PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the Year Ended December 31, 2003
(Amounts in millions except for per share data)

	Note	2003	2002
		RMB	RMB
TURNOVER	4	303,779	244,424
OPERATING EXPENSES			
Purchases, services and other		(90,850)	(71,690)
Employee compensation costs	6	(19,542)	(16,248)
Exploration expenses, including exploratory dry holes		(10,577)	(8,095)
Depreciation, depletion and amortisation		(40,531)	(36,782)
Selling, general and administrative expenses		(23,930)	(22,474)
Shut down of manufacturing assets	7	(2,355)	(2,121)
Taxes other than income taxes		(15,879)	(14,613)
Revaluation loss of property, plant and equipment	14	(391)	-
Other expense, net		(538)	(60)
TOTAL OPERATING EXPENSES		(204,593)	(172,083)
PROFIT FROM OPERATIONS		99,186	72,341
FINANCE COSTS			
Exchange gain		53	133
Exchange loss		(233)	(449)
Interest income		677	463
Interest expense	8	(2,346)	(3,516)
TOTAL FINANCE COSTS		(1,849)	(3,369)
SHARE OF PROFIT OF ASSOCIATED COMPANIES	15	985	268
PROFIT BEFORE TAXATION	5	98,322	69,240
TAXATION	10	(28,072)	(22,231)
PROFIT BEFORE MINORITY INTERESTS		70,250	47,009
MINORITY INTERESTS		(636)	(99)
NET PROFIT		69,614	46,910
BASIC AND DILUTED EARNINGS PER SHARE	12	0.40	0.27

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET
As of December 31, 2003
(Amounts in millions)

	Note	2003 RMB	2002 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	433,419	397,798
Investments in associates	15	5,571	4,145
Available-for-sale investments	16	1,839	1,535
Intangible and other assets	18	4,732	4,507
		445,561	407,985
CURRENT ASSETS			
Inventories	19	28,872	28,441
Accounts receivable	20	3,263	6,079
Prepaid expenses and other current assets	21	13,528	15,729
Notes receivable	22	2,416	2,540
Receivables under resale agreements	23	24,224	9,786
Time deposits with maturities over three months		2,640	2,612
Cash and cash equivalents	24	11,231	9,977
TOTAL CURRENT ASSETS		86,174	75,164
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	25	64,180	57,793
Income tax payable		12,043	5,412
Other taxes payable		8,916	5,515
Short-term borrowings	26	28,890	20,633
		114,029	89,353
NET CURRENT LIABILITIES		(27,855)	(14,189)
TOTAL ASSETS LESS CURRENT LIABILITIES		417,706	393,796
FINANCED BY			
Share capital	27	175,824	175,824
Retained earnings		89,577	59,004
Reserves	28	91,212	81,848
Shareholders' equity		356,613	316,676
Minority interests		5,608	4,854
NON CURRENT LIABILITIES			
Long-term borrowings	26	41,959	60,655
Deferred credits and other long-term obligations		2,000	1,684
Deferred taxation	29	11,526	9,927
		55,485	72,266
		417,706	393,796

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, 2003
(Amounts in millions)

	Note	2003 RMB	2002 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	314,751	285,562
Investments in associates	15	4,520	3,565
Available-for-sale investments	16	1,462	1,250
Subsidiaries	17	116,698	106,663
Intangible and other assets	18	3,159	3,111
		440,590	400,151
CURRENT ASSETS			
Inventories	19	24,186	24,076
Accounts receivable	20	1,761	4,868
Prepaid expenses and other current assets	21	18,893	22,042
Notes receivable	22	2,158	2,370
Receivables under resale agreements	23	24,087	9,681
Time deposits with maturities over three months		2,640	2,612
Cash and cash equivalents	24	8,022	7,457
TOTAL CURRENT ASSETS		81,747	73,106
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	25	78,010	68,355
Income tax payable		11,572	5,359
Other taxes payable		4,929	2,216
Short-term borrowings	26	26,667	18,217
		121,178	94,147
NET CURRENT LIABILITIES		(39,431)	(21,041)
TOTAL ASSETS LESS CURRENT LIABILITIES		401,159	379,110
FINANCED BY			
Share capital	27	175,824	175,824
Retained earnings		100,677	70,104
Reserves	28	80,112	70,748
Shareholders' equity		356,613	316,676
NON CURRENT LIABILITIES			
Long-term borrowings	26	36,222	54,695
Deferred credits and other long-term obligations		1,936	1,649
Deferred taxation	29	6,388	6,090
		44,546	62,434
		401,159	379,110

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

Chairman	President
Ma Fucai	Chen Geng

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT
For the Year Ended December 31, 2003
(Amounts in millions)

	Note	2003	2002
		RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES	30	138,820	98,341
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(81,109)	(70,699)
Acquisition of subsidiaries		-	(2,150)
Acquisition of associated companies		(1,044)	(1,119)
Repayment of capital by associated companies		336	301
Acquisition of available-for-sale investments		(722)	(231)
(Acquisition)/Disposal of receivables under resale agreements		(14,438)	1,719
Acquisition of intangible assets		(473)	(666)
Acquisition of other non-current assets		(783)	(386)
Proceeds from disposal of property, plant and equipment		202	497
Proceeds from disposal of associated companies		23	243
Proceeds from disposal of available-for-sale investments		87	97
Dividends received		152	91
(Increase)/Decrease in time deposits with maturities over three months		(28)	641
NET CASH USED FOR INVESTING ACTIVITIES		(97,797)	(71,662)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings		25,128	28,728
Repayments of short-term borrowings		(30,373)	(34,550)
Increase in long-term borrowings		2,823	9,885
Repayments of long-term borrowings		(7,951)	(13,944)
Principal payment on finance lease obligations		(66)	(104)
Dividends paid to minority interests		(85)	(135)
Contribution from CNPC to marketing enterprises		-	10
Capital contribution from minority interests		287	57
Dividends paid	13	(29,678)	(17,650)
Change in deferred credits and other long-term obligations		316	304
Cash payment for acquisition of CNPC marketing enterprises	2	(170)	(430)
NET CASH USED FOR FINANCING ACTIVITIES		(39,769)	(27,829)
Increase/(Decrease) in cash and cash equivalents		1,254	(1,150)
Cash and cash equivalents at beginning of year	24	9,977	11,127
Cash and cash equivalents at end of year	24	11,231	9,977

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, 2003
(Amounts in millions)

	Share Capital (Note 27)	Retained Earnings	Reserves (Note 28)	Total
	RMB	**RMB**	**RMB**	**RMB**
Balance at January 1, 2002	175,824	35,607	79,175	290,606
Net profit for the year ended December 31, 2002	-	46,910	-	46,910
Transfer to reserves	-	(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
Net profit for the year ended December 31, 2003	-	69,614	-	69,614
Revaluation surplus of property, plant and equipment, net of tax	-	-	527	527
Revaluation loss offset against previous revaluation surplus of property, plant and equipment, net of tax	-	-	(526)	(526)
Transfer to reserves	-	(9,363)	9,363	-
Final dividend for 2002 (Note 13)	-	(12,299)	-	(12,299)
Interim dividend for 2003 (Note 13)	-	(17,379)	-	(17,379)
Balance at December 31, 2003	175,824	89,577	91,212	356,613

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

1 ORGANISATION AND PRINCIPAL ACTIVITIES

PetroChina Company Limited (the “Company”) was established in the People's Republic of China (the “PRC” or “China”) on November 5, 1999 as a joint stock company with limited liability as a result of a group restructuring (the “Restructuring”) of China National Petroleum Corporation (“CNPC”) in preparation for the listing of the Company’s shares on the New York Stock Exchange and The Stock Exchange of Hong Kong Limited. 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 (“IFRS”) issued by the International Accounting Standard Board (“IASB”). 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 September 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 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 were accounted for at historical cost to CNPC, and the consolidated financial statements were restated in the prior year to give effect to the acquisition with all periods presented as if the operations of the Company and these marketing enterprises had always been combined. The difference between the RMB 3,200 acquisition price and the net liabilities transferred from CNPC was adjusted against equity.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its 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 control 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.

For purpose of presentation of the Company's balance sheet, investments in subsidiaries are accounted for by the equity method as described in Note 3 (b).

A listing of the Group's principal subsidiaries is set out in Note 17.

(b) Investments in associated companies

Investments in associates are accounted for by the equity method. Under this method the Group'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 in 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.

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. The Group also owns certain crude oil and natural gas exploration and production operations in Indonesia and the measurement currency for these operations 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 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, payables, leases and borrowings. Where necessary the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group did not hold and 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 investments in this category. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in current assets if their respective maturity dates are twelve months or less from balance sheet date, or in non-current assets if their respective maturity dates are more than twelve months from balance sheet date; during the year the Group did not hold any investments in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 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 in full as of June 30, 1999 prior to the restructuring referred in Note 1.

In the intervening years between independent revaluations, the directors review the carrying values of the property, plant and equipment and adjustment is made where these are materially different from fair value. As at September 30, 2003, an exercise was undertaken by independent qualified valuers, resulting in minor adjustments to the carrying values, as described in Note 14. Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases in valuation of property, plant and equipment are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the income statement. All other decreases in valuation are charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged.

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.

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:

Buildings	25-40 years
Plant and machinery	10-15 years
Equipment and motor vehicles	3-16 years

No depreciation is provided for construction in progress until they are completed and 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 assets in the cash generating unit and from their 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.

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-how 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 and 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 leases 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 a 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 and 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 the 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. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, except for the portion eligible for capitalisation.

(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 carryforward 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) Share appreciation rights

Compensation under the share appreciation rights is measured as the amount by which the quoted market price of the Company's H Shares exceeds the grant price. Compensation is accrued as a charge to compensation expense over the vesting service period. The compensation accrued during a vesting service period is adjusted in subsequent periods for changes, either upward or downward to the grant price, in the quoted market price of the Company's shares. The amount of compensation and the effect of subsequent changes are included in the employee compensation cost of the profit and loss account; the related liability is included in the salaries and welfare payable.

(u) New accounting developments

In December 2003, the IASB issued amendments to thirteen existing IFRS standards under its "Improvements Project". The amendments will become effective on January 1, 2005. The Group has not adopted these revised standards and does not expect the adoption of these revised standards would have a material effect on the results of operation and the financial position 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 38.

5 PROFIT BEFORE TAXATION

	2003 RMB	2002 RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	69	60
Reversal of impairment of receivables	551	344
Reversal of impairment of available-for-sale investments	21	-
Reversal of write down in inventories	23	264
Charging		
Amortisation on intangible and other assets	888	676
Auditors' remuneration	44	75
Cost of inventories (approximates cost of goods sold) recognised as expense	134,935	112,986
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	39,622	36,079
- assets under finance leases	21	27
Impairment of available-for-sale investments	179	4
Impairment of receivables	1,985	628
Interest expense (Note 8)	2,346	3,516
Loss on disposal of property, plant and equipment	1,048	647
Operating lease rentals on land and buildings and equipment	2,991	2,942
Repair and maintenance	4,721	5,060
Research and development expenditure	2,411	1,806
Transportation expenses	8,780	8,328
Write down in inventories	159	142

6 EMPLOYEE COMPENSATION COSTS

	2003 RMB	2002 RMB
Wages and salaries	12,893	10,631
Social security costs (i)	6,649	5,617
	19,542	16,248

(i) Social security costs represent contributions to funds for staff welfare organised by the municipal and provincial governments including contribution to the retirement benefit plans (Note 31).

7 SHUT DOWN OF MANUFACTURING ASSETS

During the years ended December 31, 2003 and 2002, the Group provided RMB 2,355 and RMB 2,121 respectively for the shut down of certain less efficient operating facilities in the refining and chemical manufacturing plants. The charges represented the net book value of the facilities.

	2003 RMB	2002 RMB
Refining facilities	1,596	1,179
Chemical facilities	759	942
	2,355	2,121

There were no employee termination or relocation costs relating to the shut down of these manufacturing equipment. Estimated salvage values are expected to approximate the estimated cost of dismantlement.

8 INTEREST EXPENSE

	2003 RMB	2002 RMB
Interest on		
Bank loans		
- wholly repayable within five years	1,773	2,062
- not wholly repayable within five years	697	1,119
Other loans		
- wholly repayable within five years	1,046	1,091
- not wholly repayable within five years	146	130
Finance leases	4	10
Less: amounts capitalised	(1,320)	(896)
	2,346	3,516

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings was 5.02% (2002: 5.02% to 5.43%) per annum.

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2003 RMB'000	2002 RMB'000
Fee for directors and supervisors	83	128
Salaries, allowances and other benefits	1,377	1,042
Contribution to retirement benefit scheme	34	25
	1,494	1,195

The emoluments of the directors and supervisors fall within the following bands (including directors and supervisors whose term expired during the year):

	2003 Number	2002 Number
Nil – RMB 1	19	23

Fee for directors and supervisors disclosed above included RMB 62 thousand (2002: RMB 66 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2003 (2002: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2002 and 2003 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 became 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. 87,000,000 units of share appreciation rights were granted to senior executives. 35,000,000 units were granted to the directors and supervisors; of these 35,000,000 units, 33,130,000 units are outstanding, net of subsequent forfeiture of 1,870,000 units by a former independent director.

The rights can be exercised on or after April 8, 2003, the third anniversary of the grant, 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, 2003, none of the holders of the stock appreciation rights has exercised the rights. The liability for the units awarded under the scheme has been calculated based on the difference between the exercise price and the market price of the shares and amounted to approximately RMB 406 (2002: RMB 34) at December 31, 2003.

10 TAXATION

	2003	2002
	RMB	**RMB**
Income tax	26,347	19,289
Deferred tax (Note 29)	1,594	2,897
Share of tax of associated companies	131	45
	28,072	22,231

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is principally 33% (2002: 33%). The Group in the last quarter of 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 through 2010 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 :

	2003	2002
	RMB	**RMB**
Profit before taxation	98,322	69,240
Tax calculated at a tax rate of 33%	32,446	22,849
Prior year tax return adjustment	419	618
Effect of preferential tax rate	(5,190)	(2,377)
Income not subject to tax	(566)	(93)
Expenses not deductible for tax purposes	963	1,234
Tax charge	28,072	22,231

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 69,614 (2002: RMB 46,910) for the year ended December 31, 2003.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2003 and 2002 have been computed by dividing net profit by the number of 175.82 billion shares issued and outstanding for each of the years.

There are no dilutive potential ordinary shares.

13 DIVIDENDS

	2003 RMB	2002 RMB
Final dividend for 2001 (Note (i))	-	8,839
Interim dividend for 2002 (Note (ii))	-	8,811
Final dividend for 2002 (Note (iii))	12,299	-
Interim dividend for 2003 (Note (iv))	17,379	-
	29,678	17,650

(i) 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.

(ii) An interim dividend in respect of 2002 of RMB 0.050113 per share amounting to a total of RMB 8,811 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.

(iii) A final dividend in respect of 2002 of RMB 0.069951 per share amounting to a total of RMB12,299 was paid on June 12, 2003, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2003.

(iv) As authorised by shareholders in the Annual General Meeting on May 28, 2003, the Board of Directors, in a meeting held on August 27, 2003, resolved to distribute an interim dividend in respect of 2003 of RMB 0.098841 per share amounting to a total of RMB17,379. The interim dividend was paid on October 8, 2003, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2003.

(v) At the meeting on March 24, 2004, the Board of Directors proposed a final dividend in respect of 2003 of RMB 0.079324 per share amounting to a total of RMB 13,947. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2004.

14 PROPERTY, PLANT AND EQUIPMENT

Group

Year Ended December 31, 2002	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	240	1,709	1,891	92	71	-	4,003
Transfers	5,381	39,332	18,106	690	229	(63,738)	-
Disposals or write	(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	(1,684)	(18,302)	(14,864)	(685)	(571)	-	(36,106)
Acquisitions	(55)	-	(748)	(33)	(37)	-	(873)
Disposals or write	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 (i)	27,150	225,358	160,544	3,676	1,644	-	418,372
At cost (ii)	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 property, plant and equipment had they been stated at cost less accumulated depreciation	39,065	179,713	92,383	3,102	2,738	30,594	347,595

Group (continued)

Year Ended December 31, 2003	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	55,334	337,998	205,921	7,384	5,272	30,594	642,503
Additions	1,133	289	952	142	73	81,710	84,299
Revaluation surplus	-	-	(1,568)	-	-	-	(1,568)
Revaluation loss	-	-	(2,133)	-	-	-	(2,133)
Transfers	6,743	43,308	27,834	804	354	(79,043)	-
Disposals or write off	(1,738)	(12,785)	(8,285)	(537)	(249)	-	(23,594)
At end of the year	61,472	368,810	222,721	7,793	5,450	33,261	699,507
Accumulated depreciation							
At beginning of the year	(11,158)	(137,653)	(90,462)	(3,649)	(1,783)	-	(244,705)
Charge for the year	(2,146)	(21,060)	(15,120)	(731)	(586)	-	(39,643)
Revaluation surplus	-	-	2,440	-	-	-	2,440
Revaluation loss	-	-	876	-	-	-	876
Disposals or write off	1,474	7,871	5,007	416	176	-	14,944
At end of the year	(11,830)	(150,842)	(97,259)	(3,964)	(2,193)	-	(266,088)
Net book value							
At end of the year	49,642	217,968	125,462	3,829	3,257	33,261	433,419
Analysis of cost or valuation							
At valuation (i)	25,412	212,573	162,954	3,139	1,395	-	405,473
At cost (ii)	36,060	156,237	59,767	4,654	4,055	33,261	294,034
	61,472	368,810	222,721	7,793	5,450	33,261	699,507
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	44,773	203,025	104,976	3,304	2,622	33,261	391,961

Company

Year Ended December 31, 2002	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	(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	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 (i)	18,724	130,127	134,234	2,713	1,610	-	287,408
At cost (ii)	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 property, plant and equipment had they been stated at cost less accumulated depreciation	27,451	119,221	70,252	1,916	2,688	25,949	247,477

Company (continued)

Year Ended December 31, 2003	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	38,256	221,071	164,947	4,884	4,766	25,949	459,873
Additions	241	114	422	111	53	66,309	67,250
Revaluation surplus	-	-	(1,497)	-	-	-	(1,497)
Revaluation loss	-	-	(2,026)	-	-	-	(2,026)
Transfers	5,263	31,773	25,199	374	196	(62,805)	-
Disposals or write	(1,419)	(7,411)	(8,103)	(491)	(174)	-	(17,598)
At end of the year	42,341	245,547	178,942	4,878	4,841	29,453	506,002
Accumulated depreciation							
At beginning of the year	(8,854)	(88,166)	(73,407)	(2,579)	(1,305)	-	(174,311)
Charge for the year	(1,764)	(14,789)	(12,542)	(517)	(398)	-	(30,010)
Revaluation surplus	-	-	2,366	-	-	-	2,366
Revaluation loss	-	-	795	-	-	-	795
Disposals or write	1,201	3,272	4,923	406	107	-	9,909
At end of the year	(9,417)	(99,683)	(77,865)	(2,690)	(1,596)	-	(191,251)
Net book value							
At end of the year	32,924	145,864	101,077	2,188	3,245	29,453	314,751
Analysis of cost or valuation							
At valuation (i)	17,305	122,716	133,302	2,222	1,376	-	276,921
At cost (ii)	25,036	122,831	45,640	2,656	3,465	29,453	229,081
	42,341	245,547	178,942	4,878	4,841	29,453	506,002
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	31,159	135,071	82,158	1,873	2,586	29,453	282,300

(i) Amount for which revaluations have been undertaken by independent valuers.
(ii) Cost of property, plant and equipment acquired or constructed since the applicable revaluation.

The depreciation charge of the Group and the Company for the year ended December 31, 2003 included RMB 1,487 (2002: RMB 1,753) relating to impairment provision for plant and equipment held for use. Of this amount, RMB 863 (2002: RMB 1,384) was related to the Chemicals and Marketing segment and RMB 624 (2002: RMB 369) was for the Refining and Marketing segment.

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

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Short-term lease (less than 10 years)	1,192	376	779	332
Medium-term lease (10 to 50 years)	40,289	35,142	24,992	21,739
Long-term lease (over 50 years)	8,161	8,658	7,153	7,331
	49,642	44,176	32,924	29,402

All the 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	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Refining and Marketing	94	88	94	88
Chemicals and Marketing	221	431	221	431
Accumulated depreciation	(75)	(120)	(75)	(120)
	240	399	240	399

All finance leases are related to plant and equipment and generally contain purchase options at the end of the lease terms.

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.

As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers, China United Assets Appraiser Co., Ltd, in the PRC on a depreciated replacement cost basis.

The June 1999 revaluation resulted in RMB 80,549 in excess of the prior carrying value and a revaluation loss of RMB 1,122 on certain property, plant and equipment.

The September 2003 revaluation resulted in a RMB 872 in excess of the carrying value of certain property, plant and equipment immediately prior to the revaluation and a revaluation loss of RMB 1,257.

With respect to the RMB 872 revaluation gain resulting from the 2003 revaluation, RMB 98 were related to property, plant and equipment that in 1999 experienced revaluation loss, and were credited to the profit and loss account. The remaining RMB 774 was credited to the revaluation reserve in the shareholders' equity.

With respect to the RMB 1,257 revaluation loss resulting from the 2003 revaluation, RMB 768 were related to property, plant and equipment that in 1999 experienced revaluation gain. The remaining RMB 489 were charged to the profit and loss account.

Bank borrowings are secured on property, plant and equipment at net book value of RMB 152 (2002: RMB 426) at December 31, 2003.

15 INVESTMENTS IN ASSOCIATES

Principal associated companies accounted for under the 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	28.4	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 985 (2002: RMB 268) in 2003.

Share of net profit/(loss) of associated companies included in retained earnings of the Group was RMB 584 (2002: RMB (136)) at December 31, 2003. Dividends received and receivable from associated companies were RMB 134 (2002: RMB 99) in 2003.

16 AVAILABLE-FOR-SALE INVESTMENTS

	Group		**Company**	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Unlisted available-for-sale investments	2,652	2,195	2,264	1,883
Less: Impairment provision	(813)	(660)	(802)	(633)
Total	1,839	1,535	1,462	1,250

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 69 (2002: RMB 60) in 2003.

17 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 Company Limited	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, 2003.

18 INTANGIBLE AND OTHER ASSETS

Group

	2003			2002		
	Cost	**Accumulated Amortisation**	**Net**	**Cost**	**Accumulated Amortisation**	**Net**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
Patents	2,845	(1,293)	1,552	2,591	(1,006)	1,585
Technical know-how	649	(213)	436	637	(232)	405
Intangible assets	3,494	(1,506)	1,988	3,228	(1,238)	1,990
Other assets			2,744			2,517
			4,732			4,507

Company

	2003			2002		
	Cost	**Accumulated Amortisation**	**Net**	**Cost**	**Accumulated Amortisation**	**Net**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
Patents	2,195	(1,144)	1,051	1,955	(964)	991
Technical know-how	310	(83)	227	276	(54)	222
Intangible assets	2,505	(1,227)	1,278	2,231	(1,018)	1,213
Other assets			1,881			1,898
			3,159			3,111

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 consist of long-term prepaid expenses to service providers.

19 INVENTORIES

	Group		Company	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Crude oil and other raw materials	9,553	8,987	6,989	6,772
Work in progress	3,652	3,787	3,242	3,532
Finished goods	16,367	16,253	14,424	14,168
Spare parts and consumables	66	67	55	58
	29,638	29,094	24,710	24,530
Less: Write down in inventories	(766)	(653)	(524)	(454)
	28,872	28,441	24,186	24,076

Inventories of the Group carried at net realisable value amounted to RMB 2,249 (2002: RMB 2,780) at December 31, 2003.

20 ACCOUNTS RECEIVABLE

	Group		Company	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Accounts receivable due from third parties	8,263	11,504	5,827	9,647
Less: Impairment provision	(5,872)	(6,356)	(4,759)	(5,361)
	2,391	5,148	1,068	4,286
Accounts receivable due from related parties				
- Fellow CNPC subsidiaries	592	789	415	443
- Associated companies	280	142	278	139
	3,263	6,079	1,761	4,868

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, 2003 is as follows:

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Within 1 year	2,594	4,647	1,369	4,220
Between 1 to 2 years	136	743	127	325
Between 2 to 3 years	423	697	293	588
Over 3 years	5,982	6,348	4,731	5,096
	9,135	12,435	6,520	10,229

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

21 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Other receivables	10,173	9,626	7,490	8,096
Less: Impairment provision	(6,283)	(5,313)	(3,690)	(3,264)
	3,890	4,313	3,800	4,832
Amounts due from CNPC	2,038	2,135	2,038	2,135
Amounts due from fellow CNPC subsidiaries	2,705	5,419	2,002	3,865
Amounts due from subsidiaries	-	-	7,287	8,870
Advances to suppliers	4,105	3,209	2,977	1,740
Prepaid expenses	103	123	68	100
Other current assets	687	530	721	500
	13,528	15,729	18,893	22,042

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 CNPC subsidiaries are interest free, unsecured and repayable in accordance with normal commercial terms.

22 NOTES RECEIVABLE

Notes receivable represent mainly the bills of acceptance issued by banks for sale of goods and products. All notes receivable are due within one year.

23 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.

24 CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Cash at bank and in hand	11,231	9,977	8,022	7,457

The weighted average effective interest rate on bank deposits was 1.30% (2002: 1.22%) for the year ended December 31, 2003.

25 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Trade payables	10,150	8,153	6,448	5,057
Advances from customers	6,861	4,690	5,835	4,131
Salaries and welfare payable	5,413	3,915	4,394	3,032
Accrued expenses	5	8	5	8
Dividends payable by subsidiaries to minority shareholders	118	34	-	-
Interest payable	130	233	127	162
Construction fee and equipment cost payables	13,760	12,521	10,411	8,602
Payable to Sinopec	610	539	585	512
Advances from Sinopec	233	80	233	74
One-time employee housing remedial payment payable	2,270	2,470	2,270	2,470
Other payables	10,628	10,588	7,395	10,185
Amounts due to related parties				
- CNPC	1,531	1,702	1,484	1,656
- Fellow CNPC subsidiaries	11,880	11,581	9,746	7,590
- Subsidiaries	-	-	28,536	23,664
- Associated companies	591	1,279	541	1,212
	64,180	57,793	78,010	68,355

Other payables consist primarily of customer deposits.

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, 2003 is as follows:

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Within 1 year	9,108	7,110	5,763	4,237
Between 1 to 2 years	402	369	211	246
Between 2 to 3 years	127	109	89	80
Over 3 years	513	565	385	494
	10,150	8,153	6,448	5,057

26 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Bank loans				
- secured	114	274	7	92
- unsecured	8,450	13,576	7,592	13,073
Loans from fellow CNPC subsidiaries	610	570	-	-
Other	5	4	4	4
	9,179	14,424	7,603	13,169
Current portion of long-term borrowings	19,711	6,209	19,064	5,048
	28,890	20,633	26,667	18,217

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group		Company	
		2003	2002	2003	2002
		RMB	RMB	RMB	RMB
Renminbi – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Majority variable interest rates ranging from interest free to 6.03% per annum as of December 31, 2003, with maturities through 2010	20,327	23,580	19,631	22,826
Bank loans for working capital	Majority variable interest rates ranging from interest free to 5.94% per annum as of December 31, 2003, with maturities through 2005	6,073	6,189	6,033	6,092
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, 2003, with maturities through 2032	15,620	15,956	15,620	15,756
Working capital loans from related parties	Floating interest rate at 5.02% per annum as of December 31, 2003, with maturities through 2004	4,000	4,000	4,000	4,000
Working capital loans	Fixed interest rates at 6.32% per annum with no fixed repayment term	10	11	8	9
Corporate debenture for the development of oil fields and construction of refining plants	Fixed interest rate at 4.50% per annum with maturities through 2007	1,350	1,350	1,350	1,350
Corporate debenture for the construction of refining plants	Fixed interest rate at 9.00% per annum with maturities through 2003	-	300	-	300
Corporate debenture issued in October, 2003, for the development of oil and gas properties	Fixed interest rate at 4.11% per annum with maturities through 2013	1,500	-	1,500	-

	Interest Rate and Final	Group		Company	
		2003	2002	2003	2002
		RMB	RMB	RMB	RMB
US Dollar – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from interest free to 8.66% per annum with maturities through 2038	2,881	4,801	1,070	1,991
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from 1.47 % to 6.61% per annum as of December 31, 2003, with maturities through 2015	1,403	1,763	853	1,081
Bank loans for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.60% per annum as of December 31, 2003, with maturities through 2005	1,493	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, 2003, with maturities through 2005	3,633	3,633	3,633	3,633
Loans from related parties for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2003, with maturities through 2005	608	-	-	-
Loans from related parties for working capital	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2003, with maturities through 2005	717	543	-	-
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum with maturities through 2022	586	618	586	618

	Interest Rate and Final	Group 2003 RMB	Group 2002 RMB	Company 2003 RMB	Company 2002 RMB
Japanese Yen – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.70% to 5.30% per annum with maturities through 2010	578	723	371	461
Euro –denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.00% to 8.50% per annum with maturities through 2023	381	463	121	182
British Pound – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rate at 2.85% per annum with maturities through 2007	454	538	454	538
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 5.17% per annum	-	784	-	784
		61,614	66,742	55,230	59,621
Finance lease obligations		56	122	56	122
Total long-term borrowings		61,670	66,864	55,286	59,743
Less: Current portion of long-term borrowings		(19,711)	(6,209)	(19,064)	(5,048)
		41,959	60,655	36,222	54,695

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. Other loans represent loans from independent third parties other than banks with interest rates ranging from 1.55% to 6.32% per annum. Interest free loans amounted to RMB 215 (2002: RMB 353) at December 31, 2003. 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.

Borrowings of RMB 853 (2002: RMB 939) were guaranteed by CNPC and its subsidiaries at December 31, 2003.

The Group's borrowings include secured liabilities (leases and bank borrowings) totalling RMB 170 (2002: RMB 398) at December 31, 2003. Bank borrowings are secured over certain of the Group's property, plant and equipment (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**	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Total borrowings:				
- at fixed rates	17,024	24,056	13,122	19,378
- at variable rates	53,825	57,232	49,767	53,534
	70,849	81,288	62,889	72,912
Weighted average effective interest rates:				
- bank loans	4.77%	4.92%	4.92%	5.01%
- loans from related parties	4.23%	4.33%	4.37%	4.38%
- loans from third parties	1.64%	3.58%	1.64%	3.60%
- corporate debentures	4.30%	5.32%	4.30%	5.32%
- finance lease obligations	3.22%	3.38%	3.22%	3.38%

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

	Group		Company	
	Carrying Amounts			
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Bank loans	33,590	39,547	28,533	33,171
Loans from related parties	24,578	24,132	23,253	23,389
Corporate debentures	2,850	1,650	2,850	1,650
Other	596	1,413	594	1,411
	61,614	66,742	55,230	59,621

	Group		Company	
	Fair Values			
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Bank loans	33,514	39,413	28,565	33,208
Loans from related parties	24,578	24,133	23,253	23,388
Corporate debentures	2,640	1,646	2,640	1,646
Other	422	1,203	421	1,202
	61,154	66,395	54,879	59,444

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 0.43% to 6.66% per annum as of December 31, 2003 depending on the type of the borrowings. The carrying amounts of short-term borrowings and finance lease obligations approximate their fair value.

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

Bank loans	**Group**		**Company**	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	11,291	5,384	10,644	4,424
Between one to two years	9,963	11,072	7,812	10,193
Between two to five years	10,397	18,518	9,336	15,360
After five years	1,939	4,573	741	3,194
	33,590	39,547	28,533	33,171

Other loans	**Group**		**Company**	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	8,381	759	8,381	558
Between one to two years	8,203	8,469	6,878	8,465
Between two to five years	6,711	13,439	6,711	12,901
After five years	4,729	4,528	4,727	4,526
	28,024	27,195	26,697	26,450

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

	Group		**Company**	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	41	70	41	70
Between one to two years	17	41	17	41
Between two to five years	-	17	-	17
	58	128	58	128
Future finance charges on finance lease obligations	(2)	(6)	(2)	(6)
Present value of finance lease obligations	56	122	56	122
The present value of finance lease obligations can be analysed as follows:				
- Within one year	39	66	39	66
- Between one to two years	17	39	17	39
- Between two to five years	-	17	-	17
	56	122	56	122

27 SHARE CAPITAL

	Group		Company	
	2003	**2002**	**2003**	**2002**
	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 are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange 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.

28 RESERVES

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Revaluation Reserve				
Beginning balance	79,945	79,945	79,945	79,945
Revaluation surplus of property, plant and equipment (Note e)				
-gross	774	-	774	-
-tax	(247)	-	(247)	-
Revaluation loss offset against previous revaluation surplus of property, plant and equipment				
-gross	(768)	-	(768)	-
-tax	242	-	242	-
Ending balance	79,946	79,945	79,946	79,945
Capital Reserve				
Beginning balance	(28,557)	(28,567)	(28,557)	(28,567)
Contribution from CNPC to marketing enterprises	-	10	-	10
Ending balance	(28,557)	(28,557)	(28,557)	(28,557)
Statutory Common Reserve Fund (Note a)				
Beginning balance	20,128	16,219	12,693	8,784
Transfer from retained earnings	6,242	3,909	6,242	3,909
Ending balance	26,370	20,128	18,935	12,693
Statutory Common Welfare Fund (Note b)				
Beginning balance	13,532	11,578	9,867	7,913
Transfer from retained earnings	3,121	1,954	3,121	1,954
Ending balance	16,653	13,532	12,988	9,867
Other Reserves				
Beginning balance	(3,200)	-	(3,200)	-
Payment to CNPC for acquisition of marketing enterprises (Note 2)	-	(3,200)	-	(3,200)
Ending balance	(3,200)	(3,200)	(3,200)	(3,200)
	91,212	81,848	80,112	70,748

(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 common facilities, of which the Group retains the titles, 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% (2002: 5%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2003 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 59,104 (2002: RMB 37,374) as of December 31, 2003. The distributable reserve computed under the PRC accounting regulations at December 31, 2003 has been arrived at after the accrual for the proposed final dividend in respect of year 2003 of RMB 13,947 (Note 13 (v)).

(d) As of December 31, 2003, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 38,064 (2002: RMB 29,560).

(e) The revaluation surplus recognised during the restructuring was partially utilised to offset against the revaluation loss on the same assets arising in 2003 (Note 14). Additional valuation surplus arising in 2003 was credited to the revaluation reserve.

29 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	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
At beginning of year	9,927	7,030	6,090	4,835
Transfer to profit and loss account (Note 10)	1,594	2,897	293	1,255
Charged to equity				
-net surplus on revaluation	5	-	5	-
At end of year	11,526	9,927	6,388	6,090

Deferred tax balances are attributable to the following items:

	Group		Company	
	2003	**2002**	**2003**	**2002**
	RMB	**RMB**	**RMB**	**RMB**
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	4,015	3,568	3,278	2,831
Tax losses of subsidiaries	39	111	-	-
Non current:				
Shut down of manufacturing assets and impairment of long-term assets	1,039	613	949	524
Other	579	182	529	147
Total deferred tax assets	5,672	4,474	4,756	3,502
Deferred tax liabilities:				
Current:				
Sales (Note (i))	4,401	4,401	4,401	4,401
Non current:				
Accelerated tax depreciation	12,519	10,000	6,465	5,191
Other	278	-	278	-
Total deferred tax liabilities	17,198	14,401	11,144	9,592
Net deferred tax liabilities	11,526	9,927	6,388	6,090

(i) Prior to the formation of the Company in November 1999, certain crude oil sales were exempted from income tax. 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 unrecognised tax losses of RMB 1,789 (2002: RMB 1,748) arising from subsidiaries which file separate tax returns and the Group has not recognised a deferred tax asset for these tax losses subject to further improvement of their operations. In accordance with PRC tax law, tax losses may be carried forward by the subsidiaries against future taxable income for a period of five years, accordingly the tax losses will expire between 2005 and 2007. Deferred tax assets have been recognised for other deductible temporary differences.

30 CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2003 RMB	2002 RMB
Net profit		69,614	46,910
Adjustments for:			
Minority interests		636	99
Taxation	10	28,072	22,231
Depreciation, depletion and amortisation		40,531	36,782
Provision for shut down of manufacturing assets	7	2,355	2,121
Dry hole costs		4,691	3,527
Share of profit of associated companies	15	(985)	(268)
Impairment of receivables	5	1,434	284
Write down in inventories, net	5	136	(122)
Impairment of available-for-sale investments	5	158	4
Loss on disposal of property, plant and equipment	5	1,048	647
Loss on disposal of available-for-sale investments		21	21
Loss on disposal of intangible and other assets		143	17
Revaluation loss of property, plant and equipment	14	391	-
Dividend income	16	(69)	(60)
Interest income		(677)	(463)
Interest expense	8	2,346	3,516
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		3,612	4,554
Inventories		(567)	157
Accounts payable and accrued liabilities		8,738	2,047
CASH GENERATED FROM OPERATIONS		161,628	122,004
Interest received		677	463
Interest paid		(3,769)	(4,564)
Income taxes paid		(19,716)	(19,562)
NET CASH PROVIDED BY OPERATING ACTIVITIES		138,820	98,341

31 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 obligations 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 2,193 (2002: RMB 2,109) for the year ended December 31, 2003.

32 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 detailed analysis of the Group's borrowings, together with their respective interest rates and maturity dates, are included in Note 26.

(c) Foreign exchange rate risk

Renminbi is not a freely convertible currency. Future exchange rates of Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates of Renminbi are affected by changes in PRC government policies. The exchange rates of Renminbi are also affected by economic developments and political changes domestically and internationally, and supply and demand for Renminbi. The official exchange rate for the conversion of Renminbi to US Dollars has generally been stable recently. As Renminbi is the measurement currency of the Company and most of its consolidated entities, the fluctuation of exchange rates of

Renminbi may have positive or negative impacts on the results of operations of the Group. 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 Renminbi against US Dollar may not have a negative impact on the Group's revenue, but may increase the cost incurred by the Group to acquire imported materials and equipment as well as the foreign currency-denominated obligations of the Group. On the other hand, an appreciation of Renminbi against US Dollar may decrease the Group's revenue, but the cost for acquiring imported materials and equipment may be reduced. The results of operations and the financial condition of the Group also may be affected by fluctuations in exchange rates against Renminbi of a number of other foreign currencies other than US Dollar.

(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 2003 and 2002, 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. As the majority of the borrowings are at variable rates, the difference between fair value and carrying amounts is likely to be immaterial.

33 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2003, 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.

	2003	2002
	RMB	RMB
Guarantee of borrowings of associated companies	448	962

(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, except for the 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, 2003, CNPC has obtained formal land use right certificates in relation to 24,046 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 that it may have a material impact on the operating results but will not have a material adverse effect on the financial position of the Group.

(f) Cost reduction measures

The Group may further streamline its 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 plans. Management does not believe such plans will have a material adverse impact on the Group's financial position, but may have a material adverse effect on the Group's results of operations.

34 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, 2003 and 2002 under non-cancellable operating leases are as follows:

	2003	2002
	RMB	RMB
First year	2,552	2,403
Second year	2,433	2,265
Third year	2,409	2,255
Fourth year	2,391	2,246
Fifth year	2,380	2,248
Thereafter	84,776	86,682
	96,941	98,099

Operating lease expenses for land and buildings and equipment were RMB 2,991 (2002: RMB 2,942) for the year ended December 31, 2003.

(b) Capital commitments

	2003	2002
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	896	180
Plant and equipment	10,055	2,898
Other	194	198
	11,145	3,276

(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 296 (2002: RMB 202) for the year ended December 31, 2003.

Estimated annual payments in the future are as follows:

	RMB
2004	515
2005	618
2006	681
2007	712
2008 and thereafter	712

(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.

35 ACQUISITION

On April 22, 2002 the Group acquired all of the share capital of PetroChina International Indonesia Limited (formerly Devon Energy Indonesia Ltd.) ("Devon") for RMB 2,068. 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.

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 for a total consideration of RMB 472, and the two entities became the subsidiaries of the Company at the respective dates of acquisitions. The acquired businesses 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.

The assets and liabilities arising from the acquisitions at the respective dates of acquisitions were as follows:

	Devon	Jilian	Tashu	Total
	RMB	RMB	RMB	RMB
Assets	2,145	1,050	897	4,092
Liabilities	(77)	(664)	(262)	(1,003)
	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

36 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2003		2002	
	Revenue	% to Total Revenue	Revenue	% to Total Revenue
	RMB	%	RMB	%
Sinopec	35,932	12	26,497	11
CNPC	9,323	3	7,772	3
	45,255	15	34,269	14

37 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, “Related Party Disclosure”, 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 36.

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 33(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 business units of the Group 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 approximately 442,730 square meters at an annual rental of RMB 157. The Supplemental Buildings Leasing Agreement will expire at the same time as the Building Leasing Agreement.

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:

	Note	2003 RMB	2002 RMB
Sale of goods	(a)	9,323	7,772
Fees paid for construction and technical services	(b)		
-Exploration and development services	(c)	25,180	21,781
-Other construction and technical services	(d)	15,688	16,324
Fees for production services	(e)	16,042	15,743
Social services charge	(f)	1,326	1,243
Ancillary service charges	(g)	1,683	1,713
Interest income	(h)	30	25
Interest expense	(i)	1,052	1,086
Rental expense	(j)	2,001	1,916
Commission expense and other charges	(k)	971	936

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 2,331 (2002: RMB 2,861) as of December 31, 2003. 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 25,188 (2002: RMB 24,702) as of December 31, 2003 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 7.5% equity interest in CP Finance at a book value of RMB 299 as of December 31, 2003 and a 4.73% equity interest in CP Finance at a book value of RMB 94 as of December 31, 2002.

38 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, crude oil and refined products, 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 in April 2002 the Group 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. In April 2003, the Group acquired for RMB 679 a 50% interest in Amerada Hess Indonesia Holdings Co., which has a 30% interest in one of the oil and gas concessions that the Group acquired in 2002.

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, 2002 and 2003 is presented below:

Primary reporting format –business segments

Year Ended December 31, 2002	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Turnover (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)
Turnover 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

Primary reporting format –business segments (continued)

Year Ended December 31, 2003	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural Gas and Pipeline RMB	Other RMB	Total RMB
Turnover (including intersegment)	177,271	223,584	39,211	15,067	-	455,133
Less: Intersegment sales	(128,963)	(16,867)	(2,263)	(3,261)	-	(151,354)
Turnover from external customers	48,308	206,717	36,948	11,806	-	303,779
Depreciation, depletion and amortisation	(25,486)	(7,601)	(5,795)	(1,543)	(106)	(40,531)
Segment result	98,819	20,679	2,621	2,248	(713)	123,654
Other costs	(6,449)	(15,644)	(1,580)	(326)	(469)	(24,468)
Profit/(loss) from operations	92,370	5,035	1,041	1,922	(1,182)	99,186
Finance costs						(1,849)
Share of profit/(loss) of associated companies	(33)	104	42	13	859	985
Profit before taxation						98,322
Taxation						(28,072)
Minority interests						(636)
Net profit						69,614
Interest income (including intersegment)	2,222	552	446	117	4,403	7,740
Less: Intersegment interest income						(7,063)
Interest income from external entities						677
Interest expense (including intersegment)	(2,537)	(1,686)	(843)	(356)	(3,987)	(9,409)

Less:						
Intersegment interest expense						7,063
Interest expense to external entities						(2,346)
Segment assets	310,431	117,652	55,595	46,450	451,949	982,077
Elimination of intersegment balances						(455,913)
Investments in associated companies	1,184	1,889	232	41	2,225	5,571
Total assets						531,735
Segment capital expenditure - for property, plant and equipment	52,813	13,915	3,903	13,530	138	84,299
Segment liabilities	86,050	58,372	17,634	33,535	104,326	299,917
Other liabilities						32,548
Elimination of intersegment balances						(162,951)
Total liabilities						169,514

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.

Note (c) - Segment results for the years ended December 31, 2002 and 2003 included impairment provision for property, plant and equipment (Note 14) and shut down of manufacturing assets (Note 7).

Note (d) - Other liabilities mainly include income tax payable, other taxes payable and deferred taxation.

Note (e) - Elimination of intersegment balances represents elimination of intersegment current accounts and investments.

Secondary reporting format – geographical segments

Year Ended December 31,	Turnover		Total assets		Capital expenditure	
	2003	2002	2003	2002	2003	2002
	RMB	RMB	RMB	RMB	RMB	RMB
PRC	302,854	243,792	529,209	480,873	83,645	71,774
Other (Exploration and Production)	925	632	2,526	2,276	654	1,952
	303,779	244,424	531,735	483,149	84,299	73,726

39 ULTIMATE HOLDING COMPANY

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

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 24, 2004 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 18, 2004.