	Notes	Six months ended June 30	
		2004	**2003**
		RMB	**RMB**
TURNOVER	3	179,552	147,960
OPERATING EXPENSES			
Purchases, services and other		(52,699)	(40,465)
Employee compensation costs		(10,487)	(8,275)
Exploration expenses, including exploratory dry holes		(5,630)	(4,811)
Depreciation, depletion and amortisation		(24,673)	(20,909)
Selling, general and administrative expenses		(12,776)	(11,094)
Taxes other than income taxes		(9,285)	(7,872)
Other income, net		248	461
TOTAL OPERATING EXPENSES		(115,302)	(92,965)
PROFIT FROM OPERATIONS		64,250	54,995
FINANCE COSTS			
Exchange gain		35	26
Exchange loss		(25)	(90)
Interest income		451	241
Interest expense		(1,386)	(1,364)
TOTAL FINANCE COSTS		(925)	(1,187)
SHARE OF PROFIT OF ASSOCIATED COMPANIES		720	308
PROFIT BEFORE TAXATION	4	64,045	54,116
TAXATION	5	(18,019)	(15,201)
PROFIT BEFORE MINORITY INTERESTS		46,026	38,915
MINORITY INTERESTS		(734)	(296)
NET PROFIT		45,292	38,619
BASIC AND DILUTED EARNINGS PER SHARE	6	0.26	0.22

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

	Notes	June 30, 2004 RMB	December 31, 2003 RMB
NON CURRENT ASSETS			
Property, plant and equipment	8	434,388	433,419
Investments in associates		6,193	5,571
Available-for-sale investments		1,742	1,839
Intangible and other assets		4,903	4,732
		447,226	445,561
CURRENT ASSETS			
Inventories	9	34,939	28,872
Accounts receivable	10	3,871	3,263
Prepaid expenses and other current assets		20,518	13,528
Notes receivable	11	4,546	2,416
Receivables under resale agreements	12	37,464	24,224
Time deposits with maturities over three months		800	2,640
Cash and cash equivalents		17,808	11,231
TOTAL CURRENT ASSETS		119,946	86,174
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	13	71,981	64,180
Income tax payable		8,838	12,043
Other taxes payable		9,884	8,916
Short-term borrowings	14	28,608	28,890
		119,311	114,029
NET CURRENT ASSETS/(LIABILITIES)		635	(27,855)
TOTAL ASSETS LESS CURRENT LIABILITIES		447,861	417,706
FINANCED BY:			
Share capital			
-State-owned shares of RMB 1.00 each		158,242	158,242
-H shares of RMB 1.00 each		17,582	17,582
		175,824	175,824
Retained earnings		120,922	89,577
Reserves		91,212	91,212
Shareholders' equity		387,958	356,613
Minority interests		6,191	5,608
NON CURRENT LIABILITIES			
Long-term borrowings	14	40,049	41,959
Deferred credits and other long-term obligations		2,248	2,000
Deferred taxation		11,415	11,526
		53,712	55,485
		447,861	417,706

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

	Notes	Six months ended June 30 2004 RMB	2003 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Profit		45,292	38,619
Adjustments for:			
Minority interests		734	296
Taxation	5	18,019	15,201
Depreciation, depletion and amortisation	4	24,673	20,909
Dry hole costs		3,130	3,015
Share of profit of associated companies		(720)	(308)
Impairment of receivables	4	749	1,132
Write down in inventories, net	4	1	(12)
Impairment of available-for-sale investments	4	24	6
Loss on disposal of associated companies		2	-
Gain on disposal of available-for-sale investments		(4)	-
Loss on disposal of property, plant and equipment	4	98	123
Dividend income	4	(62)	(44)
Interest income		(451)	(241)
Interest expense		1,386	1,364
Changes in working capital:			
Accounts receivable, prepaid expenses and other current assets		(10,111)	(5,816)
Inventories		(6,068)	636
Accounts payable and accrued liabilities		12,422	6,385
CASH GENERATED FROM OPERATIONS		89,114	81,265
Interest received		448	241
Interest paid		(1,679)	(1,844)
Income taxes paid		(21,215)	(12,834)
NET CASH PROVIDED BY OPERATING ACTIVITIES		66,668	66,828

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

	Notes	Six months ended June 30	
		2004	2003
		RMB	RMB
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(30,627)	(26,068)
Acquisition of associated companies		(164)	(605)
Repayment of capital by associated companies		115	17
Acquisition of available-for-sale investments		(6)	(257)
Net Acquisition of receivables under resale agreements		(13,240)	(10,068)
Acquisition of intangible assets		(114)	(3)
Acquisition of other non-current assets		(580)	(234)
Proceeds from disposal of associated companies		26	-
Proceeds from disposal of available-for-sale investments		22	69
Proceeds from disposal of other non-current assets		-	52
Proceeds from disposal of property, plant and equipment		96	38
Dividends received		160	98
Decrease /(Increase) in time deposits with maturities over three months		1,840	(15)
NET CASH USED FOR INVESTING ACTIVITIES		(42,472)	(36,976)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term borrowings		13,946	12,235
Repayments of short-term borrowings		(11,716)	(17,578)
Increase in long-term borrowings		8,826	863
Repayments of long-term borrowings		(13,285)	(3,862)
Principal payment on finance lease obligations		(25)	(41)
Dividends paid to minority interests		(190)	(52)
Capital contribution from minority interests		-	39
Dividends paid	7	(13,947)	(12,299)
Change in deferred credits and other long-term obligations		248	200
Cash payment for acquisition of CNPC marketing enterprises		(1,476)	-
NET CASH USED FOR FINANCING ACTIVITIES		(17,619)	(20,495)
Increase in cash and cash equivalents		6,577	9,357
Cash and cash equivalents at beginning of period		11,231	9,977
Cash and cash equivalents at end of period		17,808	19,334

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

	Share Capital RMB	Retained Earnings RMB	Reserves RMB	Total RMB
Balance at January 1, 2003	175,824	59,004	81,848	316,676
Net profit from January 1 to June 30, 2003	-	38,619	-	38,619
Final dividend for 2002 (Note 7)	-	(12,299)	-	(12,299)
Balance at June 30, 2003	175,824	85,324	81,848	342,996
Balance at January 1, 2004	175,824	89,577	91,212	356,613
Net profit from January 1 to June 30, 2004	-	45,292	-	45,292
Final dividend for 2003 (Note 7)	-	(13,947)	-	(13,947)
Balance at June 30, 2004	175,824	120,922	91,212	387,958
	175,824	120,922	91,212	387,958

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”.

In accordance with the restructuring agreement between CNPC and the Company effective as of November 5, 1999, the Company issued 160 billion state-owned shares in exchange for the assets and liabilities transferred to the Company by CNPC. The 160 billion state-owned shares were the initial registered capital of the Company with a par value of RMB1.00 per share. On April 7, 2000, the Company issued 17,582,418,000 shares, represented by 13,447,897,000 H shares and 41,345,210 American Depositary Shares (“ADSs”, each representing 100 H shares) in a global offering and the trading of the H shares and the ADSs on the Stock Exchange of Hong Kong Limited and the New York Stock Exchange commenced on April 7, 2000 and April 6, 2000, respectively. Pursuant to the approval of the China Securities Regulatory Commission, 1,758,242,000 state-owned shares of the Company owned by CNPC were converted into H shares for sale in the global offering.

2 ACCOUNTING POLICIES

The consolidated interim condensed financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting”. The accounting policies used in the preparation of the consolidated interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended December 31, 2003.

The consolidated interim condensed financial statements presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the annual report of the Group for the year ended December 31, 2003. The consolidated interim condensed financial statements as of June 30, 2004 and for the six-month periods ended June 30, 2004 and June 30, 2003 included herein are unaudited but reflect, in the opinion of the Board of Directors, all adjustments (which include only normal recurring adjustments) necessary to properly prepare the consolidated interim condensed financial statements, in all material respects, in accordance with IAS 34. The results of operations for the six months ended June 30, 2004 are not necessarily indicative of the results of operations expected for the year ended December 31, 2004.

Costs that incur unevenly during the financial year are anticipated or deferred in these interim financial statements only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended June 30, 2004 is principally 33% (six months ended June 30, 2003: 33%).

3 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 15.

4 PROFIT BEFORE TAXATION

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	62	44
Reversal of impairment of receivables	274	-
Reversal of write down in inventories	122	12
Reversal of impairment of available-for-sale investments	4	-
Charging		
Amortisation on intangible and other assets	523	301
Cost of inventories (approximates cost of goods sold) recognised as expense	77,301	62,447
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	24,142	20,592
- assets under finance leases	8	16
Impairment of available-for-sale investments	28	6
Impairment of receivables	1,023	1,132
Interest expense (Note (a))	1,386	1,364
Loss on disposal of property, plant and equipment	98	123
Operating lease rentals on land and buildings and equipment	1,564	1,448
Repair and maintenance	2,493	1,804
Research and development expenditure	906	676
Write down in inventories	123	-
Note (a) Interest expense		
Interest expense	1,733	1,872
Less: amounts capitalised	(347)	(508)
	1,386	1,364

5 TAXATION

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Income tax	18,010	14,494
Deferred tax	(111)	661
Share of tax of associated companies	120	46
	18,019	15,201

In accordance with the relevant PRC income tax rules and regulations, the PRC income tax rate applicable to the Group is principally 33% (2003: 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:

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Profit before taxation	64,045	54,116
Tax calculated at a tax rate of 33%	21,135	17,858
Prior year tax return adjustment	2	(323)
Effect of preferential tax rate	(2,668)	(2,156)
Income not subject to tax	(517)	(204)
Expenses not deductible for tax purposes	67	26
Tax charge	18,019	15,201

6 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the six months ended June 30, 2004 and 2003 have been computed by dividing net profit by the number of 175,824 million shares issued and outstanding for each of the periods.

There are no dilutive potential ordinary shares.

7 DIVIDENDS

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Final dividend for 2002 (Note (i))	-	12,299
Final dividend for 2003 (Note (ii))	13,947	-
	13,947	12,299

(i) A final dividend in respect of 2002 of RMB 0.069951 per share amounting to a total of RMB 12,299 was paid on June 12, 2003, and was accounted for in shareholders' equity as an appropriation of retained earnings in the six months ended June 30, 2003.

(ii)A final dividend in respect of 2003 of RMB 0.079324 per share amounting to a total of RMB 13,947 was paid on June 2, 2004, and was accounted for in shareholders' equity as an appropriation of retained earnings in the six months ended June 30, 2004.

(iii) As authorised by shareholders in the Annual General Meeting on May 18, 2004, the Board of Directors, in a meeting held on August 26, 2004, resolved to distribute an interim dividend in respect of 2004 of RMB 0.115919 per share amounting to a total of RMB 20,381. These financial statements do not reflect this dividend payable, as it was not authorised until after the balance sheet date.

8 PROPERTY, PLANT AND EQUIPMENT

	RMB
Cost or valuation	
At January 1, 2004	699,507
Additions	28,853
Disposals and write off	(6,602)
At June 30, 2004	721,758
Accumulated depreciation	
At January 1, 2004	(266,088)
Charge for the period	(24,150)
Disposals and write off	2,868
At June 30, 2004	(287,370)
Net book value	
At June 30, 2004	434,388

The depreciation charge of the Group for the six months ended June 30, 2004 included RMB 1,957 (six months ended June 30, 2003: RMB 504) relating to impairment provision for plant and equipment held for use. Of this amount, RMB 740 (six months ended June 30,2003: RMB 504) was related to the Chemicals and Marketing segment, RMB 352 (six months ended June 30,2003: Nil) was for the Refining and Marketing segment and RMB 865 (six months ended June 30,2003: Nil) was for the Exploration and Production segment.

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.

Bank borrowings are secured on property, plant and equipment at net book value of RMB 152 at June 30, 2004 (December 31, 2003: RMB 152).

9 INVENTORIES

	June 30, 2004	December 31, 2003
	RMB	RMB
Crude oil and other raw materials	13,160	9,553
Work in progress	3,588	3,652
Finished goods	18,894	16,367
Spare parts and consumables	64	66
	35,706	29,638
Less: Write down in inventories	(767)	(766)
	34,939	28,872

Inventories of the Group carried at net realisable value amounted to RMB 2,398 at June 30, 2004 (December 31, 2003: RMB 2,249).

10 ACCOUNTS RECEIVABLE

	June 30, 2004	December 31, 2003
	RMB	RMB
Accounts receivable due from third parties	8,672	8,263
Less: Impairment provision	(5,816)	(5,872)
	2,856	2,391
Accounts receivable due from related parties		
- Fellow CNPC subsidiaries	736	592
- Associated companies	279	280
	3,871	3,263

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

The aging analysis of accounts receivable at June 30, 2004 is as follows:

	June 30, 2004	December 31, 2003
	RMB	RMB
Within 1 year	3,450	2,594
Between 1 to 2 years	100	136
Between 2 to 3 years	236	423
Over 3 years	5,901	5,982
	9,687	9,135

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

11 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.

12 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 collateralised financing transactions and are recorded at their contractual amounts plus interest accrued. The underlying collaterals are principally PRC government bonds.

13 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2004 RMB	December 31, 2003 RMB
Trade payables	10,377	10,150
Advances from customers	5,072	6,861
Salaries and welfare payable	6,085	5,413
Accrued expenses	6,753	5
Dividends payable by subsidiaries to minority shareholders	70	118
Interest payable	122	130
Construction fee and equipment cost payables	11,639	13,760
Payable to Sinopec	621	610
Advances from Sinopec	86	233
One-time employee housing remedial payment payable	2,065	2,270
Other payables	12,164	10,628
Amounts due to related parties		
- CNPC	2,664	1,531
- Fellow CNPC subsidiaries	13,085	11,880
- Associated companies	1,178	591
	71,981	64,180

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 June 30, 2004 is as follows:

	June 30, 2004 RMB	December 31, 2003 RMB
Within 1 year	9,568	9,108
Between 1 to 2 years	257	402
Between 2 to 3 years	51	127
Over 3 years	501	513
	10,377	10,150

14 BORROWINGS

	June 30, 2004 RMB	December 31, 2003 RMB
Short-term borrowings	28,608	28,890
Long-term borrowings	40,049	41,959
	68,657	70,849

The movements in the borrowings can be analysed as follows:

	RMB
Balance at January 1, 2004	70,849
Increase in borrowings	22,873
Repayments of borrowings	(25,065)
Balance at June 30, 2004	68,657

The long-term borrowings can be analysed as follows:

	June 30, 2004 RMB	December 31, 2003 RMB
Unsecured Loans	57,217	61,614
Obligations under finance leases	31	56
Current portion of long-term liabilities	(17,199)	(19,711)
	40,049	41,959

The analysis of the above is as follows:		
Bank loans		
- Wholly repayable within five years	29,136	30,173
- Not wholly repayable within five years	1,987	3,417
Other loans and obligations under finance leases		
- Wholly repayable within five years	21,211	23,181
- Not wholly repayable within five years	4,914	4,899
	57,248	61,670
Current portion of long-term liabilities	(17,199)	(19,711)
	40,049	41,959

Other loans and obligations under finance leases not wholly repayable within five years are repayable by installments from July 2009 to April 2032. Interest is charged on the outstanding balances at the rate of 0% to 6.44% per annum (December 31, 2003: 0% to 6.44% per annum).

At June 30, 2004, the Group's bank loans and other borrowings were repayable as follows:

	Bank loans		**Other loans and obligations under finance leases**	
	June 30, 2004	**December 31, 2003**	**June 30, 2004**	**December 31, 2003**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	9,062	11,291	8,137	8,420
Between one to two years	4,739	9,963	5,065	8,220
Between two to five years	16,145	10,397	8,211	6,711
After five years	1,177	1,939	4,712	4,729
	31,123	33,590	26,125	28,080

15 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, the Group conducts exploration and production of crude oil and natural gas in Indonesia.

The accounting policies of the operating segments are the same as those described in Note 2-"Accounting Policies".

Operating segment information for the six months ended June 30, 2003 and 2004 is presented below:

Primary reporting format – business segments

Six months ended June 30, 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)	91,485	106,213	18,928	7,777	-	224,403
Less: Intersegment sales	(65,714)	(8,064)	(1,064)	(1,601)	-	(76,443)
Turnover from external customers	25,771	98,149	17,864	6,176	-	147,960
Depreciation, depletion and amortisation	(12,534)	(4,345)	(3,210)	(769)	(51)	(20,909)
Segment result	53,309	9,866	1,197	1,377	(121)	65,628
Other costs	(3,039)	(6,799)	(549)	(56)	(190)	(10,633)
Profit/(loss) from operations	50,270	3,067	648	1,321	(311)	54,995
Finance costs						(1,187)
Share of (loss)/profit of associated companies	(14)	10	3	1	308	308
Profit before taxation						54,116
Taxation						(15,201)
Minority interests						(296)
Net profit						38,619
Interest income (including intersegment)	1,116	217	56	55	2,271	3,715
Less: Intersegment interest income						(3,474)
Interest income from external entities						241
Interest expense (including intersegment)	(1,368)	(907)	(440)	(181)	(1,942)	(4,838)
Less: Intersegment interest expense						3,474
Interest expense to external entities						(1,364)
Segment assets	302,125	111,273	56,844	39,709	444,564	954,515
Elimination of intersegment balances						(448,992)
Investments in associated companies	1,190	1,660	90	61	1,234	4,235
Total assets						509,758
Segment capital expenditure - for property, plant and equipment	17,336	3,558	1,123	4,492	39	26,548
Segment liabilities	101,320	71,247	39,652	28,177	105,047	345,443
Other liabilities						26,196
Elimination of intersegment balances						(210,098)
Total liabilities						161,541

Primary reporting format –business segments (continued)

Six months ended June 30, 2004	**Exploration and Production RMB**	**Refining and Marketing RMB**	**Chemicals and Marketing RMB**	**Natural Gas and Pipeline RMB**	**Other RMB**	**Total RMB**
Turnover (including intersegment)	99,526	137,149	25,434	8,917	-	271,026
Less: Intersegment sales	(78,818)	(9,504)	(1,332)	(1,820)	-	(91,474)
Turnover from external customers	20,708	127,645	24,102	7,097	-	179,552
Depreciation, depletion and amortisation	(14,511)	(4,836)	(4,002)	(1,274)	(50)	(24,673)
Segment result	55,607	17,066	3,190	1,321	(406)	76,778
Other costs	(2,906)	(8,088)	(1,237)	(88)	(209)	(12,528)
Profit/(loss) from operations	52,701	8,978	1,953	1,233	(615)	64,250
Finance costs						(925)
Share of profit/(loss) of associated companies	91	(8)	21	8	608	720
Profit before taxation						64,045
Taxation						(18,019)
Minority interests						(734)
Net profit						45,292
Interest income (including intersegment)	1,019	264	165	20	2,483	3,951
Less: Intersegment interest income						(3,500)
Interest income from external entities						451
Interest expense (including intersegment)	(1,419)	(873)	(316)	(350)	(1,928)	(4,886)
Less: Intersegment interest expense						3,500
Interest expense to external entities						(1,386)
Segment assets	324,142	119,943	53,316	51,163	478,110	1,026,674
Elimination of intersegment balances						(465,695)
Investments in associated companies	1,267	1,913	252	88	2,673	6,193
Total assets						567,172
Segment capital expenditure - for property, plant and equipment	19,146	4,688	1,062	3,905	52	28,853
Segment liabilities	104,174	67,298	17,800	30,051	103,881	323,204
Other liabilities						30,198
Elimination of intersegment balances						(180,379)
Total liabilities						173,023

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 income.

Note (c) – Segment result for the six months ended June 30, 2003 and 2004 included impairment provision for property, plant and equipment (Note 8).

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

	Turnover		**Total assets**		**Capital expenditure**	
Six months ended June 30,	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
PRC	179,044	147,434	563,521	506,667	28,453	26,362
Others (Exploration and Production)	508	526	3,651	3,091	400	186
	179,552	147,960	567,172	509,758	28,853	26,548

16 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At June 30, 2004, 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.

	June 30, 2004	**December 31,2003**
	RMB	**RMB**
Guarantee of borrowings of associated companies	211	448

(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 June 30, 2004, 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.

(g) Other

In December 2003, a gas blow-out incident occurred at one of the gas wells of the Group. The blow-out caused the leakage of a large quantity of sulfurated hydrogen, causing injuries and death to many residents living in the surrounding area. As a result of an investigation conducted by the PRC government, CNPC, which provided drilling services for the well, was held liable for this blow-out. The incident has not had, and the Company does not believe it will have, a material adverse effect on the results of operations and financial position of the Group.

17 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 June 30, 2004 and December 31, 2003 under non-cancellable operating leases are as follows:

	June 30, 2004	**December 31, 2003**
	RMB	**RMB**
First year	2,440	2,552
Second year	2,332	2,433
Third year	2,325	2,409
Fourth year	2,310	2,391
Fifth year	2,308	2,380
Thereafter	83,701	84,776
	95,416	96,941

Operating lease expenses for land and buildings and equipment were RMB 1,564 for the six months ended June 30, 2004 (six months ended June 30, 2003 were RMB 1,448).

(b) Capital commitments

	June 30, 2004	December 31, 2003
	RMB	**RMB**
Contracted but not provided for		
Oil and gas properties	381	896
Plant and equipment	8,038	10,055
Other	433	194
	8,852	11,145

(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 211 for the six months ended June 30, 2004(six months ended June 30, 2003 were RMB 36).

Estimated annual payments in the future are as follows:

	RMB
2004	515
2005	618
2006	681
2007	712
2008	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.

18 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 Disclosures”, 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.

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 which are similar to prices to other customers. 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 16 (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:

		Six months ended June 30	
		2004	**2003**
	Notes	**RMB**	**RMB**
Sale of goods	(a)	6,146	4,548
Fees paid for construction and technical services	(b)		
- Exploration and development services	(c)	12,542	11,191
- Other construction and technical services	(d)	4,801	4,389
Fees for production services	(e)	7,825	7,384
Social services charge	(f)	582	558
Ancillary service charges	(g)	899	803
Interest income	(h)	12	15
Interest expense	(i)	533	535
Rental expense	(j)	1,009	964
Commission expense and other charges	(k)	380	341

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 3,434 (December 31, 2003: RMB 2,331) as of June 30, 2004. 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 23,186 (December 31, 2003: RMB 25,188) as of June 30, 2004 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 June 30, 2004 .

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND US GAAP

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

Effect on net income of significant differences between IFRS and US GAAP is as follows:

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Net income under IFRS	45,292	38,619
US GAAP adjustments:		
Depreciation charges on property, plant and equipment revaluation gain	4,391	4,615
Depreciation charges on property, plant and equipment revaluation loss	(465)	(56)
Loss on disposal of property, plant and equipment	47	4
Income tax effect	(1,311)	(1,506)
Minority interests	(30)	(30)
Net income under US GAAP	47,924	41,646
Basic and diluted net income per share under US GAAP (RMB)	0.27	0.24

Effect on shareholders' equity of significant differences between IFRS and US GAAP is as follows:

	June 30, 2004	December 31,2003
	RMB	RMB
Shareholders' equity under IFRS	387,958	356,613
US GAAP adjustments:		
Reversal of property, plant and equipment revaluation gain	(80,555)	(80,555)
Depreciation charges on property, plant and equipment revaluation gain	41,664	37,273
Reversal of property, plant and equipment revaluation loss	1,513	1,513
Depreciation charges on property, plant and equipment revaluation loss	(945)	(480)
Loss on disposal of property, plant and equipment	838	791
Deferred tax assets on revaluation	12,375	13,686
Minority interests	334	364
Effect on the retained earnings from the one-time remedial payments for staff housing borne by the state shareholder of the Company	(2,553)	(2,553)
Effect on the other reserves of the shareholders' equity from the one- time remedial payments for staff housing borne by the state shareholder of the Company	2,553	2,553
Shareholders' equity under US GAAP	363,182	329,205

Changes in shareholders' equity under US GAAP for each of the periods ended June 30, 2003 and June 30, 2004 are as follows:

	Six months ended June 30	
	2004	**2003**
	RMB	**RMB**
Beginning of the period	329,205	283,464
Net profit for the period	47,924	41,646
Final dividend for year 2002	-	(12,299)
Final dividend for year 2003	(13,947)	-
End of the period	363,182	312,811

In preparing the summary of differences between IFRS and US GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the estimates of revenues and expenses. Accounting estimates have been employed in these financial statements to determine reported amounts, including realisability, useful lives of tangible and intangible assets, income taxes and other areas. Actual results could differ from those estimates.

A summary of the principal differences and additional disclosures applicable to the Group is set out below:

(a) Revaluation of property, plant and equipment

The property, plant and equipment, excluding oil and gas reserves, transferred to the Company by CNPC were appraised as of June 30, 1999, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC, China Enterprise Appraisal. As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers registered in the PRC, China United Assets Appraiser Co., Ltd, 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.

The depreciation charge, which includes impairment charge, on the revaluation surplus from January 1, 2004 to June 30, 2004 was RMB 4,391, and from January 1, 2003 to June 30, 2003 was RMB 4,615.

The depreciation charge, which includes impairment charge, on the revaluation loss from January 1, 2004 to June 30, 2004 was RMB 465, and from January 1, 2003 to June 30, 2003 was RMB 56.

The loss on disposal of property, plant and equipment from January 1, 2004 to June 30, 2004 was RMB 47, and from January 1, 2003 to June 30, 2003 was RMB 4.

For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charges and loss on disposal is reversed. A deferred tax asset relating to the reversal of the effect of revaluation in 1999 is established, together with a corresponding increase in the shareholders' equity. Under a special approval granted by the Ministry of Finance, the effect of the revaluation in 1999 is available as additional depreciation base for purposes of determining taxable income.

(b) Related party transactions

The Group has disclosed in Note 18 transactions and balances with its immediate parent, CNPC, and related companies. CNPC is owned by the PRC government, which also owns a significant portion of the productive assets in the PRC. IFRS exempts state controlled enterprises from disclosing transactions with other state controlled enterprises. IFRS also excludes from related parties government departments and agencies to the extent that such dealings are in the normal course of business. US GAAP contains no similar exemptions but requires disclosure of material related party transactions. The Group believes that it has provided meaningful disclosures in Note 18. Although the majority of the Group's activities are conducted with the PRC government and its affiliates and other state controlled enterprises, none individually constitutes a major customer or supplier other than those disclosed.

(c) One-time remedial payments for staff housing

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

The restructuring that resulted in the formation of the Group took place in November 1999. As such, the one-time remedial housing payments payable to the eligible employees of the Group are to be borne by the state shareholder of the Group.

Under IFRS, such direct payments to employees or reimbursements will not be recorded through the consolidated profit and loss account of the Group. US GAAP contains no such exemption but requires this principal shareholder's action on behalf of the

Company to be recorded in the consolidated profit and loss account. In the last quarter of year 2002, the Group and CNPC completed the process of estimating the amount payable to qualified employees of the Group. This amount, RMB 2,553, was reflected in determining net income of the Group for the year ended December 31, 2002, under US GAAP. Since this amount is borne by CNPC, a corresponding amount has been included as an addition to the other reserves in the shareholders’ equity of the Group.

(d) Recent US accounting pronouncements

There are no recently adopted or pending pronouncements that would have a material effect on the financial statements of the Group.