PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2001
(Amounts in millions except for per share data)

	Notes	2001	2000
		RMB	RMB
TURNOVER	4	238,893	241,992
OPERATING EXPENSES			
Purchases, services and other		(76,859)	(62,598)
Employee compensation costs	6	(13,992)	(14,430)
Exploration expenses, including exploratory dry holes		(7,344)	(8,680)
Depreciation, depletion and amortisation		(33,367)	(33,760)
Selling, general and administrative expenses		(20,837)	(16,649)
Employee separation costs and shut down of manufacturing assets	7	(478)	(6,579)
Taxes other than income taxes		(13,916)	(13,230)
Other income/(expense),net		117	(307)
TOTAL OPERATING EXPENSES		(166,676)	(156,233)
PROFIT FROM OPERATIONS		72,217	85,759
FINANCE COSTS			
Exchange gain		390	1,406
Exchange loss		(140)	(234)
Interest income		799	584
Interest expense	8	(4,149)	(6,048)
TOTAL FINANCE COSTS		(3,100)	(4,292)
SHARE OF PROFIT OF ASSOCIATED COMPANIES		341	584
PROFIT BEFORE TAXATION	5	69,458	82,051
TAXATION	10	(23,054)	(26,985)
PROFIT BEFORE MINORITY INTERESTS		46,404	55,066
MINORITY INTERESTS		404	165
NET PROFIT		46,808	55,231
BASIC AND DILUTED EARNINGS PER SHARE	12	0.27	0.32

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

As of December 31, 2001
(Amounts in millions)

	Notes	2001	2000
		RMB	RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	365,063	341,229
Long-term investments	15	5,436	4,784
Intangible and other assets	17	3,963	2,586
		374,462	348,599
CURRENT ASSETS			
Inventories	18	27,961	31,514
Accounts receivable	19	7,909	12,695
Prepaid expenses and other current assets	20	22,308	8,933
Notes receivable	21	2,359	2,464
Receivables under resale agreements	22	11,505	5,815
Time deposits with maturities over three months		3,253	-
Cash and cash equivalents	23	11,117	18,060
TOTAL CURRENT ASSETS		86,412	79,481
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	24	51,214	36,802
Income tax payable		5,672	9,399
Other taxes payable		8,751	7,171
Short-term borrowings	25	23,111	39,076
		88,748	92,448
NET CURRENT LIABILITIES		(2,336)	(12,967)
TOTAL ASSETS LESS CURRENT LIABILITIES		372,126	335,632
FINANCED BY:			
Share capital	26	175,824	175,824
Retained earnings		40,724	33,057
Reserves	27	76,574	64,076
Shareholders' equity		293,122	272,957
Minority interests		5,136	4,989
NON CURRENT LIABILITIES			
Long-term borrowings	25	65,484	53,341
Deferred credits and other long-term obligations		1,354	1,176
Deferred taxation	28	7,030	3,169
		73,868	57,686
		372,126	335,632

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

Chairman	President
Ma Fucai	Huang Yan

PETROCHINA COMPANY LIMITED
BALANCE SHEET

As of December 31, 2001
(Amounts in millions)

	Notes	2001 RMB	2000 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	261,750	244,375
Long-term investments	15	4,916	4,564
Subsidiaries	16	95,134	81,673
Intangible and other assets	17	2,952	1,822
		364,752	332,434
CURRENT ASSETS			
Inventories	18	23,844	26,434
Accounts receivable	19	6,761	11,237
Prepaid expenses and other current assets	20	26,993	15,250
Notes receivable	21	2,142	2,107
Receivables under resale agreements	22	11,406	5,763
Time deposits with maturities over three months		3,253	-
Cash and cash equivalents	23	8,152	15,055
TOTAL CURRENT ASSETS		82,551	75,846
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	24	58,266	39,936
Income tax payable		5,924	8,977
Other taxes payable		4,312	3,093
Short-term borrowings	25	21,230	36,485
		89,732	88,491
NET CURRENT LIABILITIES		(7,181)	(12,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		357,571	319,789
FINANCED BY:			
Share capital	26	175,824	175,824
Retained earnings		51,824	39,251
Reserves	27	65,474	57,882
Shareholders' equity		293,122	272,957
NON CURRENT LIABILITIES			
Long-term borrowings	25	58,274	43,036
Deferred credits and other long-term obligations		1,340	1,090
Deferred taxation	28	4,835	2,706
		64,449	46,832
		357,571	319,789

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

Chairman	President
Ma Fucai	Huang Yan

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2001
(Amounts in millions)

	Notes	2001 RMB	2000 RMB
CASH FLOWS FROM OPERATING ACTIVITIES	29	84,492	104,169
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(51,118)	(56,759)
Acquisition of associated companies		(942)	(380)
Share of profit of associated companies		(341)	(584)
Repayment of capital by associated companies		275	278
Acquisition of available-for-sale investments		(176)	(947)
Acquisition of receivables under resale agreements		(5,690)	(4,328)
Acquisition of intangible assets		(412)	(249)
Acquisition of other non-current assets		(1,492)	(934)
Proceeds from disposal of property, plant and equipment		907	3,149
Proceeds from disposal of associated companies		225	-
Proceeds from disposal of available-for-sale investments		99	-
Dividends received		294	353
Increase in time deposits with maturities over three months		(3,253)	-
NET CASH USED FOR INVESTING ACTIVITIES		(61,624)	(60,401)
CASH FLOWS FROM FINANCING ACTIVITIES			
New short-term borrowings		23,913	26,136
Repayments of short-term borrowings		(35,134)	(37,731)
New long-term borrowings		21,255	45,198
Repayments of long-term borrowings		(13,689)	(85,462)
Principal payment on finance lease obligations		(167)	(141)
Dividends paid to minority interests		(60)	(33)
Capital contribution from minority interests		592	1,132
Cash proceeds on issue of shares		-	20,336
Distribution to CNPC(Note13(i))		-	(2,640)
Dividends paid		(26,699)	(10,381)
Change in deferred credits and other long-term obligations		178	30
NET CASH USED FOR FINANCING ACTIVITIES		(29,811)	(43,556)
(Decrease)/ increase in cash and cash equivalents		(6,943)	212
Cash and cash equivalents at beginning of year		18,060	17,848
Cash and cash equivalents at end of year		11,117	18,060

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, 2001
(Amounts in millions)

	Share Capital (Note 26) RMB	Retained Earnings RMB	Reserves (Note 27) RMB	Total RMB
Balance at January 1, 2000	160,000	3,326	47,085	210,411
Net profit for the year ended December 31, 2000	-	55,231	-	55,231
Issue of shares (Note 26 and 27)	15,824	-	4,512	20,336
Transfer to reserves (Note 27)	-	(8,925)	8,925	-
Transfer to reserves by subsidiaries (Note 27)	-	(6,194)	6,194	-
Distribution to CNPC (Note 13)	-	-	(2,640)	(2,640)
Interim dividend (Note 13)	-	(10,381)	-	(10,381)
Balance at December 31, 2000	175,824	33,057	64,076	272,957
Net profit for the year ended December 31, 2001	-	46,808	-	46,808
Premium arising from issue of shares by an associated company	-	-	56	56
Transfer to reserves (Note 27)	-	(7,536)	7,536	-
Transfer to reserves by subsidiaries (Note 27)	-	(4,906)	4,906	-
Final dividend for 2000 (Note 13)	-	(14,473)	-	(14,473)
Interim dividend for 2001 (Note 13)	-	(12,226)	-	(12,226)
Balance at December 31, 2001	175,824	40,724	76,574	293,122

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”) prior to the listing of the Company’s shares on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries are collectively referred to as the “Group”.

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 and in 1998 the State Council approved a comprehensive restructuring plan for China's oil and gas industry to form CNPC.

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. CNPC retained certain chemical production facilities and certain other assets, liabilities and interests relating to its remaining business and operations, as well as certain domestic and all foreign subsidiaries and joint ventures.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS"). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

In 2001 the Group adopted IAS 39 – Financial Instruments : Recognition and Measurement and the adoption of this new standard did not have a material impact on the Group's financial statements.

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 or otherwise 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 balance sheet. 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, or over which the Group has significant influence, but which it does not control 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 balance sheet.

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.

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

On January 1, 2001 the Group adopted IAS 39 and classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; during the year the Group did not hold any investments in this category. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in current assets if their respective maturity dates are twelve months or less from balance sheet date, or in non-current assets if their respective maturity dates are more than twelve months from balance sheet date； during the year the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Available-for-sale investments are not subsequently fair-valued because they do not have quoted market prices in active markets and whose fair values cannot be reliably measured. These investments are carried at cost, and are subject to review for impairments.

(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, property, plant and equipment 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.

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.

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 and other 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 capitalised 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) Provision for impairment of trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(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) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; except for the portion eligible for capitalisation any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(o) 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.

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.

(p) 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 Group 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.

(q) Provisions

Provisions are recognised 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.

(r) Research and development

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

(s) 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.

(t) New accounting developments

The International Accounting Standards Committee (“ISAC”) has issued IAS 41 “Agriculture”, effective for financial statements covering periods beginning on or after January 1, 2003. The Group does not engage in agricultural activity, therefore IAS 41 is not currently applicable to the Group.

IASC’s Standing Interpretations Committee (“SIC”) has recently issued SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”, SIC-28 “Business Combinations–“ Date of Exchange” and Fair Value of Equity Instruments”, SIC-29 “Disclosure–Service Concession Arrangements”, and SIC-31 “Revenue-Barter Transactions Involving Advertising Services”, effective December 31, 2001, SIC-30 “Reporting Currency-Translation from Measurement Currency to Presentation Currency” and SIC-33 “Consolidation and Equity Method–Potential Voting Rights and Allocation of Ownership Interests”, effective for annual financial periods beginning on or after January 1, 2002, and SIC-32 “Intangible Assets-Web Site Costs”, effective March 25, 2002. The Group has implemented SIC–27 on December 31, 2001 and the adoption of this new SIC-27 did not have a material impact on the reported financial position or results of the Group. SIC-28, SIC-29, SIC-30, SIC-31, SIC-32 and SIC-33 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 36.

5 PROFIT BEFORE TAXATION

	2001 RMB	2000 RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	123	33
Reversal of provision for diminution in value of inventories	1,160	-
Charging		
Amortisation on intangible and other assets	514	485
Auditors’ remuneration	48	33
Cost of inventory (approximates cost of goods sold) recognised as expense	123,890	113,055
Depreciation on property, plant and equipment		
- owned assets	32,831	33,249
- assets under finance leases	22	26
Interest expense (Note 8)	4,149	6,048
Loss on disposal of property, plant and equipment	165	368
Operating lease rentals on land and buildings and equipment	2,996	2,536
Provision for doubtful debts	1,317	1,577
Provision for diminution in value of inventories	574	1,236
Impairment of investments	34	23
Repair and maintenance	4,235	4,883
Research and development expenditure	1,896	1,751

6 EMPLOYEE COMPENSATION COSTS

	2001	2000
	RMB	RMB
Wages and salaries	9,244	9,082
Social security costs	4,748	5,348
	13,992	14,430

(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 plans (Note 30).

(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.

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 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 and Marketing-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 RMB 1,035.

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. Both the amounts of estimated dismantlement and removal costs and estimated proceeds from the sale of equipments and scrap are not expected to be significant.

During the year ended December 31,2001, in addition to the above-mentioned employee separation programme for 2000, the Group recorded another direct charge of RMB 478 for the separation of 5,900 employees.

8 INTEREST EXPENSE

	2001 RMB	2000 RMB
Interest on Bank loans		
- wholly repayable within five years	2,152	3,126
- not wholly repayable within five years	1,827	1,606
Other loans		
- wholly repayable within five years	666	1,467
- not wholly repayable within five years	130	330
Finance leases	27	27
Less: amounts capitalised	(653)	(508)
	4,149	6,048

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings was 5.43% (2000: 5.54% to 7.94%).

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2001 RMB'000	2000 RMB'000
Fee for directors and supervisors	170	140
Salaries, allowances and other benefits	1,104	972
Contribution to retirement benefit scheme	23	27
	1,297	1,139

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

	2001 Number	2000 Number
Nil – RMB 1,000,000	12	12

Fee for directors and supervisors disclosed above included RMB 107,596 yuan (2000: RMB 95,000 yuan) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2001 (2000: nil)

The five highest paid individuals in the Group for each of the two years ended December 31, 2000 and 2001 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 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 yuan per share.

As at December 31, 2001, 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 13,000,000 yuan.

10 TAXATION

	2001	**2000**
	RMB	**RMB**
PRC income tax	19,154	24,837
Deferred tax (Note 28)	3,861	1,987
Share of tax of associated companies	39	161
	23,054	26,985

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is 33% (2000: 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:

	2001	**2000**
	RMB	**RMB**
Profit before taxation	69,458	82,051
Tax calculated at a tax rate of 33%	22,921	27,077
Income not subject to tax	(140)	-
Expenses not deductible for tax purposes	273	-
Other	-	(92)
Tax charge	23,054	26,985

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 46,808 (2000: RMB 55,231) for the year ended December 31, 2001.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2001 have been computed by dividing net profit by the number of 175.82 billion shares issued and outstanding for the year.

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.

There are no dilutive potential ordinary shares.

13 DIVIDENDS

	2001	**2000**
	RMB	**RMB**
Distribution to CNPC (Note (i))	-	2,640
Interim dividend for 2000 (Note (ii))	-	10,381
Final dividend for 2000 (Note (iii))	14,473	-
Interim dividend for 2001 (Note (iv))	12,226	-
	26,699	13,021

(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 27).

(ii) An interim dividend of RMB 0.059042 per share, totaling RMB 10,381, was paid on October 5, 2000.

(iii) At the meeting on April 23, 2001, the Board of Directors proposed a final dividend in respect of 2000 of RMB 0.082315 per share amounting to a total of RMB 14,473. The dividend payment was approved by the shareholders in the annual general meeting on June 8, 2001. This dividend payable was not accounted for in the Company's financial statements for the year ended December 31, 2000. It was paid on June 22, 2001, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2001.

(iv) As authorised by shareholders in the Annual General Meeting on June 8, 2001, the Board of Directors, in a meeting held on August 30, 2001, resolved to distribute an interim dividend in respect of 2001 of RMB 0.069535 per share amounting to RMB 12,226. This dividend was paid on October 8, 2001, and was accounted for in the shareholders' equity as a reduction of retained earnings in the year ended December 31, 2001.

(v) At the meeting on April 15, 2002, the directors proposed a final dividend in respect of 2001 of RMB 0.050272 per share amounting to a total of RMB 8,839. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as a reduction of retained earnings in the year ending December 31, 2002.

14 PROPERTY, PLANT AND EQUIPMENT

Group

Year Ended December 31, 2000	Land and Buildings	Oil and Gas Property	Plant and Equipment	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
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	36,702	285,074	182,605	6,054	3,724	24,107	538,266
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	(7,720)	(116,925)	(68,922)	(2,602)	(868)	-	(197,037)
Net book value							
At end of the year	28,982	168,149	113,683	3,452	2,856	24,107	341,229
Analysis of cost or valuation							
At valuation 1999	29,315	244,687	169,080	4,635	2,125	-	449,842
At cost	7,387	40,387	13,525	1,419	1,599	24,107	88,424
	36,702	285,074	182,605	6,054	3,724	24,107	538,266
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	23,807	139,629	82,664	2,386	2,031	24,107	274,624

Group (continued)

Year Ended December 31, 2001	Land and Buildings	Oil and Gas Property	Plant and Equipment	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	36,702	285,074	182,605	6,054	3,724	24,107	538,266
Additions	1,242	733	370	160	168	58,508	61,181
Transfers	10,521	33,500	10,192	646	1,212	(56,071)	-
Disposals and write off	(632)	(14,208)	(616)	(561)	(175)	-	(16,192)
At end of the year	47,833	305,099	192,551	6,299	4,929	26,544	583,255
Accumulated depreciation							
At beginning of the year	(7,720)	(116,925)	(68,922)	(2,602)	(868)	-	(197,037)
Charge for the year	(1,888)	(18,423)	(11,415)	(564)	(563)	-	(32,853)
Disposals and write off	334	10,736	279	247	102	-	11, 698
At end of the year	(9,274)	(124,612)	(80,058)	(2,919)	(1,329)	-	(218,192)
Net book value							
At end of the year	38,559	180,487	112,493	3,380	3,600	26,544	365,063
Analysis of cost or valuation							
At valuation 1999	28,683	233,901	168,464	4,074	1,950	-	437,072
At cost	19,150	71,198	24,087	2,225	2,979	26,544	146,183
	47,833	305,099	192,551	6,299	4,929	26,544	583,255
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	33,333	156,018	85,246	2,652	2,798	26,544	306,591

Company

Year Ended December 31, 2000	Land and Buildings	Oil and Gas Property	Plant and Equipment	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	23,522	183,432	150,554	4,214	3,413	19,430	384,565
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	(5,972)	(73,433)	(58,169)	(1,912)	(704)	-	(140,190)
Net book value							
At end of the year	17,550	109,999	92,385	2,302	2,709	19,430	244,375
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
	23,522	183,432	150,554	4,214	3,413	19,430	384,565
Carrying value of the fixed assets had they been stated at cost less cumulated depreciation	14,236	91,299	68,678	1,591	1,997	19,430	197,231

Company (continued)

Year Ended December 31, 2001	Land and Buildings	Oil and Gas Property	Plant and Equipment	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	23,522	183,432	150,554	4,214	3,413	19,430	384,565
Additions	1,045	663	140	152	73	44,157	46,230
Transfers	7,872	26,944	8,019	332	1,188	(44,355)	-
Disposals and write off	(363)	(12,804)	(595)	(481)	(151)	-	(14,394)
At end of the year	32,076	198,235	158,118	4,217	4,523	19,232	416,401
Accumulated depreciation							
At beginning of the year	(5,972)	(73,433)	(58,169)	(1,912)	(704)	-	(140,190)
Charge for the year	(1,379)	(15,174)	(8,029)	(352)	(480)	-	(25,414)
Disposals and write off	244	10,228	190	197	94	-	10,953
At end of the year	(7,107)	(78,379)	(66,008)	(2,067)	(1,090)	-	(154,651)
Net book value							
At end of the year	24,969	119,856	92,110	2,150	3,433	19,232	261,750
Analysis of cost or valuation							
At valuation 1999	19,760	135,863	140,350	3,036	2,665	-	301,674
At cost	12,316	62,372	17,768	1,181	1,858	19,232	114,727
	32,076	198,235	158,118	4,217	4,523	19,232	416,401
Carrying value of the fixed assets had they been stated at cost less cumulated depreciation	22,939	103,894	68,318	1,707	2,976	19, 232	219,066

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

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Short-term lease	370	86	139	64
Medium-term lease	29,528	22,411	17,490	17,269
Long-term lease	8,661	6,485	7,340	217
	38,559	28,982	24,969	17,550

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	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Refining and marketing	88	245	88	245
Chemicals	433	433	433	433
Accumulated amortisation	(93)	(71)	(93)	(71)
	428	607	428	607

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 539 (2000: RMB 786) at December 31, 2001.

A valuation of the Group's property, plant and equipment, excluding oil and gas reserves, was carried out during 1999 by independent valuers. The valuation was based on depreciated replacement costs, which will be carried out periodically in the future. The revaluation surplus was credited to revaluation reserve in shareholders' equity.

15 LONG-TERM INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Share of net assets of associated companies at end of year	3,992	3,003	3,703	2,746
Unlisted available-for-sale investments	1,850	2,153	1,613	2,176
	5,842	5,156	5,316	4,922
Less: Provision for diminution in value of investments	(406)	(372)	(400)	(358)
Total	5,436	4,784	4,916	4,564

Principal associated companies accounted for under equity method are:

Company Name	Country of Incorporation and Operations	Paid-up / Registered Capital	Attributable Equity Interest Held (%)	Principal Activities
Petroleum Long Champ (Group) Co., Ltd.	PRC	RMB 240	35.9	Design and construction of oil pipelines and provision of consulting services
Dalian West Pacific Petrochemical Co., Ltd.	PRC	US$ 258	22.9	Production and sale of refined and petrochemical products

Share of net loss of associated companies included in retained earnings of the Group was RMB 260 (2000: RMB 391) at December 31, 2001. Dividends received and receivable from associated companies were RMB 171 (2000: RMB 320) in 2001.

Available-for-sale investments, comprising principally unlisted equity securities. These investments are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Dividend income from available-for-sale investments was RMB 123 (2000: RMB 33) for the year ended December 31, 2001.

16 SUBSIDIARIES

Principal subsidiaries are:

Company Name	Country of Incorporation and Operation	Paid-up Capital RMB	Type of Legal Entity	Attributable 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 oil and 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
*Daqing 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 and natural gas

Φ -- Limited liability company.

Ψ -- Joint stock company with limited liability.

* -- Subsidiaries directly held by the Company as of December 31, 2001.

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

	2001			2000		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	2,063	(758)	1,305	1,776	(610)	1,166
Technical know-how	507	(175)	332	383	(97)	286
Intangible assets	2,570	(933)	1,637	2,159	(707)	1,452
Other assets	2,951	(625)	2,326	1,471	(337)	1,134
	5,521	(1,558)	3,963	3,630	(1,044)	2,586

Company

	2001			2000		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,654	(735)	919	1,461	(551)	910
Technical know-how	247	(41)	206	227	(29)	198
Intangible assets	1,901	(776)	1,125	1,688	(580)	1,108
Other assets	2,293	(466)	1,827	1,032	(318)	714
	4,194	(1,242)	2,952	2,720	(898)	1,822

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	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Crude oil and other raw materials	7,774	8,018	4,971	5,737
Work in progress	4,043	4,031	3,434	3,638
Finished goods	16,829	20,817	15,800	18,343
Spare parts and consumables	81	107	68	98
	28,727	32,973	24,273	27,816
Less: Provision for diminution in value of inventories	(766)	(1,459)	(429)	(1,382)
	27,961	31,514	23,844	26,434

Inventories of the Group carried at net realisable value amounted to RMB 2,228 (2000: RMB 14,378) at December 31, 2001.

No inventories were pledged as security for borrowings at December 31, 2001 and 2000.

19 ACCOUNTS RECEIVABLE

	Group		Company	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Accounts receivable due from third parties	12,319	17,589	10,562	14,911
Less: Provision for doubtful debts	(6,207)	(5,516)	(5,200)	(4,379)
	6,112	12,073	5,362	10,532
Accounts receivable due from related parties				
- Fellow subsidiaries	1,740	-	1,359	-
- Associated companies	57	622	40	705
	7,909	12,695	6,761	11,237

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, 2001 is as follows:

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Within 1 year	5,945	10,050	4,692	7,530
Between 1 to 2 years	924	1,418	692	1,259
Between 2 to 3 years	1,091	1,221	942	1,055
Over 3 years	6,156	5,522	5,635	5,772
	14,116	18,211	11,961	15,616

In year 2001, 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	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Other receivables	11,774	11,599	9,934	11,817
Less: Provision	(4,551)	(4,926)	(2,575)	(3,730)
	7,223	6,673	7,359	8,087
Amounts due from CNPC	4,536	-	4,536	-
Amounts due from fellow subsidiaries	8,418	-	5,702	-
Amounts due from subsidiaries	-	-	7,796	5,438
Advances to suppliers	1,536	1,881	1,200	1,180
Prepaid expenses	260	246	174	184
Other current assets	335	133	226	361
	22,308	8,933	26,993	15,250

Other receivables consist primarily of 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 Notes Receivable

Notes receivable represents mainly the bills of acceptance issued by banks for sales of goods and produces. All notes receivable are due within one year.

22 Receivables under resale agreements

Securities purchased under agreements to resell ('resale agreements') are recorded as receivables under resale agreements. The difference between purchase and resell price is treated as interest and accrued over the life of resale agreements using the effective yield method.

Resale agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus interest accrued. The underlying collaterals are principally the PRC government bonds.

23 CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Cash at bank and in hand	11,117	18,060	8,152	15,055

The weighted average effective interest rate on bank deposits was 2.88% (2000: 2.96%) for the year ended December 31, 2001.

24 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Trade payables	4,439	4,697	3,842	3,617
Advances from customers	2,826	2,445	2,374	2,038
Salaries and welfare payable	3,418	3,008	2,833	2,492
Accrued expenses	28	33	28	33
Dividends payable by subsidiaries to minority shareholders	50	69	6	1
Interest payable	385	44	217	44
Construction fee and equipment cost payables	13,520	13,110	7,792	6,312
Payable to Sinopec	1,710	849	1,644	796
Advances from Sinopec	128	65	124	53
Other payables	8,917	8,520	7,471	4,018
Amounts due to related parties				
- CNPC	87	17	16	8
- Fellow subsidiaries	15,178	2,830	12,152	2,109
- Subsidiaries	-	-	19,290	17,492
- Associated companies	528	1,115	477	923
	51,214	36,802	58,266	39,936

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, 2001 is as follows:

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Within 1 year	2,197	3,069	2,077	2,159
Between 1 to 2 years	1,530	1,007	1,206	849
Between 2 to 3 years	413	311	360	303
Over 3 years	299	310	199	306
	4,439	4,697	3,842	3,617

25 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Bank loans				
- secured	56	80	8	9
- unsecured	16,615	14,814	16,248	13,848
Loans from fellow subsidiaries	1,268	14,269	905	14,391
Other	13	10	8	9
	17,952	29,173	17,169	28,257
Current portion of long-term borrowings	5,159	9,903	4,061	8,228
	23,111	39,076	21,230	36,485

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group 2001 RMB	Group 2000 RMB	Company 2001 RMB	Company 2000 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 8.60% per annum as of December 31, 2001, with maturities through 2010	27,073	29,816	25,746	27,551
Bank loans for working capital	Majority variable interest rates ranging from interest free to 6.44% per annum as of December 31, 2001 with maturities through 2004	6,333	136	6,293	134
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, 2001, with maturities through 2008	13,120	7,819	12,819	7,819
Working capital loans from related parties	Floating interest rate at 5.35% per annum as of December 31, 2001, with maturities through 2004	4,000	360	4,000	-
Working capital loans	Majority variable interest rates ranging from interest free to 6.44% per annum as of December 31, 2001, with maturities through 2002, including a loan with no fixed repayment term	313	315	6	7

	Interest Rate and Final Maturity	Group		Company	
		2001	**2000**	**2001**	**2000**
		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, 2001, with maturities through 2038	7,688	6,633	3,109	3,019
	Floating interest rates ranging from 1.98% to 7.60% per annum as of December 31, 2001, with maturities through 2015	2,853	9,295	2,066	6,991
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, 2001, with maturities through 2005	3,633	1,473	3,633	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, 2001, with maturities through 2022	654	664	654	664
Japanese Yen - denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Majority fixed interest rates ranging from 1.88% to 5.30% per annum as of December 31, 2001, with maturities through 2022	917	1,233	511	709

	Interest Rate and Final Maturity	Group		Company	
		2001	2000	2001	2000
		RMB	RMB	RMB	RMB
Euro – denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Majority fixed interest rates ranging from 1.80% to 8.50% per annum as of December 31, 2001, with maturities through 2023	792	1,088	231	485
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, 2001, with maturities through 2007	603	741	603	741
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 5.17% per annum as of December 31, 2001, with maturities through 2011	788	893	788	893
		68,767	60,466	60,459	50,486
Debentures		1,650	2,385	1,650	385
Finance lease obligations		226	393	226	393
Total long-term borrowings		70,643	63,24 4	62,335	51,264
Less: Current portion of long-term borrowings		(5,159)	(9,903)	(4,061)	(8,228)
		65,484	53,341	58,274	43,036

Debentures were issued at fixed interest rates ranging from 4.50% to 9.00% with maturities through 2007. Other loans represent loans from independent third parties other than banks with interest rates ranging from interest free to 6.44%. Interest free loans amounted to RMB 726 (2000: RMB 868) at December 31, 2001. Interest free loans were treated as government assistance and no imputation of interest expense on such loans was recognised in the Group's consolidated financial statements.

Bank borrowings of RMB 1,697 (2000: RMB 17,712) were guaranteed by CNPC and its subsidiaries at December 31, 2001.

The Group's borrowings include secured liabilities (leases and bank borrowings) totaling RMB 284 (2000: RMB 474) at December 31, 2001. Bank borrowings are secured over certain of the Group’s property, plant and equipment (see Notes 14). 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 group restructuring of 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 (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, 2000 and 2001.

	Group		Company	
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Total borrowings:				
- at fixed rates	35,045	45,080	28,532	37,100
- at variable rates	53,550	47,337	50,972	42,421
	88,595	92,417	79,504	79,521
Weighted average effective interest rates:				
- bank loans	5.65%	5.94%	5.55%	5.85%
- loans from related parties	4.82%	5.33%	4.80%	5.30%
- loans from third parties	2.95%	3.07%	3.56%	3.66%
- debentures	5.32%	6.09%	5.32%	4.45%
- finance lease obligations	3.98%	8.08%	3.98%	8.08%

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

	Group		Company	
	Carrying Amounts			
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Bank loans	46,259	48,942	38,559	39,630
Loans from related parties	20,753	9,652	20,452	9,292
Debentures	1,650	2,385	1,650	385
Other	1,755	1,872	1,448	1,564
	70,417	62,851	62,109	50,871

	Group		Company	
	Fair Values			
	2001	2000	2001	2000
	RMB	RMB	RMB	RMB
Bank loans	46,487	49,074	38,618	39,591
Loans from related parties	20,752	9,652	20,452	9,292
Debentures	1,604	2,388	1,604	354
Other	1,573	1,505	1,246	1,197
	70,416	62,619	61,920	50,434

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 0.62% to 6.60% per annum as of December 31, 2001 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:

	Group		Company	
Bank loans	**2001**	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	4,832	8,852	3,841	7,939
Between one to two years	5,519	4,715	4,593	3,913
Between two to five years	24,907	18,982	22,822	16,569
After five years	11,001	16,393	7,303	11,209
	46,259	48,942	38,559	39,630

	Group		Company	
Other loans	**2001**	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	223	888	116	126
Between one to two years	612	228	412	123
Between two to five years	18,947	7,373	18,947	6,874
After five years	4,376	5,420	4,075	4,118
	24,158	13,909	23,550	11,241

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

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	112	192	112	192
Between one to two years	70	121	70	121
Between two to five years	58	139	58	139
	240	452	240	452
Future finance charges on finance lease obligations	(14)	(59)	(14)	(59)
Present value of finance lease obligations	226	393	226	393
The present value of finance lease obligations can be analysed as follows:				
- Within one year	104	163	104	163
- Between one to two years	66	104	66	104
- Between two to five years	56	126	56	126
	226	393	226	393

26 SHARE CAPITAL

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Registered, issued and fully paid:				
State-owned shares	158,242	158,242	158,242	158,242
H shares and ADS (each representing 100 H shares)	17,582	17,582	17,582	17,582
	175,824	175,824	175,824	175,824

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 in 1999.

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.

27 RESERVES

	Capital Reserve	Revaluation Reserve	Statutory Common Reserve Fund (Note a)	Statutory Common Welfare Fund (Note b)	Total
	RMB	RMB	RMB	RMB	RMB
Group					
Balance at January 1, 2000	(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
Transfer from retained earnings to reserves by subsidiaries	-	-	4,130	2,064	6,194
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
Premium arising from issue of shares by an associated company	56	-	-	-	56
Transfer from retained earnings to reserves	-	-	3,966	3,570	7,536
Transfer from retained earnings to reserves by subsidiaries	-	-	3,305	1,601	4,906
Balance at December 31, 2001	(31,168)	79,945	16,219	11,578	76,574
Company					
Balance at January 1, 2000	(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
Premium arising from issue of shares by an associated company	56	-	-	-	56
Transfer from retained earnings to reserves	-	-	3,966	3,570	7,536
Balance at December 31, 2001	(31,168)	79,945	8,784	7,913	65,474

(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% (2000: 9%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2001 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 25,258 (2000: RMB 14,197) as of December 31, 2001. The distributable reserve computed under the PRC accounting regulations at December 31, 2001 had been arrived at after the accrual for the proposed final dividend in respect of year 2001 of RMB 8,839 (Note 13 (v)).

(d) As of December 31, 2001, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 21,179 (2000: RMB 12,821).

28 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	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
At beginning of year	3,169	1,182	2,706	1,382
Transfer to profit and loss account (Note 10)	3,861	1,987	2,129	1,324
At end of year	7,030	3,169	4,835	2,706

Deferred tax balances are attributable to the following items:

	Group		Company	
	2001	**2000**	**2001**	**2000**
	RMB	**RMB**	**RMB**	**RMB**
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	(3,471)	(3,948)	(2,734)	(3,182)
Tax losses of subsidiaries	(111)	(116)	-	-
Non current:				
Shut-down of manufacturing assets	(643)	(759)	(500)	(616)
Other	(182)	(120)	(147)	(5)
Total deferred tax assets	(4,407)	(4,943)	(3,381)	(3,803)
Deferred tax liabilities:				
Current:				
Sales (Note (i))	4,401	4,401	4,401	4,401
Non current:				
Accelerated depreciation	7,036	3,711	3,815	2,108
Total deferred tax liabilities	11,437	8,112	8,216	6,509
Net deferred tax liabilities	7,030	3,169	4,835	2,706

(i) Prior to the formation of the Company in November 1999, certain 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.

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

29 CASH FLOWS FROM OPERATING ACTIVITIES

	2001	2000
	RMB	RMB
Profit before taxation	69,458	82,051
Adjustments for:		
Depreciation, depletion and amortisation	33,367	33,760
Provision for shut-down of manufacturing assets	-	2,364
Dry hole costs	3,422	4,367
Provision for doubtful debts	1,317	1,577
Provision for diminution in value of inventories, net	(586)	1,236
Provision for diminution in value of investments	34	23
Loss on disposal of property, plant and equipment	165	368
Loss on disposal of available-for-sale investments	20	-
Loss on disposal of intangible and other assets	13	-
Dividend income	(123)	(33)
Interest income	(799)	(584)
Interest expense	4,149	6,048
Changes in working capital:		
Accounts receivable and prepaid expenses and other current assets	(9,801)	18,002
Inventories	4,139	(15,148)
Payables and accrued liabilities	6,260	(5,182)
CASH GENERATED FROM OPERATIONS	111,035	128,849
Interest received	799	584
Interest paid	(4,461)	(8,692)
Income taxes paid	(22,881)	(16,572)
NET CASH PROVIDED BY OPERATING ACTIVITIES	84,492	104,169

30 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 RMB1,805 (2000: RMB 1,817) for the year ended December 31, 2001.

31 FINANCIAL INSTRUMENTS

The Group holds or issues various financial instruments which expose it to credit, interest rate and foreign exchange rate risks. In addition, the Group’s operations are affected by certain commodity price movements. The Group historically has not used derivative instruments for hedging or trading purposes. Such activities are subject to policies approved by the Group’s senior management. Substantially all of the financial instruments the Group holds is for purposes other than trading. The Group regards an effective market risk system as an important element of the Group’s treasury function and is currently enhancing its systems. A primary objective is to implement certain methodologies to better measure and monitor risk exposures.

(a) Credit risk

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

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

(b) Interest rate risk

The Group is exposed to the risk arising from changing interest rates. A detail analysis of the Group’s borrowings, together with their respective interest rates and maturity dates, are included in Note 25.

(c) Foreign exchange rate risk

The Renminbi is not freely convertible and its value is subject to changes in the PRC Government's policies and depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. The official exchange rate for the conversion of Renminbi to US dollars has generally been stable recently. Because prices for the Group's crude oil and refined products are set generally with reference to US dollar-denominated international prices, a devaluation of the Renminbi may not have a negative impact on the Group's overall operations. Results of operations and the financial condition of the Group may also be affected by changes in the value of certain currencies other than the Renminbi in which the Group's earnings and obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of the Group's cash flow required to satisfy its foreign currency-denominated obligations. On the other hand, an appreciation of the Renminbi against the US dollar may decrease the Group's revenues without a corresponding decrease in the Group's operating expenses.

(d) Commodity price risk

The Group is engaged in a broad range of petroleum related activities. The hydrocarbon commodity markes are influenced by global as well as regional supply and demand conditions. The PRC government currently publishes prices for onshore crude oil, gasoline and diesel according to international benchmark prices. A decline in prices of crude oil and refined products could adversely affect its financial performance. The Group historically has not used commodity derivative instruments to hedge the potential price fluctuations of crude oil and other refined products. Therefore, during 2001 and 2000, the Group was exposed to the general price fluctuations of broadly traded oil and gas commodities.

(e) 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.

32 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2001, 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 in 1999 upon the formation of the Company, 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.

As at December 31, 2001, CNPC has obtained formal land use right certificates in relation to 12,417 out of the above-mentioned 28,649 parcels of land, some building ownership certificates for the above-mentioned buildings, but 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 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.

33 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, 2001 under non-cancellable operating leases are as follows:

	2001	**2000**
	RMB	**RMB**
First year	2,421	2,118
Second year	2,139	2,115
Third year	2,083	2,109
Fourth year	2,077	2,098
Fifth year	2,093	2,113
Thereafter	86,793	88,734
	97,606	99,287

Operating lease expenses for land and buildings were RMB 2,996 (2000: RMB 2,536) for the year ended December 31, 2001.

(b) Capital commitments

	2001 RMB	2000 RMB
Contracted but not provided for		
Oil and gas properties	539	193
Plant and equipment	54	228
Other	89	124
	682	545

(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 130 (2000: RMB 126) for the year ended December 31, 2001.

Estimated annual payments in the future are as follows:

	RMB
2002	280
2003	382
2004	515
2005	618
2006 and thereafter	681

(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.

34 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2001		2000	
	Revenue	**% to Total Revenue**	**Revenue**	**% to Total Revenue**
	RMB	**%**	**RMB**	**%**
Sinopec	26,046	11	36,587	15
China National Petroleum Corporation	18,628	8	23,422	10
	44,674	19	60,009	25

35 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 34.

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 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 32(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	2001	2000
		RMB	RMB
Sale of goods	(a)	18,628	23,422
Fees paid for construction and technical services	(b)		
Exploration and development services	(c)	20,570	21,007
Other construction and technical services	(d)	14,592	15,453
Fees for production services	(e)	15,581	15,007
Social services charge	(f)	1,261	1,352
Ancillary service charges	(g)	2,087	2,145
Interest income	(h)	26	42
Interest expense	(i)	1,112	940
Rental expense	(j)	2,036	2,048
Commission expense and other charges	(k)	977	1,087

Notes:

(a) Represents sale of crude oil, refined and chemical products 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.

(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 represent expenditures for social welfare and support services which are charged at cost.

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

(h) 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 1,239 (2000: RMB 1,018) as of December 31, 2001. The deposits yield interest at prevailing saving deposit rates.

(i) The Group had unsecured short-term and long-term loans from CP Finance amounting to RMB 22,021 (2000: RMB 23,896) as of December 31, 2001 included under loans from related parties. The loans were interest bearing at market rates.

(j) Rental expenses are calculated in accordance with the lease agreements entered into between the Company and CNPC.

(k) CNPC purchases materials on behalf of the Company and charges commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.

(l) The Group had a 4.73% equity interest in CP Finance at a book value of RMB 85 as of December 31, 2000 and 2001.

36 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 Marketing and Natural Gas and Pipeline.

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

The Natural Gas and Pipeline segment is engaged in the transmission of natural gas and crude oil , 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, 2000 and 2001 is presented below:

Year Ended December 31, 2000	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural 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	49,663	152,972	33,009	6,348	-	241,992
Depreciation, depletion and amortisation	(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	95,143	(8,742)	70	14	(726)	85,759
Finance costs						(4,292)
Equity in profit of associated companies accounted for by equity method	280	143	51	-	110	584
Profit before taxation						82,051
Taxation						(26,985)
Minority interests						165
Net profit						55,231
Interest income (including intersegment)	914	490	959	70	1,234	3,667
Less: Intersegment interest income						(3,083)
Interest income from external entities						584

(continued)

Year Ended December 31, 2000	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural Gas RMB	Other RMB	Total RMB
Interest expense (including intersegment)	(3,412)	(1,712)	(2,523)	(226)	(1,258)	(9,131)
Less: Intersegment interest expense						3,083
Interest expense to external entities						(6,048)
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	3,003
Total assets						428,080
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						(167,909)
Total liabilities						150,134

Year Ended December 31, 2001	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural Gas and Pipeline RMB	Other RMB	Total RMB
Sales and other operating revenues (including intersegment)	148,277	169,534	31,776	11,321	-	360,908
Less: Intersegme sales	(110,738)	(8,436)	(462)	(2,379)	-	(122,015)
Total sales and other operating revenues from external customers	37,539	161,098	31,314	8,942	-	238,893
Depreciation, depletion and amortisation	(21,419)	(5,556)	(5,171)	(1,113)	(108)	(33,367)
Segment result	81,679	10,366	129	1,142	(378)	92,938
Other costs	(4,747)	(12,612)	(2,503)	(420)	(439)	(20,721)
Profit from operations	76,932	(2,246)	(2,374)	722	(817)	72,217
Finance costs						(3,100)
Equity in profit/(loss) of associated companies accounted for by equity method	162	38	29	(9)	121	341
Profit before taxation						69,458
Taxation						(23,054)
Minority interests						404
Net profit						46,808
Interest income (including intersegment)	1,893	1,181	493	104	4,955	8,626
Less: Intersegment interest income						(7,827)

(continued)

Year Ended December 31, 2001	**Exploration and Production RMB**	**Refining and Marketing RMB**	**Chemicals and Marketing RMB**	**Natural Gas and Pipeline RMB**	**Other RMB**	**Total RMB**
Interest income from external entities						799
Interest expense (including intersegment)	(2,896)	(2,408)	(1,991)	(310)	(4,371)	(11,976)
Less: Intersegment interest expense						7,827
Interest expense to external entities						(4,149)

Year Ended December 31, 2001	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural Gas and Pipeline RMB	Other RMB	Total RMB
Segment assets	268,955	116,524	73,341	22,370	412,684	893,874
Elimination of intersegment balances						(436,922)
Investments in associated companies	1,194	919	590	627	592	3,922
Total assets						460,874
Segment capital expenditure						
- for property, plant and equipment	41,193	11,048	4,062	4,557	321	61,181
Segment liabilities	84,369	65,886	49,526	11,547	115,097	326,425
Other liabilities						21,553
Elimination of Intersegment balances						(185,362)
Total liabilities						162,616

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 are elimination of intersegment current accounts and investments.

Note (c) – Effective January 1, 2001, the results of operations, together with the corresponding assets and liabilities, of certain pipeline operations of the Group are reclassified from the Refining and Marketing Segment to the Natural Gas and Pipeline Segment to reflect the changes in the manner under which these operations are managed. The results of operations, together with the corresponding assets and liabilities, of these pipeline operations were included in the Refining and Marketing Segment in the segment information for the year ended December 31, 2000. Selected financial data of these pipeline operations as of and for the year ended December 31, 2000 are as follows:

Sales and other operating revenues (including intersegment)	2,506
Total sales and other operating revenues from external customers	976
Depreciation, depletion and amortisation	539
Segment result	166
Other costs	137
Profit from operations	29
Equity in profit of associated companies accounted for by equity method	60
Interest income	4
Interest expense	91
Segment assets	7,789
Segment liabilities	2,653

37 ULTIMATE HOLDING COMPANY

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

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on April 15, 2002 and will be submitted to the shareholders for approval at the annual general meeting to be held on June 6, 2002.