PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2002
(Amounts in millions except for per share data)

	Note	2002	2001 (Note 2)
		RMB	RMB
TURNOVER	4	244,424	241,320
OPERATING EXPENSES			
Purchases, services and other		(71,690)	(78,529)
Employee compensation costs	6	(16,248)	(14,608)
Exploration expenses, including exploratory dry holes		(8,095)	(7,344)
Depreciation, depletion and amortisation		(36,782)	(33,615)
Selling, general and administrative expenses		(22,474)	(21,735)
Employee separation costs and shut down of manufacturing assets	7	(2,121)	(487)
Taxes other than income taxes		(14,613)	(13,951)
Other (expense)/ income, net		(60)	88
TOTAL OPERATING EXPENSES		(172,083)	(170,181)
PROFIT FROM OPERATIONS		72,341	71,139
FINANCE COSTS			
Exchange gain		133	390
Exchange loss		(449)	(140)
Interest income		463	809
Interest expense	8	(3,516)	(4,408)
TOTAL FINANCE COSTS		(3,369)	(3,349)
SHARE OF PROFIT OF ASSOCIATED COMPANIES	15	268	341
PROFIT BEFORE TAXATION	5	69,240	68,131
TAXATION	10	(22,231)	(23,066)
PROFIT BEFORE MINORITY INTERESTS		47,009	45,065
MINORITY INTERESTS		(99)	404
NET PROFIT		46,910	45,469
BASIC AND DILUTED EARNINGS PER SHARE	12	0.27	0.26

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

As of December 31, 2002
(Amounts in millions)

	Note	2002	2001 (Note 2)
		RMB	RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	397,798	366,970
Long-term investments	15	5,680	5,530
Intangible and other assets	17	4,507	4,148
		407,985	376,648
CURRENT ASSETS			
Inventories	18	28,441	28,313
Accounts receivable	19	6,079	7,392
Prepaid expenses and other current assets	20	15,729	22,066
Notes receivable	21	2,540	2,361
Receivables under resale agreements	22	9,786	11,505
Time deposits with maturities over three months		2,612	3,253
Cash and cash equivalents	23	9,977	11,127
TOTAL CURRENT ASSETS		75,164	86,017
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	24	57,793	53,210
Income tax payable		5,412	5,672
Other taxes payable		5,515	8,762
Short-term borrowings	25	20,633	25,323
		89,353	92,967
NET CURRENT LIABILITIES		(14,189)	(6,950)
TOTAL ASSETS LESS CURRENT LIABILITIES		393,796	369,698
FINANCED BY:			
Share capital	26	175,824	175,824
Retained earnings		59,004	35,607
Reserves	27	81,848	79,175
Shareholders' equity		316,676	290,606
Minority interests		4,854	5,136
NON CURRENT LIABILITIES			
Long-term borrowings	25	60,655	65,546
Deferred credits and other long-term obligations		1,684	1,380
Deferred taxation	28	9,927	7,030
		72,266	73,956
		393,796	369,698

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

Chairman	President
Ma Fucai	Chen Geng

PETROCHINA COMPANY LIMITED
BALANCE SHEET

As of December 31, 2002
(Amounts in millions)

	Note	2002	2001 (Note 2)
		RMB	RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	285,562	263,657
Long-term investments	15	4,815	5,010
Subsidiaries	16	106,663	95,134
Intangible and other assets	17	3,111	3,137
		400,151	366,938
CURRENT ASSETS			
Inventories	18	24,076	24,196
Accounts receivable	19	4,868	6,244
Prepaid expenses and other current assets	20	22,042	26,751
Notes receivable	21	2,370	2,144
Receivables under resale agreements	22	9,681	11,406
Time deposits with maturities over three months		2,612	3,253
Cash and cash equivalents	23	7,457	8,162
TOTAL CURRENT ASSETS		73,106	82,156
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	24	68,355	60,262
Income tax payable		5,359	5,924
Other taxes payable		2,216	4,323
Short-term borrowings	25	18,217	23,442
		94,147	93,951
NET CURRENT LIABILITIES		(21,041)	(11,795)
TOTAL ASSETS LESS CURRENT LIABILITIES		379,110	355,143
FINANCED BY:			
Share capital	26	175,824	175,824
Retained earnings		70,104	46,707
Reserves	27	70,748	68,075
Shareholders' equity		316,676	290,606
NON CURRENT LIABILITIES			
Long-term borrowings	25	54,695	58,336
Deferred credits and other long-term obligations		1,649	1,366
Deferred taxation	28	6,090	4,835
		62,434	64,537
		379,110	355,143

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

Chairman
Ma Fucai

President
Chen Geng

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2002
(Amounts in millions)

	Note	2002	2001 (Note 2)
		RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES	29	98,341	84,439
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(70,699)	(51,486)
Acquisition of subsidiaries	34	(2,150)	-
Acquisition of associated companies		(1,119)	(942)
Repayment of capital by associated companies		301	275
Acquisition of available-for-sale investments		(231)	(176)
Acquisition of intangible assets		(666)	(412)
Acquisition of other non-current assets		(386)	(1,605)
Proceeds from disposal of property, plant and equipment		497	1,110
Proceeds from disposal of associated companies		243	295
Proceeds from disposal of available-for-sale investments		97	99
Dividends received		91	294
Decrease/(Increase) in receivable under resale agreement		1,719	(5,690)
Decrease/(Increase) in time deposits with maturities over three months		641	(3,253)
NET CASH USED FOR INVESTING ACTIVITIES		(71,662)	(61,491)
CASH FLOWS FROM FINANCING ACTIVITIES			
New short-term borrowings		28,728	24,949
Repayments of short-term borrowings		(34,550)	(36,402)
New long-term borrowings		9,885	21,255
Repayments of long-term borrowings		(13,944)	(13,692)
Principal payment on finance lease obligations		(104)	(167)
Dividends paid to minority interests		(135)	(60)
Contribution from CNPC to marketing enterprises		10	134
Capital contribution from minority interests		57	592
Dividends paid	13	(17,650)	(26,699)
Change in deferred credits and other long-term obligations		304	184
Cash payment for acquisition of CNPC marketing enterprises	2	(430)	-
NET CASH USED FOR FINANCING ACTIVITIES		(27,829)	(29,906)
Decrease in cash and cash equivalents		(1,150)	(6,958)
Cash and cash equivalents at beginning of year	23	11,127	18,085
Cash and cash equivalents at end of year	23	9,977	11,127

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, 2002
(Amounts in millions)

	Share Capital (Note 26)	Retained Earnings	Reserves (Note 27)	Total
	RMB	RMB	RMB	RMB
Balance at January 1,2001 before adjusting for the acquisition of the marketing enterprises (Note 2)	175,824	33,057	64,076	272,957
Adjustment for the acquisition of the marketing enterprises (Note 2)	-	(3,778)	2,467	(1,311)
Balance at January 1, 2001-adjusted for the acquisition of the marketing enterprises (Note 2)	175,824	29,279	66,543	271,646
Net profit for the year ended December 31, 2001	-	45,469	-	45,469
Premium arising from issue of shares by an associated company	-	-	56	56
Transfer to reserves	-	(12,442)	12,442	-
Final dividend for 2000 (Note 13)	-	(14,473)	-	(14,473)
Interim dividend for 2001 (Note 13)	-	(12,226)	-	(12,226)
Contribution from CNPC to marketing enterprises	-	-	134	134
Balance at December 31, 2001	175,824	35,607	79,175	290,606
Net profit for the year ended December 31, 2002	-	46,910	-	46,910
Transfer to reserve	-	(5,863)	5,863	-
Final dividend for 2001 (Note 13)	-	(8,839)	-	(8,839)
Interim dividend for 2002 (Note 13)	-	(8,811)	-	(8,811)
Contribution from CNPC to marketing enterprises (Note 2)	-	-	10	10
Payment to CNPC for acquisition of marketing enterprises (Note 2)	-	-	(3,200)	(3,200)
Balance at December 31, 2002	175,824	59,004	81,848	316,676

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 Financial Reporting Standards issued by the International Accounting Standard Board. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In accordance with the acquisition agreement between the Company and CNPC dated September 26, 2002, the Company acquired from CNPC the assets, liabilities and interests related to CNPC's refined products marketing enterprises comprising primarily of service stations and related facilities for RMB 3,200. The acquisition price was determined on the basis of independent valuation and appraisals of the assets and liabilities of these marketing enterprises under applicable rules and regulations promulgated in PRC. Of the RMB 3,200 purchase price, RMB 430 was paid in cash, RMB 1,124 was set off against receivables from CNPC, and the remaining balance of RMB 1,646 was included as payables to CNPC at December 31, 2002.

The acquisition is a combination of entities under common control since the Company and the CNPC's refined products marketing enterprises are under the common control of CNPC. As a result, the Company has accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities of the marketing enterprises acquired are accounted for at historical cost to CNPC (net liabilities of RMB 2,956 at the effective date). The consolidated financial statements have been restated to give effect to the acquisition with all periods presented as if the operations of the Company and these marketing enterprises have always been combined. The difference between RMB 3,200 paid and the net liabilities transferred from CNPC has been adjusted against equity.

The summarised results of operations and the financial position for the separate entities and on a consolidated basis as at and for the year ended December 31, 2001 are set out below:

	PetroChina	Marketing enterprises	Consolidated
	RMB	RMB	RMB
Results of operations:			
Turnover	238,893	12,354	241,320
Net profit/(loss)	46,808	(1,339)	45,469
Basic and diluted earnings per share	0.27	(0.01)	0.26
Financial position:			
Current assets	86,412	981	86,017
Total assets	460,874	3,167	462,665
Current liabilities	88,748	5,595	92,967
Total liabilities	162,616	5,683	166,923
Net assets/(liabilities)	293,122	(2,516)	290,606

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries. Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Subsidiaries are consolidated from the date on which controls is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

Investments in associates are accounted for by the equity method of accounting. Under this method the company's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate.

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

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. Substantially all assets and operations of the Group are located in the PRC, and the measurement currency is RMB. In addition to its operations in the PRC, as disclosed in Note 34 the Group had acquired all the share capital of Devon Energy Indonesia Ltd., a company engaging in the exploration and production of crude oil and natural gas in Indonesia, whose measurement currency is US dollars. The consolidated financial statements are presented in RMB, which is the measurement currency of the parent and most of the consolidated entities.

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.

Income statement and cash flows of the foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates at year end. Currency translation differences are recognised in shareholders' equity.

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. Where necessary 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

The Group 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 investment 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 investment 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 twelve 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 effective acquisition or sale date. 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 impairment.

(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 and buildings	25-50 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 ready for use.

Property, plant and equipment are reviewed for possible impairment by evaluating whether the carrying amount of a cash generating unit 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.

(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 the 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 of 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 control or exercise significant influence.

(k) Inventories

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

(l) Trade receivables

Trade receivables are carried at 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 and cash equivalents are carried in the balance sheet at cost and 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 impairment of receivables, inventories, investments and property, plant and equipment. 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 that 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 a 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

IASC's Standing Interpretations Committee ("SIC") issued 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. The Group has implemented these interpretations in 2002. The adoption of these new interpretations did not have a material impact on the reported financial position or results of 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 37.

5 PROFIT BEFORE TAXATION

	2002	2001
	RMB	RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	60	123
Reversal of write down in inventories	264	1,188
Reversal of impairment of receivables	344	103
Charging		
Amortisation on intangible and other assets	676	537
Auditors' remuneration	75	48
Cost of inventory (approximates cost of goods sold) recognised as expense	112,986	125,534
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	36,079	33,056
- assets under finance leases	27	22
Impairment of investments	4	34
Impairment of receivables	628	1,450
Interest expense (Note 8)	3,516	4,408
Loss on disposal of property, plant and equipment	647	288
Operating lease rentals on land and buildings and equipment	2,942	2,928
Write down in inventories	142	574
Transportation expenses	8,328	7,351
Repair and maintenance	5,060	4,334
Research and development expenditure	1,806	1,896

6 EMPLOYEE COMPENSATION COSTS

	2002	2001
	RMB	RMB
Wages and salaries	10,631	9,625
Social security costs	5,617	4,983
	16,248	14,608

(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.

During the year ended December 31, 2002, the Group and CNPC, the state shareholder of the Group, completed the process of estimating the amount that are payable to individual employees. The amount applicable to the employees of the Group was determined to be approximately RMB 2,553. CNPC funded this estimated payment through a portion of the 2002 interim dividend paid by the Group.

7 EMPLOYEE SEPARATION COSTS AND SHUT DOWN OF MANUFACTURING ASSETS

During the year ended December 31, 2001, the Group recorded a direct charge of RMB 487 for the separation of 6,020 employees under a group-wide productivity improvement initiative carried out since 2000.

During the year ended December 31,2002, the Group recorded RMB 2,121 for the shut down of certain less efficient operating facilities in the refining (RMB 1,179) and chemical (RMB 942) manufacturing plants. The charge of RMB 2,121 represented the net book value of the facilities.

8 INTEREST EXPENSE

	2002 RMB	2001 RMB
Interest on		
Bank loans		
- wholly repayable within five years	2,062	2,397
- not wholly repayable within five years	1,119	1,827
Other loans		
- wholly repayable within five years	1,091	680
- not wholly repayable within five years	130	130
Finance leases	10	27
Less: amounts capitalised	(896)	(653)
	3,516	4,408

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings was from 5.02% to 5.43% (2001: 5.43%) per annum.

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2002 RMB'000	2001 RMB'000
Fee for directors and supervisors	128	170
Salaries, allowances and other benefits	1,042	1,104
Contribution to retirement benefit scheme	25	23
	1,195	1,297

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

	2002 Number	2001 Number
Nil – RMB 1	13	12

Fee for directors and supervisors disclosed above included RMB 66 thousand (2001: RMB 108 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2002 (2001: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2001 and 2002 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 per share or approximately RMB 1.36 per share.

As at December 31, 2002, 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 34.

10 TAXATION

	2002	2001
	RMB	**RMB**
Income tax	19,289	19,166
Deferred tax (Note 28)	2,897	3,861
Share of tax of associated companies	45	39
	22,231	23,066

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is principally 33% (2001: 33%). The Group in the year 2002 obtained approvals from several provincial and local tax authorities whereby a portion of the taxable income of the Group's qualifying operations in these locales are assessed income tax at a reduced rate of 15% instead of the statutory rate of 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:

	2002 RMB	2001 RMB
Profit before taxation	69,240	68,131
Tax calculated at a tax rate of 33%	22,849	22,483
Prior year tax return adjustment	618	-
Effect of preferential tax rate	(2,377)	-
Income not subject to tax	(93)	(140)
Expenses not deductible for tax purposes	1,234	723
Tax charge	22,231	23,066

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 46,910 (2001: RMB 45,469) for the year ended December 31, 2002.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2002 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, 2001 have been computed by dividing net profit by the number of 175.82 billion shares issued and outstanding for the year.

There are no dilutive potential ordinary shares.

13 DIVIDENDS

	2002	2001
	RMB	RMB
Final dividend for 2000 (Note (i))	-	14,473
Interim dividend for 2001 (Note (ii))	-	12,226
Final dividend for 2001 (Note (iii))	8,839	-
Interim dividend for 2002 (Note (iv))	8,811	-
	17,650	26,699

(i) A final dividend in respect of 2000 of RMB 0.082315 per share amounting to a total of RMB 14,473 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.

(ii) An interim dividend in respect of 2001 of RMB 0.069535 per share amounting to RMB 12,226 was paid on October 8, 2001 and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2001.

(iii) A final dividend in respect of 2001 of RMB 0.050272 per share amounting to a total of RMB 8,839 was paid on June 21, 2002, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2002.

(iv) As authorised by shareholders in the Annual General Meeting on June 6, 2002, the Board of Directors, in a meeting held on August 29, 2002, resolved to distribute an interim dividend in respect of 2002 of RMB 0.050113 per share amounting to a total of RMB 8,811. The interim dividend was paid on October 8, 2002, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2002.

(v) At the meeting on March 31, 2003, the Board of Directors proposed a final dividend in respect of 2002 of RMB 0.069951 per share amounting to a total of RMB12,299. 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 ended December 31, 2003.

14 PROPERTY, PLANT AND EQUIPMENT

Group

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	38,815	285,074	183,338	6,649	3,911	24,184	541,971
Additions	1,273	733	560	239	224	58,520	61,549
Transfers	10,521	33,500	10,200	646	1,232	(56,099)	-
Disposals or write off	(877)	(14,208)	(908)	(657)	(254)	(12)	(16,916)
At end of the year	49,732	305,099	193,190	6,877	5,113	26,593	586,604
Accumulated depreciation							
At beginning of the year	(8,510)	(116,925)	(69,291)	(2,947)	(979)	-	(198,652)
Charge for the year	(2,000)	(18,423)	(11,455)	(625)	(575)	-	(33,078)
Disposals or write off	561	10,736	358	308	133	-	12,096
At end of the year	(9,949)	(124,612)	(80,388)	(3,264)	(1,421)	-	(219,634)
Net book value							
At end of the year	39,783	180,487	112,802	3,613	3,692	26,593	366,970
Analysis of cost or valuation							
At valuation 1999	28,683	233,901	168,464	4,074	1,950	-	437,072
At cost	21,049	71,198	24,726	2,803	3,163	26,593	149,532
	49,732	305,099	193,190	6,877	5,113	26,593	586,604
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	34,557	156,018	85,555	2,885	2,890	26,593	308,498

Group (continued)

Year Ended December 31, 2002	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	49,732	305,099	193,190	6,877	5,113	26,593	586,604
Additions	1,514	401	654	123	165	67,739	70,596
Acquisitions (Note 34)	240	1,709	1,891	92	71	-	4,003
Transfers	5,381	39,332	18,106	690	229	(63,738)	-
Disposals or write off	(1,533)	(8,543)	(7,920)	(398)	(306)	-	(18,700)
At end of the year	55,334	337,998	205,921	7,384	5,272	30,594	642,503
Accumulated depreciation							
At beginning of the year	(9,949)	(124,612)	(80,388)	(3,264)	(1,421)	-	(219,634)
Charge for the year	(1,684)	(18,302)	(14,864)	(685)	(571)	-	(36,106)
Acquisitions (Note 34)	(55)	-	(748)	(33)	(37)	-	(873)
Disposals or write off	530	5,261	5,538	333	246	-	11,908
At end of the year	(11,158)	(137,653)	(90,462)	(3,649)	(1,783)	-	(244,705)
Net book value							
At end of the year	44,176	200,345	115,459	3,735	3,489	30,594	397,798
Analysis of cost or valuation							
At valuation 1999	27,150	225,358	160,544	3,676	1,644	-	418,372
At cost	28,184	112,640	45,377	3,708	3,628	30,594	224,131
	55,334	337,998	205,921	7,384	5,272	30,594	642,503
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	39,065	179,713	92,383	3,102	2,738	30,594	347,595

Company

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	25,635	183,432	151,287	4,809	3,600	19,507	388,270
Additions	1,076	663	330	231	129	44,169	46,598
Transfers	7,872	26,944	8,027	332	1,208	(44,383)	-
Disposals or write off	(608)	(12,804)	(887)	(577)	(230)	(12)	(15,118)
At end of the year	33,975	198,235	158,757	4,795	4,707	19,281	419,750
Accumulated depreciation							
At beginning of the year	(6,762)	(73,433)	(58,538)	(2,257)	(815)	-	(141,805)
Charge for the year	(1,491)	(15,174)	(8,069)	(413)	(492)	-	(25,639)
Disposals or write off	471	10,228	269	258	125	-	11,351
At end of the year	(7,782)	(78,379)	(66,338)	(2,412)	(1,182)	-	(156,093)
Net book value							
At end of the year	26,193	119,856	92,419	2,383	3,525	19,281	263,657
Analysis of cost or valuation							
At valuation 1999	19,760	135,863	141,150	3,036	1,865	-	301,674
At cost	14,215	62,372	17,607	1,759	2,842	19,281	118,076
	33,975	198,235	158,757	4,795	4,707	19,281	419,750
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	24,163	104,241	68,627	1,940	2,721	19,281	220,973

Company (continued)

Year Ended December 31, 2002	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	33,975	198,235	158,757	4,795	4,707	19,281	419,750
Additions	1,206	369	592	68	153	52,001	54,389
Transfers	4,111	28,203	12,514	344	161	(45,333)	-
Disposals or write off	(1,036)	(5,736)	(6,916)	(323)	(255)	-	(14,266)
At end of the year	38,256	221,071	164,947	4,884	4,766	25,949	459,873
Accumulated depreciation							
At beginning of the year	(7,782)	(78,379)	(66,338)	(2,412)	(1,182)	-	(156,093)
Charge for the year	(1,586)	(13,545)	(12,155)	(453)	(307)	-	(28,046)
Disposals or write off	514	3,758	5,086	286	184	-	9,828
At end of the year	(8,854)	(88,166)	(73,407)	(2,579)	(1,305)	-	(174,311)
Net book value							
At end of the year	29,402	132,905	91,540	2,305	3,461	25,949	285,562
Analysis of cost or valuation							
At valuation 1999	18,724	130,127	134,234	2,713	1,610	-	287,408
At cost	19,532	90,944	30,713	2,171	3,156	25,949	172,465
	38,256	221,071	164,947	4,884	4,766	25,949	459,873
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	27,451	119,221	70,252	1,916	2,688	25,949	247,477

The depreciation charge of the Group and the Company for the year ended December 31, 2002 included RMB 1,753 relating to impairment provision for plant and equipment held for use. Of this amount, RMB 1,384 was related to the Chemicals and Marketing segment and RMB 369 was for the Refining and Marketing segment.

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

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Short-term lease (less than 10 years)	376	370	332	323
Medium-term lease (10 to 50 years)	35,142	30,752	21,739	18,530
Long-term lease (over 50 years)	8,658	8,661	7,331	7,340
	44,176	39,783	29,402	26,193

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	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Refining and Marketing	88	88	88	88
Chemicals and Marketing	431	433	431	433
Accumulated depreciation	(120)	(93)	(120)	(93)
	399	428	399	428

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 426 (2001: RMB 1,024) at December 31, 2002.

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	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Share of net assets of associated companies at end of the year	4,145	4,083	3,565	3,794
Unlisted available-for-sale investments	2,195	2,112	1,883	1,875
	6,340	6,195	5,448	5,669
Less: Provision for impairment of investments	(660)	(665)	(633)	(659)
Total	5,680	5,530	4,815	5,010

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
Dalian West Pacific Petrochemical Co., Ltd.	PRC	USD 258	25.7	Production and sale of refined and petrochemical products

Share of profit of associated companies included in the profit and loss account of the Group was RMB 268 (2001:RMB 341) in 2002.

Share of net loss of associated companies included in retained earnings of the Group was RMB 136 (2001: RMB 260) at December 31, 2002. Dividends received and receivable from associated companies were RMB 99 (2001: RMB 171) in 2002.

Available-for-sale investments, comprising principally unlisted equity securities, 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 60 (2001: RMB 123) for the year ended December 31, 2002.

16 SUBSIDIARIES

Principal subsidiaries are:

Company Name	Country of Incorporation and Operations	Paid-up Capital (RMB)	Type of Legal Entity	Attributable Equity Interest (%)	Principal Activities
*Daqing Oilfield Company Limited	PRC	47,500	Φ	100.00	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
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
*PetroChina International Limited	British Virgin Islands	USD 0.9	Φ	100.00	Exploration and production of crude oil and natural gas outside of PRC
PetroChina International Indonesia Limited	Bahamas	USD 0.005	Φ	100.00	Exploration and production of crude oil and natural gas in Indonesia

Φ -- Limited liability company.

Ψ -- Joint stock company with limited liability.

* -- Subsidiaries directly held by the Company as of December 31, 2002.

17 INTANGIBLE AND OTHER ASSETS

Group

	2002			2001		
	Cost RMB	Accumulated Amortisation RMB	Net RMB	Cost RMB	Accumulated Amortisation RMB	Net RMB
Patents	2,591	(1,006)	1,585	2,063	(758)	1,305
Technical know-how	637	(232)	405	507	(175)	332
Intangible assets	3,228	(1,238)	1,990	2,570	(933)	1,637
Other assets			2,517			2,511
			4,507			4,148

Company

	2002			2001		
	Cost RMB	Accumulated Amortisation RMB	Net RMB	Cost RMB	Accumulated Amortisation RMB	Net RMB
Patents	1,955	(964)	991	1,654	(735)	919
Technical know-how	276	(54)	222	247	(41)	206
Intangible assets	2,231	(1,018)	1,213	1,901	(776)	1,125
Other assets			1,898			2,012
			3,111			3,137

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	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Crude oil and other raw materials	8,987	7,774	6,772	4,971
Work in progress	3,787	4,043	3,532	3,434
Finished goods	16,253	17,199	14,168	16,170
Spare parts and consumables	67	97	58	84
	29,094	29,113	24,530	24,659
Less: Write down in inventories	(653)	(800)	(454)	(463)
	28,441	28,313	24,076	24,196

Inventories of the Group carried at net realisable value amounted to RMB 2,780 (2001: RMB 2,519) at December 31, 2002.

No inventories were pledged as security for borrowings at December 31, 2002 and 2001.

19 ACCOUNTS RECEIVABLE

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Accounts receivable due from third parties	11,504	12,901	9,647	11,144
Less: Impairment of receivables	(6,356)	(6,663)	(5,361)	(5,656)
	5,148	6,238	4,286	5,488
Accounts receivable due from related parties				
- Fellow subsidiaries	789	1,097	443	716
- Associated companies	142	57	139	40
	6,079	7,392	4,868	6,244

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, 2002 is as follows:

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Within 1 year	4,647	5,769	4,220	4,516
Between 1 to 2 years	743	884	325	652
Between 2 to 3 years	697	1,080	588	931
Over 3 years	6,348	6,322	5,096	5,801
	12,435	14,055	10,229	11,900

In year 2002, 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	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Other receivables	9,626	12,443	8,096	10,603
Less: Impairment of receivables	(5,313)	(5,074)	(3,264)	(3,098)
	4,313	7,369	4,832	7,505
Amounts due from CNPC	2,135	4,536	2,135	4,536
Amounts due from fellow subsidiaries	5,419	7,972	3,865	5,256
Amounts due from subsidiaries	-	-	8,870	7,796
Advances to suppliers	3,209	1,582	1,740	1,246
Prepaid expenses	123	272	100	186
Other current assets	530	335	500	226
	15,729	22,066	22,042	26,751

Other receivables consist primarily of taxes other than income taxes refund receivables, 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 represent mainly the bills of acceptance issued by banks for sale 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 prices is treated as interest income 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	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Cash at bank and in hand	9,977	11,127	7,457	8,162

The weighted average effective interest rate on bank deposits was 2.53% (2001: 2.88%) for the year ended December 31, 2002.

24 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Trade payables	8,153	5,093	5,057	4,496
Advances from customers	4,690	2,916	4,131	2,464
Salaries and welfare payable	3,915	3,604	3,032	3,019
Accrued expenses	8	28	8	28
Dividends payable by subsidiaries to minority shareholders	34	50	-	6
Interest payable	233	385	162	217
Construction fee and equipment cost payables	12,521	13,520	8,602	7,792
Payable to Sinopec	539	1,710	512	1,644
Advances from Sinopec	80	128	74	124
Other payables	13,058	10,270	12,655	8,824
Amounts due to related parties				
- CNPC	1,702	87	1,656	16
- Fellow subsidiaries	11,581	14,891	7,590	11,865
- Subsidiaries	-	-	23,664	19,290
- Associated companies	1,279	528	1,212	477
	57,793	53,210	68,355	60,262

Other payables consist primarily of one-time remedial payment payable and payables for received deposit and earnest money.

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, 2002 is as follows:

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB

Within 1 year	7,110	2,375	4,237	2,255
Between 1 to 2 years	369	1,628	246	1,304
Between 2 to 3 years	109	433	80	380
Over 3 years	565	657	494	557
	8,153	5,093	5,057	4,496

25 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Bank loans				
- secured	274	1,129	92	1,081
- unsecured	13,576	17,625	13,073	17,258
Loans from fellow subsidiaries	570	1,268	-	905
Other	4	128	4	123
	14,424	20,150	13,169	19,367
Current portion of long-term borrowings	6,209	5,173	5,048	4,075
	20,633	25,323	18,217	23,442

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group		Company	
		2002 RMB	2001 RMB	2002 RMB	2001 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 6.21% per annum as of December 31, 2002, with maturities through 2010	23,580	27,073	22,826	25,746
Bank loans for working capital	Majority variable interest rates ranging from interest free to 6.33% per annum as of December 31, 2002 with maturities through 2004	6,189	6,393	6,092	6,353
Loans from related parties for the development of oil fields and construction of refining plants	Floating interest rates ranging from 4.61% to 5.18% per annum as of December 31, 2002, with maturities through 2032	15,956	13,120	15,756	12,819
Working capital loans from related parties	Floating interest rate at 4.94% per annum as of December 31, 2002, with maturities through 2004	4,000	4,000	4,000	4,000
Working capital loans	Fixed interest rates ranging from interest free to 6.32% per annum as of December 31, 2002, with maturities through 2003, including a loan with no fixed repayment term	11	329	9	22

	Interest Rate and Final Maturity	Group		Company	
		2002	2001	2002	2001
		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 free to 8.66% per annum as of December 31, 2002, with maturities through 2038	4,801	7,688	1,991	3,109
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from 1.63% to 5.58% per annum as of December 31, 2002, with maturities through 2015	1,763	2,853	1,081	2,066
Bank loans for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.60% per annum as of December 31, 2002, with maturities through 2005	1,490	-	-	-
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, 2002, with maturities through 2005	3,633	3,633	3,633	3,633
Loans from related parties for working capital	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2002, with maturities through 2005	543	-	-	-
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum as of December 31, 2002, with maturities through 2022	618	654	618	654

	Interest Rate and Final Maturity	Group		Company	
		2002	2001	2002	2001
		RMB	RMB	RMB	RMB
Japanese Yen - denominated loans:					
Bank loans for the development of oil fields and construction of refining plants	Majority fixed interest rates ranging from 2.00% to 5.30% per annum as of December 31, 2002, with maturities through 2010	723	917	461	511
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, 2002, with maturities through 2023	463	792	182	231
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, 2002, with maturities through 2007	538	603	538	603
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 5.17% per annum as of December 31, 2002, with maturities through 2011	784	788	784	788
		65,092	68,843	57,971	60,535
Debentures		1,650	1,650	1,650	1,650
Finance lease obligations		122	226	122	226
Total long-term borrowings		66,864	70,719	59,743	62,411
Less: Current portion of long-term borrowings		(6,209)	(5,173)	(5,048)	(4,075)
		60,655	65,546	54,695	58,336

For loans denominated in RMB with floating rates, the rates are re-set annually on the respective anniversary dates based on rates announced by the People's Bank of China. For loans denominated in currencies other than RMB with floating rates, the rates are re-set quarterly or semi-annually as stipulated in the respective agreements. Debentures were issued at fixed interest rates ranging from 4.50% to 9.00% per annum with maturities through 2007. Other loans represent loans from independent third parties other than banks with interest rates ranging from interest free to 6.32% per annum. Interest free loans amounted to RMB 353 (2001: RMB 726) at December 31, 2002. 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 939 (2001: RMB 1,697) were guaranteed by CNPC and its subsidiaries at December 31, 2002.

The Group's borrowings include secured liabilities (leases and bank borrowings) totalling RMB 398 (2001: RMB 1,357) at December 31, 2002. Bank borrowings are secured over certain of the Group's property, plant and equipment (see Note 14). Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	Group		**Company**	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Total borrowings:				
- at fixed rates	24,056	37,319	19,378	30,806
- at variable rates	57,232	53,550	53,534	50,972
	81,288	90,869	72,912	81,778
Weighted average effective interest rates:				
- bank loans	4.92%	5.66%	5.01%	5.56%
- loans from related parties	4.33%	4.82%	4.38%	4.80%
- loans from third parties	3.58%	3.13%	3.60%	3.73%
- debentures	5.32%	5.32%	5.32%	5.32%
- finance lease obligations	3.38%	3.98%	3.38%	3.98%

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

	Group		Company	
	Carrying Amounts			
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Bank loans	39,547	46,319	33,171	38,619
Loans from related parties	24,132	20,753	23,389	20,452
Debentures	1,650	1,650	1,650	1,650
Other	1,413	1,771	1,411	1,464
	66,742	70,493	59,621	62,185

	Group		Company	
	Fair Values			
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Bank loans	39,413	46,542	33,208	38,673
Loans from related parties	24,133	20,752	23,388	20,452
Debentures	1,646	1,604	1,646	1,604
Other	1,203	1,588	1,202	1,261
	66,395	70,486	59,444	61,990

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 0.81% to 7.62% per annum as of December 31, 2002 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	**2002**	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	5,384	4,840	4,424	3,849
Between one to two years	11,072	5,571	10,193	4,645
Between two to five years	18,518	24,907	15,360	22,822
After five years	4,573	11,001	3,194	7,303
	39,547	46,319	33,171	38,619

	Group		Company	
Other loans	**2002**	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	759	229	558	122
Between one to two years	8,469	619	8,465	419
Between two to five years	13,439	18,947	12,901	18,947
After five years	4,528	4,379	4,526	4,078
	27,195	24,174	26,450	23,566

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

	Group		Company	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	70	112	70	112
Between one to two years	41	70	41	70
Between two to five years	17	58	17	58
	128	240	128	240
Future finance charges on finance lease obligations	(6)	(14)	(6)	(14)
Present value of finance lease obligations	122	226	122	226
The present value of finance lease obligations can be analysed as follows:				
- Within one year	66	104	66	104
- Between one to two years	39	66	39	66
- Between two to five years	17	56	17	56
	122	226	122	226

26 SHARE CAPITAL

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Registered, issued and fully paid:				
State-owned shares	158,242	158,242	158,242	158,242
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

	Group		Company	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Revaluation Reserve				
Beginning balance	79,945	79,945	79,945	79,945
Ending balance	79,945	79,945	79,945	79,945
Capital Reserve				
Beginning balance	(28,567)	(28,757)	(28,567)	(28,757)
Premium arising from issue of shares by an associated company	-	56	-	56
Contribution from CNPC to marketing enterprises	10	134	10	134
Ending balance	(28,557)	(28,567)	(28,557)	(28,567)
Statutory Common Reserve Fund (Note a)				
Beginning balance	16,219	8,948	8,784	4,818
Transfer from retained earnings to reserves	3,909	7,271	3,909	3,966
Ending balance	20,128	16,219	12,693	8,784
Statutory Common Welfare Fund (Note b)				
Beginning balance	11,578	6,407	7,913	4,343
Transfer from retained earnings to reserves	1,954	5,171	1,954	3,570
Ending balance	13,532	11,578	9,867	7,913
Other Reserves				
Beginning balance	-	-	-	-
Payment to CNPC for acquisition of marketing enterprises (Note 2)	(3,200)	-	(3,200)	-
Ending balance	(3,200)	-	(3,200)	-
	81,848	79,175	70,748	68,075

(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 5% (2001: 9%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2002 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 37,374 (2001: RMB 25,258) as of December 31, 2002. The distributable reserve computed under the PRC accounting regulations at December 31, 2002 had been arrived at after the accrual for the proposed final dividend in respect of year 2002 of RMB 12,299 (Note 13 (v)).

(d) As of December 31, 2002, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 29,560 (2001: RMB 21,179).

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	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
At beginning of year	7,030	3,169	4,835	2,706
Transfer to profit and loss account (Note 10)	2,897	3,861	1,255	2,129
At end of year	9,927	7,030	6,090	4,835

Deferred tax balances are attributable to the following items:

	Group		Company	
	2002	**2001**	**2002**	**2001**
	RMB	**RMB**	**RMB**	**RMB**
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	3,568	3,471	2,831	2,734
Tax losses of subsidiaries	111	111	-	-
Non current:				
Shut down of manufacturing assets and impairment of long-term assets	613	643	524	500
Other	182	182	147	147
Total deferred tax assets	4,474	4,407	3,502	3,381
Deferred tax liabilities:				
Current:				
Sales (Note (i))	4,401	4,401	4,401	4,401
Non current:				
Accelerated depreciation	10,000	7,036	5,191	3,815
Total deferred tax liabilities	14,401	11,437	9,592	8,216
Net deferred tax liabilities	9,927	7,030	6,090	4,835

(i) Prior to the formation of the Company in November 1999, certain crude oil sales were exempted from income tax purposes. Upon formation of the Company, such exemption ceased to be available. A portion of the previously exempted items may become taxable at a later date in certain circumstances at the discretion of the tax authorities.

(ii) The Group has an unrecognised tax loss of RMB 1,748 (2001: RMB 1,439) arising from a subsidiary which files separate tax returns and has provided a valuation allowance for this amount. The unrecognised tax loss may be carried forward by the subsidiary through years ending December 31, 2007. No valuation allowances were recognised on other deferred tax assets as the Company anticipates to fully realise such assets.

29 CASH FLOWS FROM OPERATING ACTIVITIES

	Note	**2002**	**2001 (Note 2)**

		RMB	RMB
Net profit		46,910	45,469
Adjustments for:			
Minority interests		99	(404)
Taxation	10	22,231	23,066
Depreciation, depletion and amortisation		36,782	33,615
Provision for shut down of manufacturing assets	7	2,121	-
Dry hole costs		3,527	3,422
Share of profit of associated companies	15	(268)	(341)
Impairment of receivables	5	284	1,347
Write down in inventories, net	5	(122)	(614)
Impairment of investments	5	4	34
Loss on disposal of property, plant and equipment	5	647	288
Loss on disposal of available-for-sale investments		21	20
Loss on disposal of intangible and other assets		17	13
Dividend income	15	(60)	(123)
Interest income		(463)	(809)
Interest expense	8	3,516	4,408
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		4,554	(8,467)
Inventories		157	4,800
Accounts payable and accrued liabilities		2,047	5,519
CASH GENERATED FROM OPERATIONS		122,004	111,243
Interest received		463	809
Interest paid		(4,564)	(4,720)
Income taxes paid		(19,562)	(22,893)
NET CASH PROVIDED BY OPERATING ACTIVITIES		98,341	84,439

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 RMB 2,109 (2001: RMB 1,893) for the year ended December 31, 2002.

31 FINANCIAL INSTRUMENTS

The Group holds or issues various financial instruments which expose it to credit, interest rate, foreign exchange rate and fair value 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 continuously 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 markets 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 2002 and 2001, 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. The fair value of the fixed rate long-term borrowings is likely to be different from their carrying amounts, but the amounts borrowed at fixed rates are not significant; the difference between fair value and carrying amounts is likely to be immaterial.

32 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2002, 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 material 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 material 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, 2002, CNPC has obtained formal land use right certificates in relation to 22,670 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 on future incidents cannot be reasonably assessed at present, management believes it could have a material impact on the operating results and would not have a material adverse effect on the financial position of the Group.

(f) Cost reduction measures

The Company may further streamline production facilities 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 land and 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, 2002 under non-cancellable operating leases are as follows:

	2002	2001
	RMB	RMB
First year	2,403	2,421
Second year	2,265	2,139
Third year	2,255	2,083
Fourth year	2,246	2,077
Fifth year	2,248	2,093
Thereafter	86,682	86,793
	98,099	97,606

Operating lease expenses for land and buildings and equipment were RMB 2,942 (2001: RMB 2,928) for the year ended December 31, 2002.

(b) Capital commitments

	2002	2001
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	180	539
Plant and equipment	2,898	54
Other	198	89
	3,276	682

(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 202 (2001: RMB 130) for the year ended December 31, 2002.

Estimated annual payments in the future are as follows:

	RMB
2003	382
2004	515
2005	618
2006	681
2007 and thereafter	840

(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 ACQUISITION

On April 22, 2002 the Group acquired all of the share capital of PetroChina International Indonesia Limited (formerly Devon Energy Indonesia Ltd.) ("Devon"). This company is engaged in the exploration and production of crude oil and natural gas in Indonesia. The acquired business contributed turnover of RMB 632 and operating profit of RMB 132 to the Group for the year ended December 31, 2002, and its assets and liabilities at December 31, 2002 were respectively RMB 2,276 and RMB 76.

In addition, the Group increased its equity interests in PetroChina Tarim Oil (Gas) Transportation Limited ("Tashu") and Jilian (Jilin) Petrochemicals Limited ("Jilian") respectively by 53.1% in November and 35% in December 2002, and the two entities became the subsidiaries of the Company at the respective dates of acquisitions. The acquired business did not contribute significant turnover and operating profit to the Group for the year ended December 31, 2002.

Other than for land and buildings, the fair value of the net assets approximated the book value of the net assets acquired, and no plant closure provisions or other restructuring provisions were required.

Details of net assets acquired are as follows:

	Devon	Jilian	Tashu	Total
	RMB	RMB	RMB	RMB
Purchase consideration	2,068	135	337	2,540
Fair value of net assets acquired	2,068	135	337	2,540

The assets and liabilities arising from the acquisition are as follows:

	Devon RMB	Jilian RMB	Tashu RMB	Total RMB
Cash and cash equivalents	64	8	264	336
Property, plant and equipment (Note 14)	1,709	808	613	3,130
Inventories	4	157	2	163
Accounts receivable	132	53	18	203
Prepaid expenses and other current assets	236	24	-	260
Accounts payable and accrued liabilities	(64)	(260)	(262)	(586)
Short-term borrowings	-	(96)	-	(96)
Long-term borrowings	-	(308)	-	(308)
Income tax payable	(13)	-	-	(13)
	2,068	386	635	3,089
Equity interest acquired	100.0%	35.0%	53.1%	
Fair value of net assets acquired	2,068	135	337	2,540
Less: Cash and cash equivalents acquired	(64)	(8)	(264)	(336)
Consideration not yet settled	-	(54)	-	(54)
Cash outflow on acquisition	2,004	73	73	2,150

35 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2002		2001	
	Revenue RMB	% to Total Revenue %	Revenue RMB	% to Total Revenue %
Sinopec	26,497	11	26,046	11
CNPC	7,772	3	8,769	4
	34,269	14	34,815	15

36 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 control or 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 35.

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 (Note 1), 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 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.

The Company also entered into a Supplemental Buildings Leasing Agreement with CNPC in September 2002 to lease an additional 404 buildings covering an aggregate of approximately 442,730 square meters at annual rental of RMB 157. The Supplemental Buildings Agreement will expire at the same time as the Building Leasing Agreement.

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	2002	2001
		RMB	RMB
Sale of goods	(a)	7,772	8,769
Fees paid for construction and technical services	(b)		
- Exploration and development services	(c)	21,781	20,570
- Other construction and technical services	(d)	16,324	14,592
Fees for production services	(e)	15,743	15,581
Social services charge	(f)	1,243	1,261
Ancillary service charges	(g)	1,713	2,087
Interest income	(h)	25	26
Interest expense	(i)	1,086	1,112
Rental expense	(j)	1,916	1,968
Commission expense and other charges	(k)	936	977

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 2,861 (2001: RMB 1,239) as of December 31, 2002. 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 24,702 (2001: RMB 22,021) as of December 31, 2002 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 94 as of December 31, 2001 and 2002.

37 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.

Substantially 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. In addition to its operations in the PRC, as disclosed in Note 34, the Group had acquired all the share capital of Devon Energy Indonesia Ltd., a company engaging in the exploration and production of crude oil and natural gas in Indonesia.

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, 2001 and 2002 is presented below:

Primary reporting format –business segments

Year Ended December 31, 2001	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Sales and other operating revenues (including intersegment)	148,277	171,961	31,776	11,321	-	363,335
Less: Intersegment sales	(110,738)	(8,436)	(462)	(2,379)	-	(122,015)

Total sales and other operating revenues from external customers	37,539	163,525	31,314	8,942	-	241,320
Depreciation, depletion and amortisation	(21,419)	(5,804)	(5,171)	(1,113)	(108)	(33,615)
Segment result	81,679	10,214	129	1,142	(378)	92,786
Other costs	(4,747)	(13,538)	(2,503)	(420)	(439)	(21,647)
Profit/(loss) from operations	76,932	(3,324)	(2,374)	722	(817)	71,139
Finance costs						(3,349)
Share of profit/(loss) of associated companies	162	38	29	(9)	121	341
Profit before taxation						68,131
Taxation						(23,066)
Minority interests						404
Net profit						45,469
Interest income (including intersegment)	1,893	1,191	493	104	4,955	8,636
Less: Intersegment interest income						(7,827)
Interest income from external entities						809
Interest expense (including intersegment)	(2,896)	(2,667)	(1,991)	(310)	(4,371)	(12,235)
Less: Intersegment interest expense						7,827
Interest expense to external entities						(4,408)
Segment assets	268,955	118,154	73,341	22,370	412,684	895,504
Elimination of intersegment balances						(436,922)
Investments in associated companies	1,194	1,080	590	627	592	4,083
Total assets						462,665
Segment capital expenditure - for property, plant and equipment	41,193	11,416	4,062	4,557	321	61,549
Segment liabilities	84,369	70,182	49,526	11,547	115,097	330,721
Other liabilities						21,564
Elimination of intersegment balances						(185,362)
Total liabilities						166,923

Primary reporting format –business segments (continued)

Year Ended December 31, 2002	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)	147,308	174,621	29,661	12,733	-	364,323
Less: Intersegment sales	(106,266)	(9,988)	(1,093)	(2,552)	-	(119,899)
Total sales and other operating revenues from external customers	41,042	164,633	28,568	10,181	-	244,424
Depreciation, depletion and amortisation	(21,972)	(7,144)	(6,336)	(1,213)	(117)	(36,782)
Segment result	76,943	17,815	(1,217)	1,796	(462)	94,875
Other costs	(4,804)	(14,997)	(1,945)	(244)	(544)	(22,534)
Profit/(loss) from operations	72,139	2,818	(3,162)	1,552	(1,006)	72,341
Finance costs						(3,369)
Share of profit/(loss) of associated companies	(38)	12	(8)	71	231	268
Profit before taxation						69,240
Taxation						(22,231)
Minority interests						(99)
Net profit						46,910
Interest income (including intersegment)	1,942	1,061	1,136	109	4,499	8,747
Less: Intersegment interest income						(8,284)
Interest income from external entities						463
Interest expense (including intersegment)	(2,979)	(2,516)	(1,810)	(263)	(4,232)	(11,800)
Less: Intersegment interest expense						8,284
Interest expense to external entities						(3,516)
Segment assets	289,277	113,751	64,169	33,740	427,709	928,646
Elimination of intersegment balances						(449,642)
Investments in associated companies	1,422	1,774	178	6	765	4,145
Total assets						483,149
Segment capital expenditure						
- for property, plant and equipment	46,078	11,327	3,175	13,013	133	73,726
Segment liabilities	89,663	68,701	44,318	22,488	113,236	338,406
Other liabilities						20,927
Elimination of intersegment balances						(197,714)
Total liabilities						161,619

Note (a) – Intersegment sales are conducted principally at market price.

Note (b) – Segment result is profit from operations before other costs. Other costs include selling, general and administrative expenses and other net (expense)/income.

Note (c) – Segment results for the year ended December 31, 2001 included the effect of employee separation costs (Note 7). The segment results for the year ended December 31, 2002 included impairment provision for property, plant and equipment (Note 14) and shut down of manufacturing assets (Note 7).

Note (d) – Elimination of intersegment balances are elimination of intersegment current accounts and investments.

Secondary reporting format – geographical segments

Year Ended December 31, 2002	**Turnover**	**Total assets**	**Capital expenditure**
	RMB	**RMB**	**RMB**
PRC	243,792	480,873	71,774
Others (Exploration and Production)	632	2,276	1,952
	244,424	483,149	73,726

38 ULTIMATE HOLDING COMPANY

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

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 31, 2003 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 28, 2003.

Results of Operations

	Year Ended December 31,	
	2002	2001
	RMB	RMB
Sales and other operating revenues		
sales to third parties	41,042	37,539
intersegment sales	106,266	110,738
	147,308	148,277
Production costs excluding taxes	(29,913)	(29,224)
Exploration expenses	(8,095)	(7,344)
Depreciation, depletion and amortisation	(18,302)	(18,423)
Taxes other than income taxes	(5,299)	(4,921)
Profit before taxation	85,699	88,365
Taxation	(25,958)	(29,160)
Results of operations from producing activities	59,741	59,205
Profit from associated companies' results of operations from producing activities	132	178

Capitalised Costs

	Year Ended December 31,	
	2002	2001
	RMB	RMB
Property costs	-	-
Producing assets	236,856	212,526
Support facilities	101,142	92,573
Construction-in-progress	7,895	9,755
Total capitalised costs	345,893	314,854
Accumulated depreciation, depletion and amortisation	(137,653)	(124,612)
Net capitalised costs	208,240	190,242
Share of associated companies' net capitalised costs	815	813

Costs Incurred in Property Acquisitions, Exploration and Development Activities

	Year Ended December 31,	
	2002	**2001**
	RMB	**RMB**
Property acquisition costs	-	-
Exploration costs	10,704	10,146
Development costs	35,558	29,445
Total	46,262	39,591
Share of associated companies' costs of property acquisition, exploration, and development	228	303

Proved Reserve Estimates

Oil and gas proved reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

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. Proved developed reserves are those reserves, which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where relatively major expenditure is required.

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 productive 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. 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.

Proved reserve estimates as of December 31, 2001 and 2002 were based on a report prepared by DeGolyer and MacNaughton, independent engineering consultants. These reserve estimates were prepared for each oil and gas region (as opposed to individual fields within a region) and adjusted for the estimated effects of using prices and costs prevailing at the end of the period. The Company's reserve estimates include only crude oil and natural gas, which the Company believes can be reasonably produced within the current terms of production licenses.

Estimated quantities of net proved oil and condensate and natural gas reserves and of changes in net quantities of proved developed and undeveloped reserves for each of the period indicated are as follows:

	Crude Oil and Condensate	Natural Gas
	(millions of barrels)	(billions of cubic feet)
Proved developed and undeveloped		
Reserves at January 1, 2001	11,032	32,533
Changes resulting from:		
Revisions of previous estimates	189	488
Improved recovery	141	36
Extensions and discoveries	360	3,773
Production	(763)	(727)
Reserves at December 31, 2001	10,959	36,103
Changes resulting from:		
Revisions of previous estimates	349	(225)
Improved recovery	31	-
Extensions and discoveries	330	3,540
Purchases of minerals in place	38	193
Production	(770)	(794)
Reserves at December 31, 2002	10,937	38,817
Proved developed reserves at:		
December 31, 2001	9,309	12,946
December 31, 2002	9,198	11,921
Proportional interest in proved reserves of associated companies		
December 31, 2001	62	1
December 31, 2002	62	2

At December 31, 2002, 10,903 million barrels of crude oil and condensate and 38,624 billion cubic feet of nature gas proved developed and undeveloped reserves are located within China, and 34 million barrels of crude oil and condensate and 193 billion cubic feet

of nature gas proved developed and undeveloped reserves are located in Indonesia.

Standardised Measure

The following disclosures concerning the standardised measure of future cash flows from proved oil and gas reserves are presented in accordance with the US Statement of Financial Accounting Standards No. 69. The amounts shown are based on prices and costs at the end of each period, currently enacted tax rates and a 10 percent annual discount factor. Since prices and costs do not remain static, and no price or cost changes have been considered, the results are not necessarily indicative of the fair market value of estimated proved reserves, but they do provide a common benchmark which may enhance the users' ability to project future cash flows.

The standardised measure of discounted future net cash flows related to proved oil and gas reserves at the end of each of the two years in the period ended December 31, 2001 and 2002 is as follows (in millions of RMB):

At December 31, 2001	
Future cash inflows	2,049,110
Future production costs	(695,859)
Future development costs	(50,996)
Future income tax expense	(422,453)
Future net cash flows	879,802
Discount at 10% for estimated timing of cash flows	(473,803)
Standardised measure of discounted future net cash flows	405,999
At December 31, 2002	
Future cash inflows	2,710,152
Future production costs	(745,866)
Future development costs	(73,344)
Future income tax expense	(562,289)
Future net cash flows	1,328,653
Discount at 10% for estimated timing of cash flows	(713,267)
Standardised measure of discounted future net cash flows	615,386
Share of associated companies' standardised measure of discounted future net cash flows	
At December 31, 2001	2,013
At December 31, 2002	2,612

Future net cash flows were estimated using period-end prices and costs, and currently enacted tax rates.

Changes in the standardised measure of discounted net cash flows for the Group for each of the two years ended December 31, 2001 and 2002 are as follows:

	Year Ended December 31,	
	2002	2001
	RMB	RMB
CHANGES IN STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS		
Beginning of year	405,999	738,887
Sales and transfers of oil and gas produced, net of production costs	(116,977)	(119,053)
Net changes in prices and production costs and other	259,016	(539,088)
Extensions, discoveries and improved recovery	53,024	43,916
Development costs incurred	(1,983)	31,518
Revisions of previous quantity estimates	17,364	10,472
Accretion of discount	60,095	106,653
Purchases of minerals in place	2,351	-
Net change in income taxes	(63,503)	132,694
End of year	615,386	405,999

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

The consolidated financial statements of the Group appearing on pages 73 to 138 have been prepared in accordance with International Financial Reporting Standards (IFRS), which may differ in certain material respects from the accounting principles generally accepted in the United States of America (US GAAP). Such differences involve methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.