

Results of Operations

	Year Ended December 31,	
	2003	2002
	RMB	RMB
Sales and other operating revenues		
sales to third parties	48,308	41,042
intersegment sales	128,963	106,266
	177,271	147,308
Production costs excluding taxes	(30,691)	(29,913)
Exploration expenses	(10,577)	(8,095)
Depreciation, depletion and amortisation	(21,060)	(18,302)
Taxes other than income taxes	(5,524)	(5,299)
Profit before taxation	109,419	85,699
Taxation	(32,376)	(25,958)
Results of operations from producing activities	77,043	59,741
Profit from associated companies' results of operations from producing activities	324	132

Capitalised Costs

	Year Ended December 31,	
	2003	2002
	RMB	RMB
Property costs	-	-
Producing assets	262,638	236,856
Support facilities	106,172	101,142
Construction-in-progress	10,485	7,895
Total capitalised costs	379,295	345,893
Accumulated depreciation, depletion and amortisation	(150,842)	(137,653)
Net capitalised costs	228,453	208,240
Share of associated companies' net capitalised costs	1,604	815

Costs Incurred in Property Acquisitions, Exploration and Development Activities

	Year Ended December 31,	
	2003	2002
	RMB	RMB
Property acquisition costs	-	-
Exploration costs	15,137	10,704
Development costs	39,587	35,558
Total	54,724	46,262
Share of associated companies' costs of property acquisition, exploration, and development	592	228

Proved Reserve Estimates

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

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed reserves are those reserves, which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where relatively major expenditure is required.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. However, in accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses effective March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms coextensive with the projected

productive life of those reservoirs, ranging up to 55 years. Production licenses to be issued to the Group in the future will be subject to the 30-year maximum unless additional special approvals can be obtained from the State Council. Each of the Group's production licenses is renewable upon application by the Group 30 days prior to expiration. Oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses.

Proved reserve estimates as of December 31, 2002 and 2003 were based on a report prepared by DeGolyer and MacNaughton, independent engineering consultants. These reserve estimates were prepared for each oil and gas region (as opposed to individual fields within a region) and adjusted for the estimated effects of using prices and costs prevailing at the end of the period. The Company's reserve estimates include only crude oil and natural gas, which the Company believes can be reasonably produced within the current terms of production licenses.

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

	Crude Oil and Condensate	Natural Gas
	(millions of barrels)	(billions of cubic feet)
Proved developed and undeveloped		
Reserves at January 1, 2002	10,959	36,103
Changes resulting from:		
Revisions of previous estimates	349	(225)
Improved recovery	31	-
Extensions and discoveries	330	3,540
Purchases of minerals in place	38	193
Production	(770)	(794)
Reserves at December 31, 2002	10,937	38,817
Changes resulting from:		
Revisions of previous estimates	199	278
Improved recovery	81	-
Extensions and discoveries	476	2,853
Purchases of minerals in place	-	-
Production	(774)	(879)
Reserves at December 31, 2003	10,919	41,069
Proved developed reserves at:		
December 31, 2002	9,198	11,921
December 31, 2003	8,885	13,374
Proportional interest in proved reserves of associated companies		
December 31, 2002	62	2
December 31, 2003	78	78

At December 31, 2003, 10,886 million barrels of crude oil and condensate and 40,877 billion cubic feet of natural gas proved developed and undeveloped reserves are located within China, and 33 million barrels of crude oil and condensate and 193 billion cubic feet of natural gas proved developed and undeveloped reserves are located in Indonesia.

Standardised Measure

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

The standardised measure of discounted future net cash flows related to proved oil and gas reserves at the end of each of the two years in the period ended December 31, 2002 and 2003 is as follows (in millions of RMB):

<hr/> At December 31, 2002	
Future cash inflows	2,710,152
Future production costs	(745,866)
Future development costs	(73,344)
Future income tax expense	(562,289)
Future net cash flows	<u>1,328,653</u>
Discount at 10% for estimated timing of cash flows	(713,267)
Standardised measure of discounted future net cash flows	<u>615,386</u>
 At December 31, 2003	
Future cash inflows	2,991,193
Future production costs	(765,111)
Future development costs	(88,556)
Future income tax expense	(635,169)
Future net cash flows	<u>1,502,357</u>
Discount at 10% for estimated timing of cash flows	(807,037)
Standardised measure of discounted future net cash flows	<u>695,320</u>

Share of associated companies' standardised measure of discounted future net cash flows

At December 31, 2002	2,612
At December 31, 2003	<u>3,744</u>

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

Changes in the standardised measure of discounted net cash flows for the Group for each of the two years ended December 31, 2002 and 2003 are as follows:

	Year Ended December 31,	
	2003	2002
	RMB	RMB
CHANGES IN STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS		
Beginning of year	615,386	405,999
Sales and transfers of oil and gas produced, net of	(146,580)	(116,977)
Net changes in prices and production costs and	90,150	259,016
Extensions, discoveries and improved recovery	65,150	53,024
Development costs incurred	1,730	(1,983)
Revisions of previous quantity estimates	15,520	17,364
Accretion of discount	87,580	60,095
Purchases of minerals in place	-	2,351
Net change in income taxes	(33,616)	(63,503)
End of year	<u>695,320</u>	<u>615,386</u>