972	736
Contribution to retirement benefit scheme	27	24
	<u>1,139</u>	<u>760</u>

The emoluments of the directors and supervisors fall within the following bands:

	2000	1999
	Number	Number
Nil – RMB 1,000,000	<u>12</u>	<u>10</u>

Fee for directors and supervisors disclosed above included RMB 95,000 yuan (1999: Nil) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2000 (1999: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 1999 and 2000 were also directors or supervisors and their emoluments are reflected in the analysis presented above.

The Company has adopted a share option scheme which is a share appreciation right arrangement payable in cash to the recipients upon exercise of the rights which become effective on the initial public offering of the H shares of the Company on April 7, 2000. The

PETROCHINA COMPANY LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(continued)
 directors, supervisors and senior executives of the Company are eligible for the scheme.
 35,000,000 units of share appreciation rights were granted to the directors and supervisors
 and 87,000,000 units of share appreciation rights were granted to senior executives.

The rights can be exercised on or after the third anniversary of the grant, i.e. on or after April 8, 2003 up to April 7, 2008. The exercise price is the price as at the initial public offering being HK \$1.28 or approximately RMB 1.36 per share.

As at December 31, 2000, the liability for the units awarded under the scheme has been recognised in the financial statements. It has been calculated based on the difference between the exercise price and the market price of the shares and amounted to approximately RMB 3,000,000.

10 TAXATION

	<u>2000</u>	<u>1999</u>
	<u>RMB</u>	<u>RMB</u>
PRC income tax	24,837	9,870
Deferred tax (Note 26)	1,987	(498)
Share of tax of associated companies	161	31
	<u>26,985</u>	<u>9,403</u>

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is 33% (1999: 33%).

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate in the PRC applicable to the Group as follows:

	<u>2000</u>	<u>1999</u>
	<u>RMB</u>	<u>RMB</u>
Profit before taxation	82,051	36,531
Tax calculated at a tax rate of 33%	27,077	12,055
Special deductions relating to exploration	-	(4,111)
Unrecognised deferred tax benefit arising from tax losses of Core	-	-
Income not subject to tax	-	(56)
Expenses not deductible for tax purposes	-	392
Other (Note (ii))	(92)	(878)
Tax charge	<u>26,985</u>	<u>9,403</u>

(i) Special deductions relating to exploration and production activities represented tax deductions in excess of the actual expenses with respect to exploration and production activities. Accordingly, these deductions represented permanent differences between the tax and accounting bases. Such special deductions ceased to be available upon formation of the Company.

(ii) Other primarily represents depreciation on asset base adjustment under PRC accounting regulations not recognised in the IAS financial statements but deductible for tax purposes.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB 55,231 (1999: RMB 27,001) for the year ended December 31, 2000.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2000 have been computed by dividing net profit by the weighted average number of 171.63 billion shares issued and outstanding for the year.

Basic and diluted earnings per share for the year ended December 31, 1999 have been computed by dividing net profit by the 160 billion state-owned shares issued and outstanding upon the establishment of the Company on November 5, 1999 as if such shares had been outstanding during the year.

There are no dilutive potential ordinary shares.

13 DIVIDENDS

	<u>2000</u>	<u>1999</u>
	<u>RMB</u>	<u>RMB</u>
Distribution to CNPC (Note (i))	2,640	-
Interim dividend (Note (ii))	10,381	-
	<u>13,021</u>	<u>-</u>

(i) In accordance with the restructuring agreement entered into between the Company and CNPC, during the year the Company paid a distribution to CNPC of RMB 2,640 which represents the net profit for the period from October 1, 1999 to November 4, 1999 determined in accordance with the PRC accounting regulations. Accordingly, this distribution was recorded as a reduction to capital reserve (Note 25).

(ii) The directors declared an interim dividend of RMB 0.059042 per share, totaling RMB 10,381, which was paid on October 5, 2000. At the meeting on April 23, 2001, the directors proposed a final dividend in respect of 2000 of RMB 0.082315 per share (1999: nil) amounting to a total of RMB 14,473 (1999: nil). These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending December 31, 2001.

14 PROPERTY, PLANT AND EQUIPMENT
Group

Year Ended December 31, 1999	Land and Build- ings	Oil and Gas Property	Plant and Equip- ment	Motor Vehicle s	Other	Constructi on in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	2			4			33
Revaluation surplus	4,000	146,539	127,499	,515	3,430	26,575	2,558
Revaluation loss	(37)	(512)	(310)	(11)	(28)	(524)	(1,422)
Additions	4,618	2,670	8,534	1,044	1,098	31,256	49,220
Transfers	2,915	30,180	3,497	-	632	(37,224)	-
Disposals and write off	(3,971)	(4,071)	(2,398)	(486)	(363)	-	(11,289)
At end of the year	33,654	259,370	186,796	6,865	6,112	20,722	513,519
Accumulated depreciation							
At beginning of the year	(5,146)	(53,778)	(42,144)	(1,618)	(1,162)	-	(103,848)
Revaluation surplus	343	(49,119)	(14,242)	(505)	(380)	-	(63,903)
Revaluation loss	3	210	67	6	14	-	300
Charge for the year	(1,333)	(10,921)	(9,829)	(446)	(359)	-	(22,888)
Disposals and write off	399	503	668	176	64	-	1,810
At end of the year	(5,734)	(113,105)	(65,480)	(2,387)	(1,823)	-	(188,529)
Net book value							
At end of the year	27,920	146,265	121,316	4,478	4,289	20,722	324,990
Analysis of cost or valuation							
At valuation 1999	29,921	258,800		6,218		-	480,490
At cost	3,733	570	6,321	647	1,036	20,722	33,029
	33,654	259,370	186,796	6,865	6,112	20,722	513,519
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	21,828	112,903	87,739	3,254	3,392	20,722	249,838

<u>Year Ended</u> <u>December 31, 2000</u>	<u>Buildings</u> <u>RMB</u>	<u>Oil and Gas Property</u> <u>RMB</u>	<u>Plant and Equip- ment</u> <u>RMB</u>	<u>Motor Vehicles</u> <u>RMB</u>	<u>Other</u> <u>RMB</u>	<u>Construc- tion in Progress</u> <u>RMB</u>	<u>Total</u> <u>RMB</u>
Cost or valuation							
At beginning of the year	33,654	259,370	186,796	6,865	6,112	20,722	513,519
Additions	1,938	42	2,784	328	141	54,529	59,762
Transfers	1,716	44,142	4,420	444	422	(51,144)	-
Disposals and write off	(606)	(18,480)	(11,395)	(1,583)	(2,951)	-	(35,015)
At end of the year	<u>36,702</u>	<u>285,074</u>	<u>182,605</u>	<u>6,054</u>	<u>3,724</u>	<u>24,107</u>	<u>538,266</u>
Accumulated depreciation							
At beginning of the year	(5,734)	(113,105)	(65,480)	(2,387)	(1,823)	-	(188,529)
Charge for the year	(2,384)	(17,716)	(10,839)	(1,591)	(745)	-	(33,275)
Disposals and write off	398	13,896	7,397	1,376	1,700	-	24,767
At end of the year	<u>(7,720)</u>	<u>(116,925)</u>	<u>(68,922)</u>	<u>(2,602)</u>	<u>(868)</u>	<u>-</u>	<u>(197,037)</u>
Net book value							
At end of the year	<u>28,982</u>	<u>168,149</u>	<u>113,683</u>	<u>3,452</u>	<u>2,856</u>	<u>24,107</u>	<u>341,229</u>
Analysis of cost or valuation							
At valuation 1999	29,315	244,687	169,080	4,635	2,125	-	449,842
At cost	<u>7,387</u>	<u>40,387</u>	<u>13,525</u>	<u>1,419</u>	<u>1,599</u>	<u>24,107</u>	<u>88,424</u>
	<u>36,702</u>	<u>285,074</u>	<u>182,605</u>	<u>6,054</u>	<u>3,724</u>	<u>24,107</u>	<u>538,266</u>
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	<u>23,807</u>	<u>139,629</u>	<u>82,664</u>	<u>2,386</u>	<u>2,031</u>	<u>24,107</u>	<u>274,624</u>

<u>Year Ended</u> <u>December 31, 1999</u>	Land and Build- ings	Oil and Gas Property	Plant and Equip- ment	Motor Vehicles	Other	Construct ion in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	20,094	144,173	105,502	4,073	2,552	24,918	301,312
Revaluation surplus	3,896	83,700	49,463	1,785	1,329	638	140,811
Revaluation loss	(37)	(512)	(310)	(11)	(28)	(524)	(1,422)
Additions	4,380	2,102	8,359	988	695	30,005	46,529
Transfers	2,758	28,549	3,308	-	598	(35,213)	-
Disposals and write off	(3,355)	(3,747)	(1,994)	(437)	(167)	-	(9,700)
At end of the year	<u>27,736</u>	<u>254,265</u>	<u>164,328</u>	<u>6,398</u>	<u>4,979</u>	<u>19,824</u>	<u>477,530</u>
Accumulated depreciation							
At beginning of the year	(4,839)	(51,901)	(40,268)	(1,553)	(1,042)	-	(99,603)
Revaluation surplus	335	(48,002)	(13,918)	(494)	(372)	-	(62,451)
Revaluation loss	3	210	67	6	14	-	300
Charge for the year	(1,209)	(10,687)	(7,739)	(416)	(230)	-	(20,281)
Disposals and write off	219	479	598	172	47	-	1,515
At end of the year	<u>(5,491)</u>	<u>(109,901)</u>	<u>(61,260)</u>	<u>(2,285)</u>	<u>(1,583)</u>	<u>-</u>	<u>(180,520)</u>
Net book value							
At end of the year	<u>22,245</u>	<u>144,364</u>	<u>103,068</u>	<u>4,113</u>	<u>3,396</u>	<u>19,824</u>	<u>297,010</u>
Analysis of cost or valuation							
At valuation 1999	27,076	248,215	160,418	6,246	4,861	-	446,816
At cost	660	6,050	3,910	152	118	19,824	30,714
	<u>27,736</u>	<u>254,265</u>	<u>164,328</u>	<u>6,398</u>	<u>4,979</u>	<u>19,824</u>	<u>477,530</u>
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	<u>18,393</u>	<u>110,750</u>	<u>69,680</u>	<u>2,896</u>	<u>2,504</u>	<u>19,824</u>	<u>224,047</u>

<u>Year Ended</u> <u>December 31, 2000</u>	Land and Build- ings	Oil and Gas Property	Plant and Equip- ment	Motor Vehicles	Other	Construc- tion in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	27,736	254,265	164,328	6,398	4,979	19,824	477,530
Transfer to a subsidiary	(7,407)	(91,614)	(17,604)	(1,673)	(383)	(1,046)	(119,727)
Additions	1,540	32	2,191	124	95	39,863	43,845
Transfers	1,026	34,935	2,908	421	384	(39,674)	-
Disposals and write off	(561)	(14,186)	(9,792)	(1,324)	(1,749)	-	(27,612)
Transfer from a subsidiary	1,188	-	8,523	268	87	463	10,529
At end of the year	<u>23,522</u>	<u>183,432</u>	<u>150,554</u>	<u>4,214</u>	<u>3,413</u>	<u>19,430</u>	<u>384,565</u>
Accumulated depreciation							
At beginning of the year	(5,491)	(109,901)	(61,260)	(2,285)	(1,583)	-	(180,520)
Transfers to a subsidiary	1,031	38,492	6,270	620	87	-	46,500
Charge for the year	(1,706)	(12,771)	(7,861)	(1,323)	(609)	-	(24,270)
Disposals and write off	362	10,747	6,619	1,153	1,436	-	20,317
Transfer from a subsidiary	(168)	-	(1,937)	(77)	(35)	-	(2,217)
At end of the year	<u>(5,972)</u>	<u>(73,433)</u>	<u>(58,169)</u>	<u>(1,912)</u>	<u>(704)</u>	<u>-</u>	<u>(140,190)</u>
Net book value							
At end of the year	<u>17,550</u>	<u>109,999</u>	<u>92,385</u>	<u>2,302</u>	<u>2,709</u>	<u>19,430</u>	<u>244,375</u>
Analysis of cost or valuation							
At valuation 1999	20,123	145,685	140,945	3,517	2,816	-	313,086
At cost	3,399	37,747	9,609	697	597	19,430	71,479
	<u>23,522</u>	<u>183,432</u>	<u>150,554</u>	<u>4,214</u>	<u>3,413</u>	<u>19,430</u>	<u>384,565</u>
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	<u>14,236</u>	<u>91,299</u>	<u>68,678</u>	<u>1,591</u>	<u>1,997</u>	<u>19,430</u>	<u>197,231</u>

The Group's interests in land and buildings at their net book value are analysed as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Short-term lease	86	78	64	77
Medium-term lease	22,411	27,482	17,269	21,865
Long-term lease	6,485	360	217	303
	<u>28,982</u>	<u>27,920</u>	<u>17,550</u>	<u>22,245</u>

All the land and buildings of the Group are located in the PRC.

Property, plant and equipment under finance leases at the end of year are as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Refining and marketing	245	237	245	237
Chemicals	433	700	433	700
Accumulated amortisation	(71)	(99)	(71)	(99)
	<u>607</u>	<u>838</u>	<u>607</u>	<u>838</u>

All finance leases are related to plant and equipment and generally contain purchase options at the end of the lease term. Bank borrowings are secured on properties at net book value of RMB 786 (1999: RMB 1,384) at December 31, 2000.

As part of the Restructuring and as required by the relevant PRC regulations, a valuation of the contributed fixed assets on the asset class level by business segment, excluding oil and gas reserves, was carried out as of June 30, 1999 by China Enterprise Appraisal, a firm of independent valuers registered in the PRC. The valuation was performed in order to determine the fair value of such contributed fixed assets and establish amounts for share capital and capital reserve. The valuation was based on depreciated replacement costs, which will be carried out periodically in the future.

The value of the above contributed fixed assets was determined at RMB 309,254, which resulted in RMB 80,549 in excess of the prior carrying value of the fixed assets as of June 30, 1999. The amount of revaluation reserve of RMB 79,945 appearing in the consolidated statement of changes in shareholders' equity represents this excess amount, net of RMB 604 allocated to minority interests. The total increase in the carrying value of fixed assets was recorded as an increase in the carrying value of gross fixed assets of RMB 144,452 and an increase in accumulated depreciation of RMB 63,903 at June 30, 1999.

The revaluation also identified certain fixed assets with a net carrying value in excess of the appraised value of RMB 1,122, which was recorded as an expense for the year ended December 31, 1999. In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged Chesterton Petty Limited, independent valuers in Hong Kong, to value certain of the Group's properties as of September 30, 1999. The valuation of such assets is not materially different from that arrived at by China Enterprise Appraisal as of June 30, 1999. For the purpose of the preparation of the financial statements, the above revaluation was recognised in the consolidated financial statements as of June 30, 1999.

15 LONG-TERM INVESTMENTS

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Investments in associated companies				
Share of net assets at end of year				
- Listed	184	164	184	164
- Unlisted	2,819	2,778	2,562	2,559
	<u>3,003</u>	<u>2,942</u>	<u>2,746</u>	<u>2,723</u>
Other unlisted investments, at cost	2,153	1,206	2,176	1,101
	<u>5,156</u>	<u>4,148</u>	<u>4,922</u>	<u>3,824</u>
Less: Provision for diminution in value of investments	<u>(372)</u>	<u>(349)</u>	<u>(358)</u>	<u>(344)</u>
Total	<u>4,784</u>	<u>3,799</u>	<u>4,564</u>	<u>3,480</u>

Principal associated companies accounted for under equity method are:

Company Name	Country of Establishment and Operations	Paid-up / Registered Capital	Attributable Equity Interest Held (%)	Principal Activities
Petroleum Long Champ (Group) Co., Ltd.*	PRC	RMB 227	37.9	Design and construction of oil pipelines and provision of consulting services
West Pacific Petrochemical Co., Ltd.	PRC	US\$ 258	22.9	Production and sale of refined and petrochemical products

* A company listed on the Shanghai Stock Exchange. The market value of the investment in this associated company as of December 31, 2000 was RMB 1,692 (1999: RMB 1,301).

Share of net loss of associated companies included in retained earnings of the Group was RMB 391 (composed of a profit of RMB 34 from listed associated companies and loss of RMB 425 from unlisted associated companies) (1999: RMB 306 composed of profit of RMB 14 from listed associated companies and loss of RMB 320 from unlisted associated companies) at December 31, 2000. Dividends received and receivable from associated companies were RMB 320 (all from unlisted associated companies) (1999: RMB 104 all from unlisted associated companies) in 2000. Fair value of unlisted investments approximated their respective carrying amounts at the end of each year.

Dividend income from other unlisted investments was RMB 33 (1999: RMB 41) for the

16 SUBSIDIARIES

	Company	
	2000	1999
	RMB	RMB
Share of net assets of subsidiaries		
- Listed	6,740	6,815
- Unlisted	74,933	3,696
	<u>81,673</u>	<u>10,511</u>
Market value of listed shares	<u>28,750</u>	<u>26,623</u>

Principal subsidiaries are:

Company Name	Country	Incorporat ion and Operation	Paidup Capital RMB	Type of Legal Entity	Attribut able Equity Interest %	Principal Activities
*Daqing Oilfield Company Limited (Note)	PRC		47,500	Φ	100	Exploration, production and the sale of crude oil and natural gas; production and sale of refined products
*Jinzhou Petrochemical Co., Ltd.	PRC		788	Ψ	80.95	Production and sale of chemical products
Jilin Chemical Industrial Company Limited	PRC		3,561	Ψ	67.29	Production and sale of chemical products
*Gansu Tristar Petrochemical (Group) Co., Ltd.	PRC		183	Ψ	51.60	Trading of chemical products, electronic products, metal and construction materials
Heilongjiang Yu Shu Lin Oilfield Company Limited	PRC		1,272	Φ	88.16	Exploration and production of crude oil and natural gas
*Liaohe Jinma Oilfield Company Limited	PRC		1,100	Ψ	81.82	Exploration, production, transportation and sale of crude oil

Φ -- Limited liability company.

Ψ -- Joint stock company with limited liability.

* -- Subsidiaries directly held by the Company as of December 31, 2000.

Note: Daqing Oilfield Company Limited, previously operated as a branch of the Company, was incorporated on January 1, 2000. The assets and liabilities of the branch were transferred to Daqing Oilfield Company Limited on January 1, 2000 at their then carrying values.

17 INTANGIBLE AND OTHER ASSETS

Group	2000			1999		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,776	(610)	1,166	1,541	(470)	1,071
Technical know-how	383	(97)	286	369	(89)	280
Intangible assets	2,159	(707)	1,452	1,910	(559)	1,351
Other assets	1,471	(337)	1,134	537	-	537
	<u>3,630</u>	<u>(1,044)</u>	<u>2,586</u>	<u>2,447</u>	<u>(559)</u>	<u>1,888</u>

Company	2000			1999		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,461	(551)	910	1,138	(431)	707
Technical know-how	227	(29)	198	202	(21)	181
Intangible assets	1,688	(580)	1,108	1,340	(452)	888
Other assets	1,032	(318)	714	452	-	452
	<u>2,720</u>	<u>(898)</u>	<u>1,822</u>	<u>1,792</u>	<u>(452)</u>	<u>1,340</u>

Patents principally represent expenditure incurred in acquiring processes and techniques that are generally protected by relevant government authorities. Technical know-how amounts are attributable to operational technology acquired in connection with purchase of equipment. The technical know-how costs are included as part of the purchase price by contracts and are distinguishable.

Other assets primarily consisted of long-term prepaid expenses to service providers.

18 INVENTORIES

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Oil products	28,890	13,216	24,926	10,339
Chemical products	3,437	4,673	2,354	4,673
Materials and supplies	646	167	536	167
	<u>32,973</u>	<u>18,056</u>	<u>27,816</u>	<u>15,179</u>
Less: Provision for diminution in value				
	<u>31,514</u>	<u>17,602</u>	<u>26,434</u>	<u>14,725</u>

Inventories of the Group carried at net realisable value amounted to RMB 14,378 (1999: RMB 912) at December 31, 2000.

Inventories of RMB 3,820 at December 31, 1999 were pledged as security for borrowings. No inventories were pledged at December 31, 2000.

19 ACCOUNTS RECEIVABLE

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Accounts receivable due from third	17,589	17,710	14,911	15,829
Less: Provision for doubtful debts	<u>(5,516)</u>	<u>(5,119)</u>	<u>(4,379)</u>	<u>(4,879)</u>
	12,073	12,591	10,532	10,950
Accounts receivable due from				
- Fellow subsidiaries	-	2,241	-	1,914
- Associated companies	<u>622</u>	<u>51</u>	<u>705</u>	<u>67</u>
	<u>12,695</u>	<u>14,883</u>	<u>11,237</u>	<u>12,931</u>

Amounts due from related parties are interest free, unsecured and repayable in accordance with normal commercial terms.

The aging analysis of accounts receivable at December 31, 2000 is as follows:

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Within 1 year	10,050	9,695	7,530	8,088
Between 1 to 2 years	1,418	3,698	1,259	3,456
Between 2 to 3 years	1,221	1,192	1,055	1,094
Over 3 years	<u>5,522</u>	<u>5,417</u>	<u>5,772</u>	<u>5,172</u>
	<u>18,211</u>	<u>20,002</u>	<u>15,616</u>	<u>17,810</u>

In year 2000, the Group offers its customers the credit terms of no more than 180 days, except for certain selected customers.

20 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Other receivables	11,599	7,763	17,255	15,788
Less: Provision	(4,926)	(4,281)	(3,730)	(3,999)
	6,673	3,482	13,525	11,789
Notes receivable	2,464	2,224	2,107	1,978
Amounts due from CNPC	-	8,730	-	8,730
Amounts due from fellow subsidiaries	-	12,404	-	9,574
Advances to suppliers	1,881	1,505	1,180	1,123
Prepaid expenses	246	437	184	410
Other current assets	133	6	361	(14)
	<u>11,397</u>	<u>28,788</u>	<u>17,357</u>	<u>33,590</u>

All notes receivable are due within one year.

Other receivables consist primarily of interest receivable, taxes other than income taxes refund receivable, subsidies receivable, and receivables for the sale of materials and scrap.

Amounts due from CNPC and fellow subsidiaries are interest-free, unsecured and repayable in accordance with normal commercial terms.

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Cash at bank and in hand	18,060	17,846	15,055	15,488
Short-term bank deposits	-	2	-	2
	<u>18,060</u>	<u>17,848</u>	<u>15,055</u>	<u>15,490</u>

The weighted average effective interest rate on bank deposits was 2.96% (1999: 2.30%) for the year ended December 31, 2000.

22 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Trade payables	10,697	7,102	7,617	6,028
Advances from customers	2,445	3,518	2,038	3,038
Salaries and welfare payable	3,008	2,282	2,492	2,235
Accrued expenses	33	69	33	66
Dividends payable by subsidiaries to	69		1	66
Interest payable	44	2,192	44	2,161
Construction fee and equipment cost	4,110	1,615	1,712	1,421
Payable to Sinopec	849	639	796	639
Advances from Sinopec	65	1,812	53	1,812
Other payables	11,520	7,227	4,618	5,938
Amounts due to related parties	17		8	50
- Fellow subsidiaries	2,830	17,384	2,109	16,073
- Subsidiaries	-	-	17,492	-
- Associated companies	1,115		923	1,516
	<u>36,802</u>	<u></u>	<u>39,936</u>	<u>41,043</u>

Amounts due to related parties are interest-free, unsecured and repayable in accordance with normal commercial terms.

The aging analysis of trade payables at December 31, 2000 is as follows:

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Within 1 year	9,069	4,401	6,159	3,549
Between 1 to 2 years	1,007	1,027	849	963
Between 2 to 3 years	311	584	303	539
Over 3 years	310	1,090	306	977
	<u>10,697</u>	<u>7,102</u>	<u>7,617</u>	<u>6,028</u>

23 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Bank loans				
- unsecured	14,814	23,418	13,848	21,223
Loans from fellow subsidiaries	14,269	15,544	14,391	14,397
Other	10	854	9	820
	<u>29,173</u>	<u>40,768</u>	<u>28,257</u>	<u>37,344</u>
Current portion of long-term	9,903	19,191	8,228	18,322
	<u>39,076</u>	<u>59,959</u>	<u>36,485</u>	<u>55,666</u>

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group		Company	
		2000 RMB	1999 RMB	2000 RMB	1999 RMB
Renminbi – denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Majority variable interest rates ranging from interest free to 9.90% per annum as of December 31, 2000, with maturities through 2010	29,816	38,536	27,551	35,524
Bank loans for working capital	Majority variable interest rates ranging from interest free to 6.44% per annum as of December 31, 2000 with maturities through 2004	136	2,992	134	2,208
Loans from related parties for the development of oil fields and construction of refining plants	Majority variable interest rates ranging from 5.43% to 5.59% per annum as of December 31, 2000, with maturities through 2008	7,819	-	7,819	-
Working capital loans from related parties	Floating interest rate at 6.03% per annum as of December 31, 2000, with maturities through 2003	360	10,481	-	9,908
Working capital loans	Majority variable interest rates ranging from interest free to 6.44% per annum as of December 31, 2000, with maturities through 2002, including a loan with no fixed repayment term	315	866	7	562

	Interest Rate and Final Maturity	Group		Company	
		2000	1999	2000	1999
		RMB	RMB	RMB	RMB
US dollar – denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.30% to 8.66% per annum as of December 31, 2000, with maturities through 2038	6,633	5,910	3,019	2,830
	Floating interest rates ranging from 6.00% to 8.63% per annum as of December 31, 2000, with maturities through 2015	9,295	11,985	6,991	11,191
Loans from related parties for the development of oil fields and construction of refining plants	Floating interest rate at LIBOR minus 0.25% per annum as of December 31, 2000, with maturities through 2005	1,473	-	1,473	-
Loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from interest free to 1.55% per annum as of December 31, 2000, with maturities through 2022	664	670	664	670
Japanese Yen - denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Majority fixed interest rates ranging from 2.38% to 5.50% per annum as of December 31, 2000, with maturities through 2022	1,233	22,548	709	22,361
Working capital loans	Fixed interest rate at 4.70% per annum as of December 31, 1999	-	988	-	988

	Interest Rate and Final Maturity	Group		Company	
		2000	1999	2000	1999
		RMB	RMB	RMB	RMB
Deutsche Mark – denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 8.30% to 8.49% per annum as of December 31, 2000, with maturities through 2007	269	332	150	332
French Francs - denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.30% to 8.50% per annum as of December 31, 2000, with maturities through 2019	617	694	133	157
Spanish PTAS - denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 1.50% to 7.40% per annum as of December 31, 2000, with maturities through 2003	202	394	202	394
British Pound – denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rate at 2.85% per annum as of December 31, 2000, with maturities through 2008	741	933	741	933
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 5.17% per annum as of December 31, 2000, with maturities through 2011	893	1,055	893	1,055
		60,466	98,384	50,486	89,113
Debentures		2,385	4,731	385	4,731
Finance lease obligations		393	534	393	534
Total long-term borrowings		63,244	103,649	51,264	94,378
Less: Current portion of long-term borrowings		(9,903)	(19,191)	(8,228)	(18,322)
		53,341	84,458	43,036	76,056

Debentures were issued at fixed interest rates ranging from 3.40% to 9.00% with maturities

PETROCHINA COMPANY LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(continued) through 2007. Other loans represent loans from independent third parties other than banks with fixed interest rates ranging from interest free to 8.55%. Interest free loans amounted to RMB 868 (1999: RMB 1,606) at December 31, 2000. Interest free loans were treated as government assistance and no imputation of interest expense on such loans was recognised in the Company's consolidated financial statements.

In connection with the Restructuring, CNPC assumed approximately RMB 30,500 of the Group's borrowings on June 30, 1999, the effect of which is included in the net contribution by owner in the consolidated statement of changes in shareholders' equity in 1999.

Bank borrowings of RMB 17,712 (1999: RMB 61,409) were guaranteed by CNPC and its subsidiaries at December 31, 2000.

The Group's borrowings include secured liabilities (leases and bank borrowings) totaling RMB 474 (1999: RMB 3,956) at December 31, 2000. Bank borrowings are secured over certain of the Group's property, plant and equipment, and inventories (see Notes 14 and 18). Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

As part of the Restructuring, the Company and CNPC agreed to the transfer of related borrowings from CNPC to the Company. Outstanding balances of the borrowings transferred from CNPC to the Company have been included in the Company's financial statements as at December 31, 1999 and 2000.

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Total borrowings:				
- at fixed rates	45,080	86,683	37,100	78,580
- at variable rates	47,337	57,734	42,421	53,142
	<u>92,417</u>	<u>144,417</u>	<u>79,521</u>	<u>131,722</u>
Weighted average effective interest rates:				
- bank loans	5.94%	6.12%	5.85%	6.05%
- loans from related parties	5.33%	6.52%	5.30%	6.49%
- loans from third parties	3.07%	4.70%	3.66%	5.03%
- debentures	6.09%	8.35%	4.45%	8.35%
- finance lease obligations	8.08%	7.06%	8.08%	7.06%

The carrying amounts and fair values of long-term borrowings (excluding finance lease obligations) are as follows:

	Group		Company	
	Carrying Amounts			
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Bank loans	48,942	84,324	39,630	75,930
Loans from related parties	9,652	10,481	9,292	9,908
Debentures	2,385	4,731	385	4,731
Other	1,872	3,579	1,564	3,275
	<u>62,851</u>	<u>103,115</u>	<u>50,87</u>	<u>93,844</u>

	Group		Company	
	Fair Values			
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Bank loans	49,074	85,707	39,591	77,686
Loans from related parties	9,652	10,481	9,292	9,908
Debentures	2,388	4,976	354	4,976
Other	1,505	3,290	1,197	3,054
	<u>62,619</u>	<u>104,454</u>	<u>50,434</u>	<u>95,624</u>

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet dates. Such discount rates ranged from 0.72% to 7.52% as of December 31, 2000 depending on the type of the borrowings. The carrying amounts of short-term borrowings and finance lease obligations approximate their fair value.

Maturities of long-term borrowings (excluding finance lease obligations) at the dates indicated below are as follows:

Bank loans	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Within one year	8,852	14,476	7,939	13,814
Between one to two years	4,715	13,734	3,913	12,440
Between two to five years	18,982	33,290	16,569	31,031
After five years	16,393	22,824	11,209	18,645
	<u>48,942</u>	<u>84,324</u>	<u>39,630</u>	<u>75,930</u>

Other loans	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Within one year	888	4,534	126	4,326
Between one to two years	228	2,482	123	2,416
Between two to five years	7,373	8,331	6,874	8,030
After five years	5,420	3,444	4,118	3,142
	<u>13,909</u>	<u>18,791</u>	<u>11,241</u>	<u>17,914</u>

Future minimum payments on finance lease obligations at the dates indicated below are as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB	RMB	RMB	RMB
Within one year	192	210	19	210
Between one to two years	121	190	12	190
Between two to five years	139	198	13	198
	<u>452</u>	<u>598</u>	<u>45</u>	<u>598</u>
Future finance charges on finance lease	(59)	(64)	(59)	(64)
Present value of finance lease obligations	<u>393</u>	<u>534</u>		<u>534</u>
The present value of finance lease				
- Within one year	163	181	16	181
- Between one to two years	104	172	10	172
- Between two to five years	126	181	12	181
	<u>393</u>	<u>534</u>	<u>39</u>	<u>534</u>

24 SHARE CAPITAL

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Registered, issued and fully paid:				
State-owned shares	158,242	160,000	158,242	160,000
H shares and ADS (each representing 100	17,582	-	17,582	-
	<u>175,824</u>	<u>160,000</u>	<u>175,824</u>	<u>160,000</u>

As at December 31, 1999, the registered capital of the Company was RMB 160,000 consisting of 160 billion state-owned shares of RMB 1.00 each. Such shares were issued to CNPC, credited as fully paid in consideration for the transfer of the relevant assets and liabilities by CNPC. The details of the Restructuring are set out in Note 1.

On April 7, 2000, the Company completed a global initial public offering (“Global Offering”) pursuant to which 17,582,418,000 shares of RMB 1.00 each, representing 13,447,897,000 H shares and 41,345,210 American Depositary Shares (“ADSs”, each representing 100 H shares), were issued at prices of HK\$ 1.28 per H share and US\$ 16.44 per ADS, respectively, for which the net proceeds to the Company were approximately RMB 20 billion. The shares issued pursuant to the Global Offering rank equally with existing shares. The H shares and ADSs were listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange on April 7, 2000 and April 6, 2000, respectively.

The 17,582,418,000 H shares issued by the Company comprise 15,824,176,000 shares offered by the Company, and 1,758,242,000 shares offered by CNPC pursuant to an approval from China Securities Regulatory Commission to convert the state-owned shares owned by CNPC.

Shareholders’ rights are governed by the PRC Company Law that requires an increase in registered capital to be approved by the shareholders in general meeting and the relevant PRC Government and regulatory authorities.

25 RESERVES

	Capital Reserve	Revalua- tion Reserve	Statutory Common Reserve Fund (Note a)	Statutory Common Welfare Fund (Note b)	Total
	RMB	RMB	RMB	RMB	RMB
Group					
Balance at January 1, 1999	-	-	-	-	-
Revaluation surplus (Note 14)	-	79,945	-	-	79,945
Deferred tax transferred to capital reserve (Note 26(i))	8,701	-	-	-	8,701
Capitalisation upon establishment of the Company (Note 1)	(41,797)	-	-	-	(41,797)
Transfer from retained earnings to reserves	-	-	124	112	236
Balance at December 31, 1999	(33,096)	79,945	124	112	47,085
Issue of shares	4,512	-	-	-	4,512
Transfer from retained earnings to reserves by subsidiaries	-	-	4,130	2,064	6,194
Transfer from retained earnings to reserves	-	-	4,694	4,231	8,925
Distribution to CNPC (Note 13(i))	(2,640)	-	-	-	(2,640)
Balance at December 31, 2000	(31,224)	79,945	8,948	6,407	64,076
Company					
Balance at January 1, 1999	-	-	-	-	-
Revaluation surplus	-	78,356	-	-	78,356
Deferred tax transferred to capital reserve (Note 26(i))	8,406	-	-	-	8,406
Capitalisation upon establishment of the Company (Note 1)	(41,797)	-	-	-	(41,797)
Share of subsidiaries' reserves	295	1,589	-	-	1,884
Transfer from retained earnings to reserves	-	-	124	112	236
Balance at December 31, 1999	(33,096)	79,945	124	112	47,085
Issue of shares	4,512	-	-	-	4,512
Transfer from retained earnings to reserves	-	-	4,694	4,231	8,925
Distribution to CNPC (Note 13(i))	(2,640)	-	-	-	(2,640)
Balance at December 31, 2000	(31,224)	79,945	4,818	4,343	57,882

(a) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation. The directors have proposed to transfer 9% (1999: 9%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2000 to the statutory common welfare fund.

(c) The Company's distributable reserve is the retained earnings computed under the PRC accounting regulations, which amounted to RMB 14,197 (1999: RMB 1,003) as of December 31, 2000. The distributable reserve computed under the PRC accounting regulations at December 31, 2000 had been arrived at after the accrual for the proposed final dividend in respect of year 2000 of RMB 14,473 (Note 13 (ii)).

(d) As of December 31, 2000, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 12,821 (1999: RMB 4,275).

26 DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 33%.

The movements in the deferred taxation account are as follows:

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
At beginning of year	1,182	10,381	1,382	10,061
Transfer to capital reserve (Note (i))	-	(8,701)	-	(8,406)
Transfer (from)/to profit and loss account (Note 10)	1,987	(498)	1,324	(273)
At end of year	<u>3,169</u>	<u>1,182</u>	<u>2,706</u>	<u>1,382</u>

Deferred tax balances are attributable to the following items:

	Group		Company	
	2000 RMB	1999 RMB	2000 RMB	1999 RMB
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	(3,948)	(3,291)	(3,182)	(3,067)
Tax losses of subsidiaries	(116)	-	-	-
Non current:				
Shut-down of manufacturing assets	(759)	-	(616)	-
Other	(120)	(116)	(5)	(122)
Total deferred tax assets	<u>(4,943)</u>	<u>(3,407)</u>	<u>(3,803)</u>	<u>(3,189)</u>
Deferred tax liabilities:				
Current:				
Sales (Note (ii))	4,401	4,401	4,401	4,401
Non current:				
Accelerated depreciation (Note (i))	<u>3,711</u>	<u>188</u>	<u>2,108</u>	<u>170</u>
Total deferred tax liabilities	<u>8,112</u>	<u>4,589</u>	<u>6,509</u>	<u>4,571</u>
Net deferred tax liabilities	<u>3,169</u>	<u>1,182</u>	<u>2,706</u>	<u>1,382</u>

(i) Under a special approval granted by the Ministry of Finance, the effect of the revaluation is available as additional depreciation base for the purposes of determining taxable income. Accordingly, no deferred tax liability is generated as a result of the revaluation. In addition, temporary differences arising from accelerated depreciation accumulated up to the formation of the Company were eliminated and the related deferred tax liability brought forward was transferred to capital reserve.

(ii) Core units in the Exploration and Production segment were required to remit to the headquarters a portion of the proceeds arising from crude oil sales. These remittances were deductible for income tax purposes. The amounts received by the headquarters were taxable to the extent recorded as income. A portion of the remittances received by the headquarters may be deferred for determination of income tax, thus generating temporary differences between the taxes and accounting bases. Such deferral ceased to be available upon the formation of the Company.

(iii) No valuation allowances were recognised on deferred tax assets as the Company anticipated to fully realise such assets.

27 CASH FLOWS FROM OPERATING ACTIVITIES

	2000	1999
	RMB	RMB
Profit before taxation	82,051	36,531
Adjustments for:		
Depreciation, depletion and amortisation	33,760	23,188
Provision for shut-down of manufacturing assets	2,364	-
Dry hole costs	4,367	4,162
Provision for doubtful debts	1,577	751
Provision for diminution in value of inventories	1,236	19
Provision for diminution in value of investments	23	133
Revaluation loss	-	1,122
Loss on disposal of property, plant and equipment	368	331
Dividend income	(33)	(46)
Interest income	(584)	(632)
Interest expense	6,048	8,896
Net loss from assets retained by CNPC	-	2,302
Changes in working capital:		
Accounts and other receivables	18,002	(4,675)
Inventories	(15,148)	(128)
Payables and accrued liabilities	(5,182)	1,061
CASH GENERATED FROM OPERATIONS	128,849	73,015
Interest received	584	632
Interest paid	(8,692)	(9,167)
Income taxes paid	(16,572)	(10,427)
NET CASH PROVIDED BY OPERATING ACTIVITIES	104,169	54,053

28 NET ASSETS RETAINED BY CNPC

Prior to November 5, 1999, the date of formation of the Company, the consolidated financial statements included the financial position and results of operations of five chemical production facilities. These chemical production facilities were retained by CNPC and the assets and related operations are not included in the Group's operations after November 5, 1999. The table below reflects the consolidated results of operations of the five chemical production units.

	1999
	RMB
Sales and other operating revenues	311
Loss from operations	(2,289)
Net loss	(2,302)

Loss from operations and net loss for the year ended December 31, 1999 included impairment charges of RMB 2,007. The impairment charges relate to the plant and equipment related to the butadiene rubber and high carbon alcohol facilities. At each balance sheet date, CNPC management identified impairment indicators at these two facilities and in accordance with US FAS 121, compared the carrying amount of each facility to the estimated undiscounted future cash flows for each facility based on the best

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available evidence. CNPC management determined that after a relatively short period of operations that the facilities would not generate sufficient positive cash flows in the future to recover their related carrying values primarily due to low utilisation at the butadiene rubber facility, the low price of high carbon alcohol and high operating cost of both facilities. These facilities are assets held for use since in the PRC, assets cannot be disposed of without the approval of the central government and CNPC continues to operate these facilities. Accordingly, the carrying values of these facilities were written down to fair value which is based on the asset held for use model using the present value of estimated future cash flows. For the other three facilities, CNPC management determined, at each balance sheet date, that based on the best available evidence, the estimated undiscounted future cash flows for each of such facilities were in excess of each of such facility's carrying amount and, consequently, no impairment was necessary under US FAS 121.

The depreciation charges on these facilities amounted to RMB 218 for the year ended December 31, 1999.

29 PENSIONS

The Group participates in various retirement benefit plans organised by municipal and provincial governments under which it is required to make monthly contributions to these plans at rates ranging from 16% to 22% of the employees' basic salary for the relevant periods. The Group currently has no additional costs for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plans were RMB 1,817 (1999: RMB 1,765) for the year ended December 31, 2000.

30 FINANCIAL INSTRUMENTS

(a) Credit risk

The carrying amounts of accounts receivable included in the balance sheet represent the Company's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

The Company and the Group have no significant concentration of credit risk. Cash is placed with state-owned banks and financial institutions.

(b) Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair value: cash, short-term investments, trade receivables and payables, other receivables and payables, lease obligations, short-term borrowings and floating rate long-term borrowings.

31 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2000, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

(b) Environmental liabilities

CNPC and the Group have operated in China for many years and certain environmental problems have developed. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, management believes that there are no probable liabilities, that are in addition to amounts which have already been reflected in the financial statements, that will have a materially adverse effect on the financial position of the Group.

(c) Legal contingencies

The Group is the named defendant in certain insignificant lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the financial position of the Group.

(d) Leasing of roads, land and buildings

According to the Restructuring Agreement entered into between the Company and CNPC, CNPC has undertaken to the Company the following:

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

Until now, CNPC has obtained part of formal land use right certificates for the above-mentioned parcels of land, individual building ownership certificates for the above-mentioned buildings, and has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively-owned land. The Directors of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events will not have a material adverse effect on the results of operations or the financial position of the Group.

(e) Group insurance

Except for limited insurance coverage for vehicles and certain assets subject to significant operating risks, the Group does not carry any other insurance for property, facilities or equipment with respect to its business operations. In addition, the Group does not carry any third-party liability insurance against claims relating to personal injury, property and environmental damages or business interruption insurance since such insurance

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 coverage is not customary in China. While the effect of under-insurance cannot be reasonably estimated at present, management believes it could have a material impact on the operating results or financial position of the Group.

(f) Cost reduction measures

In addition to the employee separation program and shut-down of certain manufacturing facilities disclosed in Note 7, the Company is currently evaluating options to further streamline production facilities and implement other cost reduction measures within the next several years to further improve the operating efficiency and competitiveness of the Group. Management has not approved all significant actions to be taken to complete such plan. Management does not believe it will have a material adverse impact on the Group's financial position, but it could have a material adverse effect on the Group's results of operations.

32 COMMITMENTS

(a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of buildings and equipment. Leases range from one to fifty years and usually do not contain renewal options. Future minimum lease payments as of December 31, 2000 under non-cancellable operating leases are as follows:

	2000	1999
	RMB	RMB
First year	2,118	2,254
Second year	2,115	2,074
Third year	2,109	2,051
Fourth year	2,098	2,060
Fifth year	2,113	2,063
Thereafter	88,734	91,530
	<u>99,287</u>	<u>102,032</u>

Operating lease expenses for land and buildings were RMB 2,536 (1999: RMB 347) for the year ended December 31, 2000.

(b) Capital commitments

	2000	1999
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	193	1,435
Plant and equipment	228	1,608
Other	124	106
	<u>545</u>	<u>3,149</u>

(c) Exploration and production licenses

The Company is obligated to make annual payments with respect to its exploration and production licenses to the Ministry of Land and Resources. Payments incurred were approximately RMB 126 (1999: RMB 73) for the year ended December 31, 2000.

Estimated annual payments in the future are as follows:

	RMB
2001	183
2002	256
2003	328
2004	421
2005 and thereafter	539

(d) Dividends

Dividends received from the Company are likely to be one of the principal sources of funding for CNPC. Subject to the relevant provisions of the PRC Company law and the Articles of Association of the Company, CNPC, as major shareholder of the Company, may seek to influence the determination of the amount of dividends paid by the Company with a view to satisfying its cash flow requirements including those relating to its obligations to provide supplementary social services to its employees and a limited number of third parties. The Ministry of Finance has committed to provide subsidies to enable CNPC to fund a portion of future operating shortfalls arising out of CNPC's obligation to provide social services. The directors believe that these subsidies will substantially reduce CNPC's reliance on dividends from the Company.

33 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2000		1999	
	Revenue RMB	% to Total Revenue %	Revenue RMB	% to Total Revenue %
Sinopec	36,587	15	35,382	20
China National Petroleum Corporation	23,422	10	13,795	8
	<u>60,009</u>	<u>25</u>	<u>49,177</u>	<u>28</u>

34 RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under CNPC and has extensive transactions and relationships with members of the CNPC group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to corporations in which CNPC is a major shareholder and is able to exercise significant influence.

CNPC itself is a state-owned enterprise. In accordance with a specific exemption in IAS-24, the Group does not accumulate or disclose transactions with other state-owned enterprises as related party transactions, other than those with other CNPC group companies and significant customers as described in Note 33.

The majority of the Group's business activities are conducted with state-owned enterprises. Sale of certain products to these state-owned enterprises are at state-prescribed prices. The Group considers that these sales are activities in the ordinary course of business and has not accumulated or disclosed such as related party transactions.

As a result of the Restructuring, the Company and CNPC entered into a Comprehensive Products and Services Agreement for a range of products and services which may be required and requested by either party; a Land Use Rights Leasing Contract (Note 31(d)) under which CNPC leases 42,476 parcels of land located throughout the PRC to the Company; and a Buildings Leasing Contract under which CNPC leases 191 buildings, together with the headquarters, located throughout the PRC to the Company.

The term of the Comprehensive Products and Services Agreement is 10 years commencing from November 5, 1999. The products and services to be provided by the CNPC group to the Company under the Comprehensive Products and Services Agreement include construction and technical services, production services, supply of material services, social services, ancillary services and financial services. The products and services are provided in accordance with (1) state-prescribed prices; or (2) where there is no state-prescribed price, relevant market prices; or (3) where neither (1) nor (2) is applicable, actual cost incurred; or the agreed contractual price, being the actual cost plus a margin of no more than 15% for certain construction and technical services, and 3% for all other types of services.

The Land Use Rights Contract provides for the lease of an aggregate area of approximately 1,145 million square meters of land located throughout the PRC to members of the Company for a term of 50 years at an annual fee of RMB 2,000. The total fee payable for the lease of all such property may, after the expiration of 10 years, be adjusted by agreement between the Company and CNPC.

Under the Buildings Leasing Contract, 191 buildings covering an aggregate area of 269,770 square meters located throughout the PRC are leased at an aggregate annual fee of RMB 39 for a term of 20 years.

Prior to the establishment of the Company, allocation of costs from companies and operating units retained by CNPC primarily represented direct costs of exploration, drilling, production, construction, maintenance, procurement and other services. Following the establishment of the Company, costs are based on the terms of the agreements entered into with CNPC as described above.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and entities controlled by CNPC during the periods indicated below:

	Notes	2000 RMB	1999 RMB
Sale of goods	(a)	23,422	13,795
Fees paid for construction and technical services	(b)		
Exploration and development services	(c)	21,007	18,579
Other construction and technical services	(d)	15,453	13,043
Fees for production services	(e)	15,007	13,094
Purchase of materials	(f)	-	9,056
Social services charge	(g)	1,352	2,709
Ancillary service charges	(h)	2,145	2,282
Interest income	(i)	42	45
Interest expense	(j)	940	870
Rental expense	(k)	2,048	341
Commission expense and other charges	(l)	1,087	359

Notes:

(a) Represents sale of crude oil, refined and chemical products at various prices including market prices, rates fixed by the government or prices determined by CNPC. Since November 5, 1999, sales were conducted principally at market prices.

(b) Under the Comprehensive Products and Services Agreement entered into between CNPC and the Company, certain construction and technical services provided by CNPC are charged at cost plus an additional margin of no more than 15%, including exploration and development services and oilfield construction services, starting from November 5, 1999.

(c) Direct costs for exploration and development services, comprise geophysical survey, drilling, well cementing, logging and well testing.

(d) The fees paid for other construction and technical services, comprise fees for construction of refineries and chemical plants and technical services in connection with oil and gas exploration and production activities such as oilfield construction, technology research, engineering and design, etc.

(e) The fees paid for production services, comprise fees for the repair of machinery, supply of water, electricity and gas, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery.

(f) These transactions represent procurement of materials and related services for operations directly related to the Group. Such transactions ceased since November 5, 1999 and were replaced by procurement on behalf of the Group. (g) These represent expenditures for social welfare and support services which are charged at cost.

(h) Ancillary service charges represent mainly fees for property management, the provision of training centres, guesthouses, canteens, public shower rooms, etc.

(i) The Group had deposits placed with China Petroleum Finance Company Limited (“CP Finance”), a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China, amounting to RMB 1,018 (1999: RMB 3,956) as of

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December 31, 2000. The deposits yield interest at prevailing saving deposit rates.

(j) The Group had short-term and long-term loans from CP Finance amounting to RMB 23,896 (1999: RMB 25,683) as of December 31, 2000 included under loans from related parties. The loans were unsecured (1999: Secured by inventories at a net book value of RMB 3,820) and interest bearing at below market rates.

(k) Rental expenses are calculated in accordance with the lease agreements entered into between the Company and CNPC effective on November 5, 1999.

(l) With effect from November 5, 1999, CNPC purchased materials on behalf of the Company and charged commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.

(m) The Group had a 4.73% equity interest in CP Finance at a book value of RMB 85 as of December 31, 1999 and 2000.

35 SEGMENT INFORMATION

The Group is engaged in a broad range of petroleum related activities through its four major business segments: Exploration and Production, Refining and Marketing, Chemicals and Natural Gas.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas.

The Refining and Marketing segment is engaged in the refining, transportation, storage and marketing of crude oil and petroleum products.

The Chemicals segment is engaged in the production and sale of basic petrochemical products, derivative petrochemical products, and other chemical products.

The Natural Gas segment is engaged in the transmission of crude oil and natural gas, and the sale of natural gas.

In addition to these four major business segments, the Other segment includes the assets, income and expenses relating to cash management, financing activities, the corporate center, research and development, and other business services to the operating business segments of the Group.

All assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns.

The accounting policies of the operating segments are the same as those described in Note 3 — “Summary of Principal Accounting Policies”.

Operating segment information for the years ended December 31, 1999 and 2000 is presented below:

Year Ended December 31, 1999	Explora- tion and Production RMB	Refinin g and Marke- ting RMB	Chemi- cals RMB	Natu- ral Gas RMB	Othe r RMB	Total RMB
Sales and other operating revenues (including intersegment)	110,190	117,562	25,417	5,977	312	259,458
Less: Intersegment sales	<u>(75,047)</u>	<u>(7,917)</u>	<u>(488)</u>	<u>(37)</u>	<u>-</u>	<u>(83,489)</u>
Total sales and other operating revenues from external customers	<u>35,143</u>	<u>109,645</u>	<u>24,929</u>	<u>5,940</u>	<u>312</u>	<u>175,969</u>
Depreciation, depletion and amortization	(13,013)	(5,089)	(4,717)	(503)	(211)	(23,533)
Segment result	53,083	7,674	(263)	(375)	(968)	59,151
			(1,441)	(40)		
Other costs	<u>(2,188)</u>	<u>(8,161)</u>			<u>(421)</u>	<u>(12,251)</u>
Profit from operations	<u>50,895</u>	<u>(487)</u>	<u>(1,704)</u>	<u>(415)</u>	<u>(1,389)</u>	46,900
Finance costs						(10,497)
Equity in profit of associated companies accounted for by equity method	40	92	(4)	-	-	128
Profit before taxation						36,531
Taxation						(9,403)
Minority interests						(127)
Net profit						<u>27,001</u>
Interest income	219	275	48	4	86	632
Interest expense	(3,382)	(2,280)	(3,011)	(215)	(8)	(8,896)
Revaluation loss	(374)	(221)	(345)	-	(182)	(1,122)
Impairment loss on assets retained by CNPC	-	-	(2,007)	-	-	(2,007)
Segment assets	224,273	93,591	73,307	8,456	8,716	408,343
Investments in associated companies	1,247	1,193	502	-	-	2,942
Total assets						<u>411,285</u>
Segment capital expenditure						
- for property, plant and equipment	32,878	9,208	5,011	1,646	477	49,220
- for assets retained by CNPC	-	-	111	-	-	111
Segment liabilities	75,906	48,329	56,568	4,621	4,710	190,134
Other liabilities						6,540
Total liabilities						<u>196,674</u>

Year Ended December 31, 2000	Explora- tion and Production RMB	Refinin g and Marke- ting RMB	Chemi- cals RMB	Natu- ral Gas RMB	Other RMB	Total RMB
Sales and other operating revenues (including intersegment)	170,928	161,148	33,364	7,163	-	372,603
Less: Intersegment sales	(121,265)	(8,176)	(355)	(815)	-	(130,611)
Total sales and other operating revenues from external customers	<u>49,663</u>	<u>152,972</u>	<u>33,009</u>	<u>6,348</u>	<u>-</u>	<u>241,992</u>
Depreciation, depletion and amortization	(21,354)	(5,927)	(5,728)	(624)	(127)	(33,760)
Segment result	99,375	1,746	2,004	89	(500)	102,714
Other costs	(4,232)	(10,488)	(1,934)	(75)	(226)	(16,955)
Profit from operations	<u>95,143</u>	<u>(8,742)</u>	<u>70</u>	<u>14</u>	<u>(726)</u>	<u>85,759</u>
Finance costs						(4,292)
quity in profit of associated companies accounted for by equity method	280	143	51	-	110	<u>584</u>
Profit before taxation						82,051
Taxation						(26,985)
Minority interests						<u>165</u>
Net profit						<u><u>55,231</u></u>
Interest income (including intersegment)	914	490	959	70	1,234	3,667
Less: Intersegment interest income						<u>(3,083)</u>
Interest income from external entities						<u><u>584</u></u>
Interest expense (including intersegment)	(3,412)	(1,712)	(2,523)	(226)	(1,258)	(9,131)
Less: Intersegment interest expense						<u>3,083</u>
Interest expense to external entities						<u><u>(6,048)</u></u>

Year Ended December 31, 2000	Explora- tion and Production	Refining and Marke- ting	Chemi- -cals	Natu- -ral Gas	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Segment assets	257,706	113,399	76,434	11,990	355,014	814,543
Elimination of intersegment balances						(389,466)
Investments in associated companies	809	1,364	385	5	440	<u>3,003</u>
Total assets						<u><u>428,080</u></u>
Segment capital expenditure - for property, plant and equipment	38,654	13,227	4,104	3,214	563	59,762
Segment liabilities	92,421	61,853	52,426	7,688	83,694	298,082
Other liabilities						19,961
Elimination of Intersegment balances						<u>(167,909)</u>
Total liabilities						<u><u>150,134</u></u>

Note (a) – Segment results for the year ended December 31, 2000 included the effect of employee separation costs and shut down of manufacturing assets (Note 7).

Note (b) – Elimination of intersegment balances primarily represents centralized cash management and financing activities instituted after the formation of the Group.

36 ULTIMATE HOLDING COMPANY

The directors regard CNPC, a state-owned enterprise established in the PRC, as being the ultimate holding company.

37 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on April 23, 2001 and will be submitted to the shareholders for approval at the annual general meeting to be held on June 8, 2001.