PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2005

(Amounts in millions except for per share data)

	Notes	2005	2004 (Note 2)
		RMB	RMB
TURNOVER	5	552,229	397,354
OPERATING EXPENSES			
Purchases, services and other		(200,321)	(114,249)
Employee compensation costs	7	(29,675)	(22,934)
Exploration expenses, including exploratory dry holes		(15,566)	(12,090)
Depreciation, depletion and amortisation		(51,305)	(48,362)
Selling, general and administrative expenses		(36,538)	(28,302)
Shut down of manufacturing assets	8	-	(220)
Taxes other than income taxes		(23,616)	(19,943)
Other expense, net		(3,037)	(116)
TOTAL OPERATING EXPENSES		(360,058)	(246,216)
PROFIT FROM OPERATIONS		192,171	151,138
FINANCE COSTS			
Exchange gain		942	225
Exchange loss		(854)	(217)
Interest income		1,924	1,373
Interest expense	9	(2,762)	(2,896)
TOTAL FINANCE COSTS		(750)	(1,515)
SHARE OF PROFIT OF ASSOCIATES	16	2,401	1,621
PROFIT BEFORE TAXATION	6	193,822	151,244
TAXATION	11	(54,180)	(43,598)
PROFIT FOR THE YEAR		139,642	107,646
ATTRIBUTABLE TO:			
Equity holders of the Company		133,362	103,843
Minority interests		6,280	3,803
		139,642	107,646
BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE YEAR	13	0.75	0.59
DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Interim dividend declared during the year	14	27,731	20,381
Final dividend proposed after the balance sheet date	14	32,282	25,936
		60,013	46,317

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

As of December 31, 2005

(Amounts in millions)

	Notes	2005	2004 (Note 2)
		RMB	RMB
NON CURRENT ASSETS			
Property, plant and equipment	15	563,890	485,612
Investments in associates	16	12,378	9,898
Available-for-sale investments	17	1,230	1,606
Advance operating lease payments	19	16,235	12,307
Intangible and other assets	20	5,011	3,020
Time deposits with maturities over one year		3,428	3,751
		602,172	516,194
CURRENT ASSETS			
Inventories	21	62,733	47,377
Accounts receivable	22	4,630	3,842
Prepaid expenses and other current assets	23	22,673	19,866
Notes receivable	24	3,028	4,838
Investments in collateralized loans	25	235	33,217
Time deposits with maturities over three months but within one year		1,691	1,425
Cash and cash equivalents	26	80,905	11,688
TOTAL CURRENT ASSETS		175,895	122,253
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	27	99,758	73,072
Income tax payable		20,567	17,484
Other taxes payable		4,824	5,032
Short-term borrowings	28	28,689	34,937
		153,838	130,525
NET CURRENT ASSETS/(LIABILITIES)		22,057	(8,272)
TOTAL ASSETS LESS CURRENT LIABILITIES		624,229	507,922
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	29	179,021	175,824
Retained earnings		203,812	143,115
Reserves	30	132,556	108,834
		515,389	427,773
Minority interests		28,278	15,199
TOTAL EQUITY		543,667	442,972
NON CURRENT LIABILITIES			
Long-term borrowings	28	44,570	44,648
Other long-term obligations		1,046	2,481
Asset retirement obligations	32	14,187	919
Deferred taxation	31	20,759	16,902
		80,562	64,950
		624,229	507,922

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

Chairman	President
Chen Geng	Jiang Jiemin

PETROCHINA COMPANY LIMITED
BALANCE SHEET
As of December 31, 2005
(Amounts in millions)

	Notes	2005	2004 (Note 2)
		RMB	RMB
NON CURRENT ASSETS			
Property, plant and equipment	15	399,876	336,438
Investments in associates	16	4,246	3,904
Available-for-sale investments	17	973	1,364
Subsidiaries	18	105,321	83,984
Advance operating lease payments	19	11,933	8,866
Intangible and other assets	20	3,983	2,153
		526,332	436,709
CURRENT ASSETS			
Inventories	21	51,538	37,674
Accounts receivable	22	1,471	1,979
Prepaid expenses and other current assets	23	29,259	29,927
Notes receivable	24	2,381	4,505
Investments in collateralized loans	25	117	33,106
Cash and cash equivalents	26	55,814	8,458
TOTAL CURRENT ASSETS		140,580	115,649
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	27	113,233	84,912
Income tax payable		18,898	16,811
Other taxes payable		1,726	4,096
Short-term borrowings	28	22,336	25,539
		156,193	131,358
NET CURRENT LIABILITIES		(15,613)	(15,709)
TOTAL ASSETS LESS CURRENT LIABILITIES		510,719	421,000
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	29	179,021	175,824
Retained earnings		151,682	105,793
Reserves	30	129,208	95,162
TOTAL EQUITY		459,911	376,779
NON CURRENT LIABILITIES			
Long-term borrowings	28	32,777	34,368
Other long-term obligations		838	2,364
Asset retirement obligations	32	8,068	-
Deferred taxation	31	9,125	7,489
		50,808	44,221
		510,719	421,000

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

Chairman
Chen Geng

President
Jiang Jiemin

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2005

(Amounts in millions)

	Notes	2005	2004 (Note2)
		RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES	33	203,885	141,691
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(119,227)	(94,045)
Acquisition of associates		(2,334)	(1,000)
Acquisition of available-for-sale investments		(782)	(476)
Net proceeds / (acquisition) of investments in collateralized loans with maturities not greater than three months		26,896	(8,049)
Acquisition of investments in collateralized loans with maturities over three months		(443)	(8,301)
Acquisition of intangible assets		(1,600)	(531)
Acquisition of other non-current assets		(1,133)	(280)
Return capital to minority interests due to liquidation of subsidiaries		(935)	-
Purchase from minority interests of listed subsidiaries	18	(2,019)	-
Other purchase from minority interest		(376)	-
Proceeds from investments in collateralized loans with maturities over three months		6,529	7,357
Repayment of capital by associates		115	272
Proceeds from disposal of property, plant and equipment		898	873
Proceeds from disposal of associates		1,102	27
Proceeds from disposal of available-for-sale investments		976	83
Proceeds from disposal of intangible and other non-current assets		22	37
Dividends received		678	800
Decrease in time deposits with maturities over three months		57	957
NET CASH USED FOR INVESTING ACTIVITIES		(91,576)	(102,276)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings		(34,529)	(23,862)
Repayments of long-term borrowings		(19,175)	(28,331)
Principal payment on finance lease obligations		(21)	(35)
Dividends paid to minority interests		(1,486)	(736)
Cash payment for acquisition of CNPC marketing enterprises		-	(1,476)
Dividends paid to equity holders of the Company	14	(53,667)	(34,328)
Issuance of H share	29	19,692	-
Increase in short-term borrowings		32,019	28,113
Increase in long-term borrowings		15,514	18,453
Capital contribution from minority interests		454	2,145
Change in other long-term obligations		(1,435)	471
NET CASH USED FOR FINANCING ACTIVITIES		(42,634)	(39,586)
TRANSLATION OF FOREIGN CURRENCY		(458)	246
Increase in cash and cash equivalents		69,217	75
Cash and cash equivalents at beginning of year	26	11,688	11,613
Cash and cash equivalents at end of year	26	80,905	11,688

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2005

(Amounts in millions)

	Attributable to equity holders of the Company				Minority Interest	Total Equity
	Share Capital	Retained Earnings	Reserves	Subtotal		
	RMB	RMB	RMB	RMB	RMB	RMB
Balance at January 1, 2004 as previously reported before adjusting for the acquisition of the refinery and petrochemical businesses and investment in Zhong You Kan Tan Kai Fa Company Limited and reclassification of minority interest resulting from adoption of IAS 1 and IAS 27 (Note 2)	175,824	89,577	91,212	356,613	-	356,613
Reclassification as a result of the adoption of revised IAS 1 and IAS 27 (Note 2)	-	-	-	-	5,608	5,608
Adjustment for the acquisition of the refinery and petrochemical businesses and investment in Zhong You Kan Tan Kai Fa Company Limited (Note 2)	-	(1,425)	2,740	1,315	3,358	4,673
Balance at January 1, 2004 adjusted for the acquisition of the refinery and petrochemical businesses and investment in Zhong You Kan Tan Kai Fa Company Limited and reclassification of minority interest resulting from adoption of IAS 1 and IAS 27 (Note 2)	175,824	88,152	93,952	357,928	8,966	366,894
Currency translation differences	-	-	330	330	677	1,007
Net income recognised directly in equity	-	-	330	330	677	1,007
Profit for the year ended December 31, 2004	-	103,843	-	103,843	3,803	107,646
Total recognised income for 2004	-	103,843	330	104,173	4,480	108,653
Transfer to reserves (Note 30)	-	(14,552)	14,552	-	-	-
Final dividend for 2003 (Note 14)	-	(13,947)	-	(13,947)	-	(13,947)
Interim dividend for 2004 (Note 14)	-	(20,381)	-	(20,381)	-	(20,381)
Dividends to minority interests	-	-	-	-	(656)	(656)
Other movements of minority interest	-	-	-	-	2,409	2,409
Balance at December 31, 2004	175,824	143,115	108,834	427,773	15,199	442,972
Currency translation differences	-	-	(268)	(268)	(465)	(733)
Net loss recognised directly in equity	-	-	(268)	(268)	(465)	(733)
Profit for the year ended December 31, 2005	-	133,362	-	133,362	6,280	139,642
Total recognised income / (loss) for 2005	-	133,362	(268)	133,094	5,815	138,909
Issue of shares (Note 29 and 30)	3,197	-	16,495	19,692	-	19,692
Transfer to reserves (Note 30)	-	(18,998)	18,998	-	-	-
Final dividend for 2004 (Note 14)	-	(25,936)	-	(25,936)	-	(25,936)
Interim dividend for 2005 (Note 14)	-	(27,731)	-	(27,731)	-	(27,731)
Payment to CNPC for the acquisition of the refinery and petrochemical businesses (Note 2)	-	-	(9)	(9)	-	(9)
Dividends to minority interests	-	-	-	-	(1,568)	(1,568)
Return capital to minority interests due to liquidation of subsidiaries	-	-	-	-	(935)	(935)
Purchase from minority interests of listed subsidiaries (Note 18)	-	-	(1,438)	(1,438)	(581)	(2,019)
Other movement of minority interest	-	-	-	-	242	242
Capital contribution to Zhong You Kan Tan Kai Fa Company Limited (Note 2)	-	-	(10,056)	(10,056)	10,106	50
Balance at December 31, 2005	179,021	203,812	132,556	515,389	28,278	543,667

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 in Hong Kong and in the United States of America. (See Note 29.) The Company and its subsidiaries are collectively referred to as the "Group".

The Group is principally engaged in (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. (See Note 40.)

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards 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 IFRS 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 balance sheet 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 2005, the Group adopted the newly revised IFRS below, which are relevant to its operations. The 2004 comparative numbers have been amended as required, in accordance with the relevant requirements. The adoption of these IFRS revisions did not result in substantial changes to the Group's accounting policies. In summary:

--IAS 1 and 27 (both revised in 2003) affected the presentation of minority interest. IAS 1 (revised in 2003) also has affected the presentation of associates profit sharing and requires the disclosure of critical accounting estimates.

--IAS 2, 8, 10, 16, 17, 21, 32, 33 (all revised in 2003) and 39 (revised in 2004) and IFRS 2 had no material effect on the Group's accounting policies.

--IAS 24 (revised in 2003) affected the definition of related parties and related-party disclosures. (See Note 3(k) and 39)

--IAS 27 and 28 (both revised in 2003) affected the accounting for investments in subsidiaries and associates in the separate financial statement of the Company. These investments are accounted for at cost rather than using equity method, which was used in prior years. As a result, the balance sheet of the Company as of December 31, 2004 and the related notes that are included in the financial statements have been restated. Compared with the previously reported numbers, Investment in associates, Subsidiaries, Reserves and Retained earnings as of December 31, 2004 have been reduced by RMB 1,897, RMB 46,302, RMB 56 and RMB 48,143 respectively to reflect this restatement.

--IFRS 5 has resulted in a change in the accounting policy relating to the recognition of assets held for sale or discontinued operation, which did not have any material impact on the results and financial positions of the Group as the Group did not hold material assets in this category during the years presented.

--The Group early adopted IFRS 6, which did not require a change in the accounting policy for exploration and evaluation activities.

In accordance with the acquisition agreement between the Company and CNPC dated March 28, 2005, the Company acquired the refining and petrochemical businesses owned by CNPC's wholly-owned subsidiaries, Ningxia Dayuan Refinery and Petrochemical Company Limited ("Dayuan") and Qingyang Refinery and Petrochemical Company Limited ("Qingyang") with a total consideration of RMB 9.

The acquisition is a combination of businesses under common control since the Company and the CNPC's refinery and petrochemical businesses owned by Dayuan and Qingyang are under the common control of CNPC. As a result, the Company accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at historical cost to CNPC (net liabilities of RMB 183 at the effective date). The consolidated financial statements have been restated to give effect to the acquisition with all periods presented as if the operations of the Group and these refinery and petrochemical businesses have always been combined. The difference between RMB 9 payable and the net liabilities transferred from CNPC has been adjusted against equity.

In August 2005 the shareholders of the Company approved the acquisition and transfer agreements relating to the Company's acquisition of a 50% ownership interest in Zhong You Kan Tan Kai Fa Company Limited. Zhong You Kan Tan Kai Fa Company Limited was formed in 2005 and was wholly owned by China National Oil and Gas Exploration and Development Corporation ("CNODC", wholly owned by CNPC) and one of its subsidiaries. Under the terms of the related agreements, CNODC transferred certain oil and gas exploration operations into Zhong You Kan Tan Kai Fa Company Limited and the Company contributed to Zhong You Kan Tan Kai Fa Company Limited its wholly-owned subsidiary, PetroChina International Limited ("PTRI"), and cash amounting to approximately RMB 20,162, which is the difference between the cash contribution of RMB 20,741 payable by the Company according to the acquisition agreement and cash consideration of RMB 579 for PTRI receivable by the Company.

The terms of the agreements grant the Company the right to appoint four of the seven directors of Zhong You Kan Tan Kai Fa Company Limited and enable the Company to maintain effective control over Zhong You Kan Tan Kai Fa Company Limited.

Similar to the acquisition of the refinery and petrochemical businesses from CNPC described above, the investment in Zhong You Kan Tan Kai Fa Company Limited and related transactions have been accounted for in a manner similar to uniting of interests as all entities involved are under common control by CNPC. The consolidated financial statements of the Company have been restated as if the operations of the Company and Zhong You Kan Tan Kai Fa Company Limited have always been combined. The payment was made directly to Zhong You Kan Tan Kai Fa Company Limited, therefore the difference between RMB 20,162 paid and the net assets of RMB 35,551 at the effective date acquired (including RMB 20,162 contributed by the Company and RMB 50 for the contributed paid-in capital by CNODC and its subsidiary) has been adjusted against equity.

(Amounts in millions except for per share data or unless otherwise stated)

The summarised results of operations and the financial position for the separate entities and on a consolidation basis for the year ended December 31, 2004 are set out below:

	PetroChina (As previously reported)	Refinery and petrochemical business	Zhong You Kan Tan Kai Fa Company Limited	Consolidated
	RMB	RMB	RMB	RMB
Results of operations:				
Turnover	388,633	4,583	11,643	397,354
Profit / (loss) for the year	104,578	(137)	3,205	107,646
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (RMB)	0.59	0.00	0.00	0.59
Equity items:				
Currency translation differences	-	-	1,007	1,007
Dividends to minority interests	(277)	-	(379)	(656)
Financial position:				
Total Assets	609,928	2,106	27,100	638,447
Total Liabilities	175,325	2,318	18,519	195,475
Net Assets / (liabilities)	434,603	(212)	8,581	442,972

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. Other than the business combination under common control for which the accounting policy is disclosed in Note 2, 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of subsidiary acquired, the difference is recognised directly in the income statement. 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 the presentation of the Company’s balance sheets, investments in subsidiaries are accounted for at cost.

A listing of the Group’s principal subsidiaries is set out in Note 18.

(b) Investments in associates

Investments in associates are accounted for by the equity method in the consolidated financial statements of the Company. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the profit and loss account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the main factor for associates. 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 any accumulated impairment loss) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate.

For purpose of the presentation of the Company's balance sheet, investments in associates are accounted for at cost.

A listing of the Group's principal associates is shown in Note 16.

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity participants of the Group. Gains and losses resulted from the disposals to minority interests are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired, resulted from the purchase from minority interests, are recorded in equity.

(d) Foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Most assets and operations of the Group are located in the PRC, and the functional currency is RMB. For the majority of the overseas oil and gas exploration and production operations, United States Dollar has been used as the functional currency . The consolidated financial statements are presented in RMB, which is the functional and presentation currency of the Company and most of the consolidated subsidiaries.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the date of the transactions; monetary assets and liabilities denominated in foreign currencies are translated at balance sheet date exchange rates; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated profit and loss account. Profit and loss account and cash flows of the Group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation 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 material hedge contracts during any of the years presented. No foreign currency exchange gains or losses were capitalised for any years presented.

(e) 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.

Derivatives are recognised at fair value with changes in the fair value recognised in the profit and loss account. The Group did not hold any derivative financial instruments for hedging or risk management purpose in any of the years presented.

(f) Investments

The Group classifies its investments into the following categories: at fair value through profit or loss, held-to-maturity, loans and receivables 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 investments at fair value through profit or loss and included in current assets. The Group did not hold any investment in this category during the years presented. 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; the Group did not hold any investment in this category during the year presented. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as investment in collateralised loans, which are initially recorded at fair value and subsequently amortised cost. 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 expressed the 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.

Regular purchases and sales of available-for-sale investments are recognised on settlement date, the date that the asset is delivered to or by the Group (the effective acquisition or sale date). Available-for-sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are measured at fair value except there are no quoted market prices in active markets and whose fair values cannot be reliably measured using valuation techniques. Available-for-sale investments carried at cost are subject to review for impairment.

(g) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3 (h)), 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.

In the intervening years between independent revaluations, the directors review the carrying values of the property, plant and equipment and adjustment is made where the carrying value differs 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 15. 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 profit and loss account. All other decreases in valuation are charged to the profit and loss account. Any subsequent increases are credited to the profit and loss account 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.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment, including oil and gas properties (Note 3 (h)), are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell 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.

(h) 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. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized pending a determination of whether sufficient quantities of potentially economic oil and gas reserves have been discovered. Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review (Note 3(g)). For wells that found economically viable reserves in areas where a major capital expenditure would be required before production can begin, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the well costs are expensed as dry holes. 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.

(i) 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 10 years. Intangible assets are not revalued. The Group does not have capitalised internally generated intangible assets. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 fair value less costs to sell 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.

(j) 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 a significant portion 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. Payments made to the PRC's land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms for use range up to 50 years.

(k) Related parties

Related parties include CNPC and its subsidiaries, other state-controlled enterprises and their subsidiaries directly or indirectly controlled by the PRC government, corporations in which the Company is able to control or exercise significant influence, key management personnel of the Company and CNPC and their close family members.

Transactions with related parties do not include those done in the ordinary course of business with terms consistently applied to all public and private entities and where there is no choice of supplier such as electricity, telecommunications, postal service and local government retirement funds.

(l) 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 borrowing cost. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, 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.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at all with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

(o) Borrowings

Borrowings are recognised initially at fair value, 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 profit and loss account over the period of the borrowings, except for the portion eligible for capitalisation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Taxation

The Company has obtained approval from the State Administration for Taxation to report taxable income on a consolidated basis.

Deferred tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 and levies 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.

(q) 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 in the ordinary course of the Group’s activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectability of the related receivables is reasonably assured.

The Group markets a portion of its natural gas production under take-or-pay contracts. Customers under the take-or-pay contracts are required to take or pay for the minimum natural gas deliveries specified in the contract clauses. Revenue recognition for natural gas sales and transmission tariff under the take-or-pay contracts follows the accounting policies described in this note. Payments received from customers for natural gas not yet taken are recorded as deferred revenues until actual deliveries.

(r) 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.

Provision for decommissioning and restoration is recognized in full on the installation of oil and gas properties. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than the one due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

(s) 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.

(t) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by Chinese 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 Chinese municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired Chinese employees of the Group. Contributions to these plans are charged to expense as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post-retirement benefits of employees in China or overseas other than the monthly contributions described above.

(u) Share appreciation rights

Compensation under the share appreciation rights is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value until settlement with all changes included in employee compensation cost in the profit and loss account; the related liability is included in the salaries and welfare payable.

(v) New accounting developments

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements-Capital Disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1, 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

IFRIC 8, Scope of IFRS 2 (effective from May 1, 2006). IFRIC 8 clarifies that the accounting standards IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. Management is currently assessing the impact of IFRIC 8 on the Group's operations.

IAS 39 and IFRS 4 (Amendments), Financial Guarantee Contracts (effective from January 1, 2006). These amendments require that issuers of financial guarantee contracts to include the resulting liabilities in their balance sheet. Management is currently assessing the impact of these amendments.

The following new interpretations and amendment to existing standards are not relevant to the Group's operations.

--IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund (effective from January 1, 2006).

--IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from December 1, 2005).

--IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006).

--IFRIC 9, Reassessment of Embedded Derivatives (effective from June 1, 2006).

--IAS 19 (Amendment), Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures (effective from January 1, 2006).

--IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transaction and The Fair Value Option (effective form January 1, 2006).

--IAS 21 (Amendment), Net Investment in a Foreign Operation (effective from January 1, 2006).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the judgements that are involved in preparing the Group's financial statements.

(a) Estimation of oil and natural gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges to income. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from the development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes to the Group's estimates of proved reserves, particularly proved developed reserves, affect the amount of depreciation, depletion and amortisation recorded in the Group's financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net income.

(b) Estimated impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters, such as future prices of crude oil, refined products and chemical products, production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan. These assumptions also include those relative to the pricing regulations by the regulatory agencies in China that the polices will not restrict the profit margins of refined products to levels that will be insufficient to recover the carrying cost of the related production assets. Favourable changes to some assumptions might have avoided the need to impair any assets in these periods, whereas unfavourable changes might have caused an additional unknown number of other assets to become impaired.

(c) Estimation of asset retirement obligations

Provisions are recognized for the future decommissioning and restoration of oil and gas properties. The amounts of the provisions recognized are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc.. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic life of oil and gas properties. Changes in any of these estimates will impact the net income and the financial position of the Group over the remaining economic life of oil and gas properties.

5 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 40.

(Amounts in millions except for per share data or unless otherwise stated)

6 PROFIT BEFORE TAXATION

	2005 RMB	2004 RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	109	113
Reversal of impairment of receivables	538	1,373
Reversal of impairment of available-for-sale investments	54	155
Reversal of write down in inventories	293	234
Charging		
Amortisation on intangible and other assets	888	755
Auditors' remuneration	50	66
Cost of inventories (approximates cost of goods sold) recognised as expense	257,957	174,169
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	49,198	46,988
- assets under finance leases	13	23
Impairment of available-for-sale investments	31	181
Impairment of receivables	83	2,049
Interest expense (Note 9)	2,762	2,896
Loss on disposal of property, plant and equipment	2,026	2,818
Operating lease expenses	4,850	3,873
Repair and maintenance	7,880	6,314
Research and development expenditure	3,195	2,977
Transportation expenses	13,707	10,042
Write down in inventories	154	381

7 EMPLOYEE COMPENSATION COSTS

	2005 RMB	2004 RMB
Wages and salaries	19,351	15,449
Social security costs (i)	10,324	7,485
	29,675	22,934

(i) Social security costs mainly represent contributions to funds for staff welfare organised by the municipal and provincial governments including contribution to the retirement benefit plans (Note 34).

(Amounts in millions except for per share data or unless otherwise stated)

8 SHUT DOWN OF MANUFACTURING ASSETS

During the years ended December 31, 2005 and 2004, the Group provided RMB Nil and RMB 220 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.

	2005	2004
	RMB	RMB
Refining facilities	-	192
Chemical facilities	-	28
	-	220

There were no employee termination or relocation costs relating to the shut down of these manufacturing equipments.

9 INTEREST EXPENSE

	2005	2004
	RMB	RMB
Interest on		
Bank loans		
- wholly repayable within five years	2,306	2,041
- not wholly repayable within five years	46	475
Other loans		
- wholly repayable within five years	1,165	1,185
- not wholly repayable within five years	309	199
Finance leases	1	2
Less: amounts capitalised	(1,065)	(1,006)
	2,762	2,896

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings was 5.265% (2004: 5.020%) per annum.

(Amounts in millions except for per share data or unless otherwise stated)

10 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of directors and supervisors for the years ended December 31, 2005 and 2004 are as follows:

Name	2005 Fee for directors and supervisors	2005 Salaries, allowances and other benefits	2005 Contribution to retirement benefit scheme	2005 Total	2004 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman:					
Mr. Chen Geng	-	781	9	790	389
Vice Chairman:					
Mr. Jiang Jiemin	-	616	9	625	130
Executive directors:					
Mr. Su Shulin	-	677	9	686	352
Mr. Duan Wende	-	677	9	686	222
Mr. Wang Fucheng (ii)	-	-	-	-	300
	-	1,354	18	1,372	874
Non-executive directors:					
Mr. Zheng Hu	-	-	-	-	-
Mr. Zhou Jiping	-	-	-	-	-
Mr. Wang Yilin	-	-	-	-	-
Mr. Zeng Yukang	-	-	-	-	-
Mr. Gong Huazhang	-	-	-	-	-
Mr. Jiang Fan	-	32	1	33	-
Mr. Chee-chen Tung	275	-	-	275	29
Mr. Liu Hongru	274	-	-	274	33
Mr. Franco Bernabè	279	-	-	279	33
Mr. Ren Chuanjun (ii)	-	-	-	-	-
Mr. Zou Haifeng (ii)	-	281	2	283	238
Mr. Ma Fucai (i)	-	-	-	-	-
Mr. Wu Yaowen (i)	-	-	-	-	-
	828	313	3	1,144	333
Supervisors:					
Mr. Wang Fucheng	-	522	8	530	-
Mr. Wen Qingshan	-	-	-	-	-
Mr. Sun Xianfeng	-	-	-	-	-
Mr. Xu Fengli	-	365	9	374	153
Mr. Qin Gang	-	-	-	-	-
Mr. Li Yongwu	12	-	-	12	-
Mr. Wu Zhipan	57	-	-	57	12
Mr. Li Kecheng (ii)	-	-	-	-	-
Mr. Sun Chongren (ii)	-	80	1	81	272
Mr. Zhang Youcai (ii)	-	-	-	-	12
Mr. Bai Xinhe (i)	-	-	-	-	-
Mr. Chen Weizhong (i)	-	-	-	-	-
	69	967	18	1,054	449
	897	4,031	57	4,985	2,175

(Amounts in millions except for per share data or unless otherwise stated)

(i) No longer a director or supervisor since May 18, 2004.

(ii) No longer a director or supervisor since November 8, 2005.

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

	2005	2004
	Number	**Number**
Nil – RMB 1	25	24

Fee for directors and supervisors disclosed above included RMB 828 thousand (2004: RMB 95 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2005 (2004: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2005 and 2004 were also directors or supervisors and their emoluments are reflected in the analysis shown above.

During 2004 and 2005, the Company did not incur any payment to any director for loss of office or as inducement to any director to join the Company.

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, 2005, 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 fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet to its fair value and amounted to approximately RMB 630 (2004: RMB 367) at December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

11 TAXATION

	2005	2004
	RMB	RMB
Income tax	50,221	40,331
Deferred tax (Note 31)	3,959	3,267
	54,180	43,598

In accordance with the relevant PRC income tax rules and regulations, the PRC income tax rate applicable to the Group is principally 33% (2004: 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2010 or accelerated depreciation of certain plant and equipment.

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 :

	2005	2004
	RMB	RMB
Profit before taxation	193,822	151,244
Tax calculated at a tax rate of 33%	63,961	49,911
Prior year tax return adjustment	364	27
Effect of preferential tax rate	(10,744)	(6,886)
Utilisation of previously unrecognised tax loss of subsidiaries	-	(969)
Income not subject to tax	(427)	(913)
Expenses not deductible for tax purposes	1,026	2,428
Tax charge	54,180	43,598

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 133,362 (2004: RMB 103,843) for the year ended December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2005 have been computed by dividing profit for the year attributable to equity holders of the Company by the weighed average number of 176.77 billion shares issued and outstanding for the year.

Basic and diluted earnings per share for the year ended December 31, 2004 have been computed by dividing profit for the year attributable to equity holders of the Company by the number of 175.82 billion shares issued and outstanding for the year.

There are no dilutive potential ordinary shares.

14 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2005	2004
	RMB	RMB
Final dividend attributable to equity holders of the Company for 2003 (Note (i))	-	13,947
Interim dividend attributable to equity holders of the Company for 2004 (Note (ii))	-	20,381
Final dividend attributable to equity holders of the Company for 2004 (Note (iii))	25,936	-
Interim dividend attributable to equity holders of the Company for 2005 (Note (iv))	27,731	-
	53,667	34,328

(i) A final dividend attributable to equity holders of the Company 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 equity as an appropriation of retained earnings in the year ended December 31, 2004.

(ii) An interim dividend attributable to equity holders of the Company in respect of 2004 of RMB 0.115919 per share amounting to a total of RMB 20,381 was paid on October 8, 2004, and was accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2004.

(iii) A final dividend attributable to equity holders of the Company in respect of 2004 of RMB 0.147511 per share amounting to a total of RMB 25,936 was paid on June 10, 2005, and was accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2005.

(iv) As authorized by shareholders in the Annual General Meeting on May 26, 2005, the Board of Directors, in a meeting held on August 24, 2005, resolved to distribute an interim dividend attributable to equity holders of the Company in respect of 2005 of RMB 0.157719 per share amounting to a total of RMB 27,731. The interim dividend was paid on September 30, 2005, and was accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2005.

(v) At the meeting on March 20, 2006, the Board of Directors proposed a final dividend attributable to equity holders of the Company in respect of 2005 of RMB 0.180325 per share amounting to a total of RMB 32,282. These financial statements do not reflect this dividend payable, which will be accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

15 PROPERTY, PLANT AND EQUIPMENT

Group

Year Ended December 31, 2004	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	56,385	385,693	225,124	8,366	6,135	34,119	715,822
Additions	974	473	2,143	1,263	196	93,945	98,994
Transfers	9,586	50,039	29,021	-	376	(89,022)	-
Disposals or write off	(2,181)	(9,045)	(5,565)	(280)	(85)	-	(17,156)
Exchange difference	60	1,417	117	48	83	95	1,820
At end of the year	64,824	428,577	250,840	9,397	6,705	39,137	799,480
Accumulated depreciation and impairment							
At beginning of the year	(11,625)	(157,267)	(98,139)	(4,164)	(2,316)	-	(273,511)
Charge for the year	(2,121)	(26,287)	(16,793)	(867)	(741)	(202)	(47,011)
Disposals or write off	856	3,214	2,971	235	53	-	7,329
Exchange difference	(15)	(586)	(39)	(14)	(21)	-	(675)
At end of the year	(12,905)	(180,926)	(112,000)	(4,810)	(3,025)	(202)	(313,868)
Net book value							
At end of the year	51,919	247,651	138,840	4,587	3,680	38,935	485,612
Analysis of cost or valuation							
At valuation (i)	23,270	203,870	157,446	2,898	1,334	-	388,818
At cost (ii)	41,554	224,707	93,394	6,499	5,371	39,137	410,662
	64,824	428,577	250,840	9,397	6,705	39,137	799,480
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	47,422	238,364	120,119	4,069	3,108	38,935	452,017

(Amounts in millions except for per share data or unless otherwise stated)

Group (continued)

Year Ended December 31, 2005	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	64,824	428,577	250,840	9,397	6,705	39,137	799,480
Additions	1,394	14,308	1,292	1,744	122	119,199	138,059
Transfers	7,661	67,223	27,451	-	362	(102,697)	-
Disposals or write off	(714)	(11,817)	(2,152)	(286)	(95)	-	(15,064)
Exchange difference	(32)	(659)	(67)	(26)	(43)	(42)	(869)
At end of the year	73,133	497,632	277,364	10,829	7,051	55,597	921,606
Accumulated depreciation and impairment							
At beginning of the year	(12,905)	(180,926)	(112,000)	(4,810)	(3,025)	(202)	(313,868)
Charge for the year	(3,454)	(25,819)	(18,234)	(955)	(749)	-	(49,211)
Disposals or write off	329	3,054	1,279	200	76	104	5,042
Exchange difference	1	275	23	10	12	-	321
At end of the year	(16,029)	(203,416)	(128,932)	(5,555)	(3,686)	(98)	(357,716)
Net book value							
At end of the year	57,104	294,216	148,432	5,274	3,365	55,499	563,890
Analysis of cost or valuation							
At valuation (i)	22,574	192,643	155,347	2,625	1,261	-	374,450
At cost (ii)	50,559	304,989	122,017	8,204	5,790	55,597	547,156
	73,133	497,632	277,364	10,829	7,051	55,597	921,606
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	52,779	289,820	131,411	4,787	2,810	55,499	537,106

(Amounts in millions except for per share data or unless otherwise stated)

Company

Year Ended December 31, 2004	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	38,833	245,547	180,332	4,935	4,861	29,468	503,976
Additions	258	135	2,737	808	19	62,569	66,526
Transfers	6,729	36,247	23,239	-	243	(66,458)	-
Disposals or write off	(1,205)	(7,187)	(5,189)	(226)	(68)	-	(13,875)
At end of the year	44,615	274,742	201,119	5,517	5,055	25,579	556,627
Accumulated depreciation and impairment							
At beginning of the year	(9,274)	(99,683)	(78,509)	(2,723)	(1,602)	-	(191,791)
Charge for the year	(1,718)	(17,973)	(13,564)	(583)	(429)	(189)	(34,456)
Disposals or write off	808	2,395	2,619	192	44	-	6,058
At end of the year	(10,184)	(115,261)	(89,454)	(3,114)	(1,987)	(189)	(220,189)
Net book value							
At end of the year	34,431	159,481	111,665	2,403	3,068	25,390	336,438
Analysis of cost or valuation							
At valuation (i)	16,138	115,529	128,142	2,011	1,321	-	263,141
At cost (ii)	28,477	159,213	72,977	3,506	3,734	25,579	293,486
	44,615	274,742	201,119	5,517	5,055	25,579	556,627
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	32,862	150,773	94,116	2,101	2,466	25,390	307,708

(Amounts in millions except for per share data or unless otherwise stated)

Company (continued)

Year Ended December 31, 2005	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	44,615	274,742	201,119	5,517	5,055	25,579	556,627
Additions	1,381	8,641	4,121	1,211	36	91,904	107,294
Transfers	5,995	49,836	16,659	-	292	(72,782)	-
Disposals or write off	(485)	(10,054)	(1,757)	(272)	(60)	-	(12,628)
At end of the year	51,506	323,165	220,142	6,456	5,323	44,701	651,293
Accumulated depreciation and impairment							
At beginning of the year	(10,184)	(115,261)	(89,454)	(3,114)	(1,987)	(189)	(220,189)
Charge for the year	(2,042)	(17,686)	(14,718)	(596)	(428)	-	(35,470)
Disposals or write off	125	2,654	1,122	189	48	104	4,242
At end of the year	(12,101)	(130,293)	(103,050)	(3,521)	(2,367)	(85)	(251,417)
Net book value							
At end of the year	39,405	192,872	117,092	2,935	2,956	44,616	399,876
Analysis of cost or valuation							
At valuation (i)	15,653	105,475	126,385	1,739	1,261	-	250,513
At cost (ii)	35,853	217,690	93,757	4,717	4,062	44,701	400,780
	51,506	323,165	220,142	6,456	5,323	44,701	651,293
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	37,962	186,148	100,937	2,648	2,365	44,616	374,676

(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.

(Amounts in millions except for per share data or unless otherwise stated)

The additions of the oil and gas properties of the Group for the year ended December 31, 2005 included RMB 13,258 (2004: RMB 48) relating to the asset retirement obligations recognised during the year (see Note 32).

The depreciation charge of the Group for the year ended December 31, 2005 included RMB 3,019 (2004: RMB 4,020) relating to impairment provision for property, plant and equipment held for use. Of this amount, RMB1,955 (2004: RMB 798) was related to the Chemicals and Marketing segment, RMB 372 (2004: RMB 1,423) was for the Refining and Marketing segment and RMB 692 (2004: RMB 1,799) was for the Exploration and Production segment.

The Refinery and Marketing segment incurred a loss of RMB 19,810 million during the year ended December 31, 2005, principally as a result of increases in input crude prices and insufficient corresponding increases in refined product prices. Management believes that the allowed pricing mechanism of the refined products will be amended and result in a cost-plus method with a margin not less than 5%. In the event the anticipated change in the refined product pricing mechanism does not materialize prior to June 30, 2006, impairment of the carrying value of the refining related fixed assets will become necessary.

The following table indicates the changes to the Group's exploratory well costs, which are included in construction in progress, for the years ended December 31, 2005 and 2004.

	2005	**2004**
	RMB	**RMB**
Beginning balance at January 1	5,751	4,335
Additions to capitalized exploratory well costs pending the determination of proved reserves	16,181	10,913
Reclassified to wells, facilities, and equipment based on the determination of proved reserves	(7,089)	(4,756)
Capitalized exploratory well costs charged to expense	(6,547)	(4,741)
Ending balance at December 31	8,296	5,751
Number of wells at year end	993	783

The following table provides an aging of capitalized exploratory well costs based on the date the drilling was completed.

	2005	**2004**
	RMB	**RMB**
One year or less	8,023	5,283
Over one year	273	468
Balance at December 31	8,296	5,751

The RMB 273 at December 31, 2005 for capitalized exploratory well costs over one year are principally related to wells that are under further evaluation of drilling results or pending completion of development planning.

In 2005, cash payment of RMB 25,099 (2004:RMB 17,716) have been incurred in connection with exploration activities, including RMB 9,019 (2004:RMB 7,349) related to operating activities and RMB 16,080 (2004:RMB 10,367) related to investing activities.

(Amounts in millions except for per share data or unless otherwise stated)

Buildings owned by the Group are on leased land. The net book values of the buildings owned by the Group analysed by the following categories of lease terms:

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Short-term lease (less than 10 years)	336	335	333	331
Medium-term lease (10 to 50 years)	56,768	51,584	39,072	34,100
	57,104	51,919	39,405	34,431

Substantially 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	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Exploration and Production	45	45	45	45
Refining and Marketing	-	94	-	94
Chemicals and Marketing	-	110	-	110
Accumulated depreciation	(12)	(74)	(12)	(74)
	33	175	33	175

Finance leases are principally 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 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 75 (2004: RMB 246) at December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

16 INVESTMENTS IN ASSOCIATES

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Name	Country of Incorporation	Assets	Liabilities	Revenues	Profit	Interest Held %	Type of Share
2005							
DaLian West Pacific Petrochemical Co., Ltd.	PRC	10,964	7,861	30,153	477	28.4	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	6,419	4,196	28,042	254	50.0	ordinary
Other		41,528	27,757	62,559	4,465	20.0-50.0	ordinary
		58,911	39,814	120,754	5,196		
2004							
Dalian West Pacific Petrochemical Co., Ltd.	PRC	10,182	6,704	21,115	1,314	28.4	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	4,095	2,146	18,356	132	50.0	ordinary
Other		22,626	15,898	74,872	2,397	20.0-50.0	ordinary
		36,903	24,748	114,343	3,843		

Share of profit of associates included in the profit and loss account of the Group was RMB 2,401 (2004: RMB 1,621) in 2005.

Share of net profit of associates included in retained earnings of the Group was RMB 3,597 (2004: RMB 1,943) at December 31, 2005. Dividends received and receivable from associates were RMB 634 (2004: RMB 671) in 2005.

In 2005, investments in associates of RMB 1,104 (2004:RMB 60) were disposed of with a loss of RMB 2 (2004: RMB 33) incurred.

17 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Unlisted available-for-sale investments	1,907	2,361	1,638	2,109
Less: Impairment provision	(677)	(755)	(665)	(745)
	1,230	1,606	973	1,364

(Amounts in millions except for per share data or unless otherwise stated)

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 109 (2004: RMB 113) in 2005.

In 2005, available-for-sale investments of RMB 1,003 (2004: RMB 89) were disposed of with a loss of RMB 27 (2004: RMB 6) incurred.

18 SUBSIDIARIES

Principal subsidiaries are:

Company Name	Country of Incorporation	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 (i)	PRC	788	Ψ	95.87	Production and sale of oil and chemical products
*Jilin Chemical Industrial Company Limited (ii)	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 (iii)	PRC	1,100	Ψ	97.48	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
*Zhong You Kan Tan Kai Fa Company Limited	PRC	100	Φ	50.00	Exploration and production of crude oil and natural gas outside of PRC

Φ -- Limited liability company.

Ψ -- Joint stock company with limited liability.

* -- Subsidiaries directly held by the Company as of December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

(i) Pursuant to the resolution passed at the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all of the 150,000,000 outstanding A shares of Jinzhou Petrochemical Company Limited ("JPCL") from minority shareholders at RMB 4.25 per share. As at December 31, 2005, the Company had paid total cash consideration of RMB 500 and acquired 117,486,753 A shares, representing approximately 14.92% of the total issued shares of JPCL. After this acquisition, the Company owns 95.87% of the outstanding share of JPCL. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities acquired was recorded in equity. As approved by China Securities Regulatory Commission, JPCL ceased to be a publicly traded company on January 4, 2006.

(ii) Pursuant to the resolution passed by the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all the outstanding 200,000,000 A shares and 964,778,000 H shares (including ADS) of JiLin Chemical Industrial Company Limited ("JCIC") from the minority shareholders at RMB 5.25 per A share and HK$2.80 per H share respectively. This offer period ended in February, 2006 and the effect of this acquisition will be reflected in the consolidated financial statements of the Group for the year ending December 31, 2006.

(iii) Pursuant to the resolution passed by the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all of the 200,000,000 outstanding A shares of Liaohe Jinma Oilfield Company Limited ("LJOCL") from minority shareholders at RMB 8.80 per share. As at December 31, 2005, the Company had paid total cash consideration of RMB 1,519 and acquired 172,315,428 A shares, representing approximately 15.67% of the total issued share of LJOCL. After this acquisition, the Company owns 97.48% of the outstanding share of LJOCL. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities acquired was recorded in equity. As approved by China Securities Regulatory Commission, LJOCL ceased to be a publicly traded company on January 4, 2006.

19 ADVANCE OPERATING LEASE PAYMENTS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB	**RMB**	**RMB**	**RMB**
Land use rights	9,786	8,011	7,000	5,718
Advance lease payments	6,449	4,296	4,933	3,148
	16,235	12,307	11,933	8,866

Land use rights have terms up to 50 years. Advance lease payments are principally for use of land sub-leased from entities other than PRC land authorities. These advance operating lease payments are amortised over the related lease periods using the straight-line-method.

(Amounts in millions except for per share data or unless otherwise stated)

20 INTANGIBLE AND OTHER ASSETS

Group

	2005			2004		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	2,166	(1,140)	1,026	1,873	(958)	915
Technical know-how	325	(209)	116	248	(181)	67
Other	2,664	(684)	1,980	1,454	(396)	1,058
Intangible assets	5,155	(2,033)	3,122	3,575	(1,535)	2,040
Other assets			1,889			980
			5,011			3,020

Company

	2005			2004		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,505	(810)	695	1,213	(694)	519
Technical know-how	101	(15)	86	28	(9)	19
Other	2,109	(502)	1,607	1,078	(297)	781
Intangible assets	3,715	(1,327)	2,388	2,319	(1,000)	1,319
Other assets			1,595			834
			3,983			2,153

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.

(Amounts in millions except for per share data or unless otherwise stated)

21 INVENTORIES

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Crude oil and other raw materials	22,396	14,903	17,888	9,725
Work in progress	5,933	5,417	5,157	4,527
Finished goods	35,131	27,913	28,880	23,944
Spare parts and consumables	43	70	32	47
	63,503	48,303	51,957	38,243
Less: Write down in inventories	(770)	(926)	(419)	(569)
	62,733	47,377	51,538	37,674

Inventories of the Group carried at net realisable value amounted to RMB 2,236 (2004: RMB 3,282) at December 31, 2005.

22 ACCOUNTS RECEIVABLE

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Accounts receivable due from third parties	6,483	4,605	3,209	3,929
Accounts receivable due from related parties	2,145	4,085	1,465	1,883
Less: Impairment provision	(3,998)	(4,848)	(3,203)	(3,833)
	4,630	3,842	1,471	1,979

Amounts due from related parties are interest free and unsecured .

The aging analysis of accounts receivable at December 31, 2005 is as follows:

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Within 1 year	4,280	3,506	1,276	1,770
Between 1 to 2 years	70	89	41	49
Between 2 to 3 years	46	173	36	135
Over 3 years	4,232	4,922	3,321	3,858
	8,628	8,690	4,674	5,812

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

(Amounts in millions except for per share data or unless otherwise stated)

23 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Other receivables	9,404	9,777	5,420	5,079
Amounts due from related parties				
-Subsidiaries	-	-	14,689	15,026
-Other	13,524	11,461	8,270	9,575
Less: Impairment provision	(6,814)	(7,255)	(4,197)	(4,473)
	16,114	13,983	24,182	25,207
Advances to suppliers	5,819	5,448	4,492	4,413
Prepaid expenses	279	248	195	175
Other current assets	461	187	390	132
	22,673	19,866	29,259	29,927

Other receivables consist primarily of taxes other than income taxes refund receivables, subsidies receivable, and receivables for the sale of materials and scrap.

Except for loans to related parties (Note 39 (g)), amounts due from related parties are interest free, unsecured and with no fixed terms of repayment.

24 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.

25 INVESTMENTS IN COLLATERALIZED LOANS

Securities, in the form of loans collateralized by principally PRC government bonds, purchased by the Group are recorded as investments in collateralized loans. These securities have terms ranging from 3 days to 182 days. The difference between the purchase price and the amount that the Company can receive upon the maturity of these securities is treated as interest income and accrued over the life of these securities using the effective yield method. Investments in collateralized loans are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus interest accrued.

The weighted average effective interest rate on investments in collateralized loans was 2.23% (2004: 2.36%) for the year ended December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

26 CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Cash at bank and in hand	80,905	11,688	55,814	8,458

The weighted average effective interest rate on bank deposits was 1.97% (2004: 1.25%) for the year ended December 31, 2005.

27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Trade payables	13,749	7,953	8,462	5,407
Advances from customers	7,698	6,002	6,347	4,716
Salaries and welfare payable	7,353	5,926	6,020	4,912
Accrued expenses	4	7	-	7
Dividends payable by subsidiaries to minority shareholders	93	11	-	-
Interest payable	27	6	26	4
Construction fee and equipment cost payables	16,420	9,366	13,119	8,863
One-time employee housing remedial payment payable	1,174	1,740	1,174	1,740
Other payables	12,158	8,170	11,250	6,769
Amounts due to related parties				
-Subsidiaries	-	-	39,590	30,652
-Other	41,082	33,891	27,245	21,842
	99,758	73,072	113,233	84,912

Other payables consist primarily of customer deposits.

Amounts due to related parties are interest-free, unsecured and with no fixed terms of repayment.

The aging analysis of trade payables at December 31, 2005 is as follows:

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Within 1 year	12,876	7,430	7,914	5,037
Between 1 to 2 years	434	154	244	109
Between 2 to 3 years	85	57	51	53
Over 3 years	354	312	253	208
	13,749	7,953	8,462	5,407

(Amounts in millions except for per share data or unless otherwise stated)

28 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB	**RMB**	**RMB**	**RMB**
Bank loans				
- secured	34	495	6	7
- unsecured	12,753	11,100	10,870	10,174
Loans from fellow CNPC subsidiary	520	4,351	120	40
Other	57	8	53	3
	13,364	15,954	11,049	10,224
Current portion of long-term borrowings	15,325	18,983	11,287	15,315
	28,689	34,937	22,336	25,539

(Amounts in millions except for per share data or unless otherwise stated)

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group 2005 RMB	Group 2004 RMB	Company 2005 RMB	Company 2004 RMB
Renminbi – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Majority variable interest rates ranging from 5.18% to 6.12% per annum as of December 31, 2005, with maturities through 2010	9,778	16,195	9,571	15,749
Bank loans for working capital	Majority variable interest rates ranging from 5.18% to 5.27% per annum as of December 31, 2005, with maturities through 2008	6,030	6,044	6,000	6,014
Loans from fellow CNPC subsidiary for the development of oil fields and construction of refining plants	Floating interest rates ranging from 4.46% to 5.18% per annum as of December 31, 2005, with maturities through 2032	16,462	15,610	16,462	15,610
Working capital loans from fellow CNPC subsidiary	Majority variable interest rates ranging from 4.61% to 4.67% per annum as of December 31, 2005, with maturities through 2007	4,335	5,043	4,330	5,043
Working capital loans	Fixed interest rates at 6.32% per annum with no fixed repayment term	5	9	5	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 development of oil and gas properties	Fixed interest rate at 4.11% per annum with maturities through 2013	1,500	1,500	1,500	1,500

(Amounts in millions except for per share data or unless otherwise stated)

	Interest Rate and Final Maturity	Group		Company	
		2005	2004	2005	2004
		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 free to 9.00% per annum with maturities through 2038	1,404	1,883	424	721
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from 2.69% to 9.70% per annum as of December 31, 2005, with maturities through 2014	6,751	7,320	674	755
Bank loans for working capital	Floating interest rates ranging from LIBOR plus 0.40% to LIBOR plus 3.00% per annum as of December 31, 2005, with maturities through 2006	1,362	492	-	-
Bank loans for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.55% per annum as of December 31, 2005, with maturities through 2009	1,614	1,490	-	-
Loans from fellow CNPC subsidiary for the development of oil fields and construction of refining plants	Floating interest rates ranging from LIBOR minus 0.25% to LIBOR plus 0.50% per annum as of December 31, 2005, with maturities through 2020	2,852	1,633	2,852	1,633
Loans from fellow CNPC subsidiary for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2005, with maturities through 2006	593	608	-	-
Loans from fellow CNPC subsidiary for working capital	Floating interest rates from LIBOR plus 0.40% to LIBOR plus 1.00% per annum as of December 31, 2005, with maturities through 2008	2,557	2,687	-	-

(Amounts in millions except for per share data or unless otherwise stated)

	Interest Rate and Final Maturity	Group 2005 RMB	Group 2004 RMB	Company 2005 RMB	Company 2004 RMB
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum with maturities through 2022	509	554	509	554
Loans for working capital	Floating interest rate at LIBOR plus 0.35% per annum as of December 31, 2005 with maturities through 2008.	668	64	-	-
Corporate debenture for the development of oil fields and construction of refining plants	Fixed interest rate at 3.00% per annum with maturities through 2019	347	-	-	-
Corporate debenture for the development of oil and gas properties	Fixed interest rate at 9.50% per annum with maturities through 2011	844	-	-	-
Corporate debenture for the development of oil and gas properties	Fixed interest rate at 15.00% per annum with maturities through 2008	292	-	-	-
Japanese Yen – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 4.10% to 5.30% per annum with maturities through 2010	226	430	134	269
Euro – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.00% to 2.30% per annum with maturities through 2023	256	360	93	117
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	160	338	160	338
		59,895	63,610	44,064	49,662
Finance lease obligations		-	21	-	21
Total long-term borrowings		59,895	63,631	44,064	49,683
Less: Current portion of long-term borrowings		(15,325)	(18,983)	(11,287)	(15,315)
		44,570	44,648	32,777	34,368

(Amounts in millions except for per share data or unless otherwise stated)

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. Interest free loans amounted to RMB 110 (2004: RMB 88) at December 31, 2005.

Borrowings of RMB 674 (2004: RMB 756) were guaranteed by CNPC and its subsidiaries at December 31, 2005.

The Group's borrowings include secured liabilities (lease and bank borrowings) totalling RMB 1,108 (2004: RMB 2,269) at December 31, 2005. Bank borrowings are secured mostly over certain of the Group's property and time deposits with maturities over one year.

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Total borrowings:				
- at fixed rates	19,750	19,885	14,948	16,163
- at variable rates	53,509	59,700	40,165	43,744
	73,259	79,585	55,113	59,907
Weighted average effective interest rates:				
- bank loans	5.26%	4.69%	5.03%	4.86%
- loans from fellow CNPC subsidiary	4.90%	4.47%	4.85%	4.62%
- other loans	3.38%	2.01%	1.58%	1.63%
- corporate debentures	5.86%	4.30%	4.30%	4.30%
- finance lease obligations	-	4.78%	-	4.78%

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

	Group		Company	
	Carrying Amounts			
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Bank loans	27,581	34,552	17,056	23,963
Loans from fellow CNPC subsidiary	26,799	25,581	23,644	22,286
Corporate debentures	4,333	2,850	2,850	2,850
Other	1,182	627	514	563
	59,895	63,610	44,064	49,662

(Amounts in millions except for per share data or unless otherwise stated)

	Group		Company	
	Fair Values			
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Bank loans	27,397	34,394	17,060	23,982
Loans from fellow CNPC subsidiary	26,795	25,581	23,640	22,286
Corporate debentures	4,173	2,632	2,664	2,632
Other	1,049	469	381	405
	59,414	63,076	43,745	49,305

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 0.13% to 7.45% per annum as of December 31, 2005 depending on the type of the borrowings. The carrying amounts of short-term borrowings and finance lease obligations approximate their fair value.

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

	Group		Company	
Bank loans	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Within one year	5,378	10,233	3,512	7,836
Between one to two years	11,009	5,295	9,042	3,512
Between two to five years	10,417	17,951	4,111	11,998
After five years	777	1,073	391	617
	27,581	34,552	17,056	23,963

(Amounts in millions except for per share data or unless otherwise stated)

	Group		Company	
Loans other than bank loans	**2005**	**2004**	**2005**	**2004**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	9,947	8,729	7,775	7,458
Between one to two years	7,364	4,850	6,381	3,676
Between two to five years	4,525	9,121	3,739	8,271
After five years	10,478	6,358	9,113	6,294
	32,314	29,058	27,008	25,699

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

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	-	22	-	22
Between one to two years	-	-	-	-
		22	-	22
Future finance charges on finance lease obligations	-	(1)	-	(1)
Present value of finance lease obligations	-	21	-	21
The present value of finance lease obligations can be analysed as follows:				
- Within one year	-	21	-	21
- Between one to two years	-	-	-	-
	-	21	-	21

(Amounts in millions except for per share data or unless otherwise stated)

29 SHARE CAPITAL

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Registered, issued and fully paid:				
State-owned shares	157,922	158,242	157,922	158,242
H shares	21,099	17,582	21,099	17,582
	179,021	175,824	179,021	175,824

Number of Shares of the Company (million)	2005	2004
Beginning balance	175,824	175,824
Issue of Share	3,197	-
Ending balance	179,021	175,824

At its formation in November, 1999, the registered capital of the Company was RMB 160,000 consisting of 160 billion state-owned shares of RMB 1.00 each issued to CNPC in accordance with the restructuring agreement between the Company and CNPC in exchange for certain assets and liabilities.

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.

In September 2005, the Company issued 3,196,801,818 new H shares at HK$ 6.00 per share and net proceed to the Company was approximately RMB 19,692. CNPC also sold 319, 680,182 state-owned shares it held concurrently with PetroChina’s sale of new H shares in September 2005.

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.

(Amounts in millions except for per share data or unless otherwise stated)

30 RESERVES

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Revaluation Reserve				
Beginning balance	79,946	79,946	79,946	79,946
Ending balance	79,946	79,946	79,946	79,946
Capital Reserve				
Beginning balance	(25,376)	(25,376)	(28,003)	(28,003)
Issue of shares (Note 29)	16,495	-	16,495	-
Ending balance	(8,881)	(25,376)	(11,508)	(28,003)
Statutory Common Reserve Fund (Note a)				
Beginning balance	36,071	26,370	28,636	18,935
Transfer from retained earnings	12,665	9,701	12,665	9,701
Ending balance	48,736	36,071	41,301	28,636
Statutory Common Welfare Fund (Note b)				
Beginning balance	21,504	16,653	17,839	12,988
Transfer from retained earnings	6,333	4,851	6,333	4,851
Ending balance	27,837	21,504	24,172	17,839
Currency translation differences				
Beginning balance	(111)	(441)	-	-
Currency translation adjustments	(268)	330	-	-
Ending balance	(379)	(111)	-	-
Other Reserves				
Beginning balance	(3,200)	(3,200)	(3,256)	(3,256)
Payment to CNPC for the acquisition of the refinery and petrochemical business	(9)	-	(9)	-
Purchase from minority interests of listed subsidiaries (Note 18)	(1,438)	-	(1,438)	-
Paid-in capital to Zhong You Kan Tan Kai Fa Company Limited	(10,056)	-	-	-
Ending balance	(14,703)	(3,200)	(4,703)	(3,256)
	132,556	108,834	129,208	95,162

(Amounts in millions except for per share data or unless otherwise stated)

(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% (2004: 5%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2005 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 142,883 (2004: RMB 95,248) as of December 31, 2005. The distributable reserve computed under the PRC accounting regulations at December 31, 2005 has been arrived at after the accrual for the proposed final dividend in respect of year 2005 of RMB 32,282 (Note 14 (v)).

(d) As of December 31, 2005, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 53,717 (2004: RMB 46,757).

31 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	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
At beginning of year	16,902	13,436	7,489	6,388
Transfer to profit and loss account (Note 11)	3,959	3,267	1,636	1,101
Exchange difference	(102)	199	-	-
At end of year	20,759	16,902	9,125	7,489

(Amounts in millions except for per share data or unless otherwise stated)

Deferred tax balances are attributable to the following items:

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	4,767	4,558	3,641	3,482
Tax losses of subsidiaries	1,014	9	-	-
Non current:				
Shut down of manufacturing assets and impairment of long-term assets	4,022	2,454	3,524	2,190
Other	796	802	449	489
Total deferred tax assets	10,599	7,823	7,614	6,161
Deferred tax liabilities:				
Current:				
Sales (Note (i))	4,401	4,401	4,401	4,401
Non current:				
Accelerated tax depreciation	26,615	20,070	12,116	8,999
Other	342	254	222	250
Total deferred tax liabilities	31,358	24,725	16,739	13,650
Net deferred tax liabilities	20,759	16,902	9,125	7,489

(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) There were no material unrecognised tax losses at December 31, 2005.

32 ASSET RETIREMENT OBLIGATIONS

	Group		Company	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
At beginning of year	919	735	-	-
Liabilities incurred	13,258	48	8,068	-
Liabilities settled	(1)	-	-	-
Accretion expense	60	54	-	-
Currency translation differences	(49)	82	-	-
At end of year	14,187	919	8,068	-

(Amounts in millions except for per share data or unless otherwise stated)

Asset retirement obligations are related to oil and gas properties (see Note 15). The ending balance of 2004 represented the obligation recognised by Zhong You Kan Tan Kai Fa Company Limted (see Note 2). The increase in 2005 arose principally from the new legal requirements enacted in China after December 31, 2004, that set forth specific abandonment and disposal processes for energy production operation including oil and gas exploration and production activities. See Note 4(c) for a description of the factors that may affect the estimation of asset retirement obligations.

33 CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2005 RMB	2004 RMB
Profit for the year		139,642	107,646
Adjustments for:			
Taxation	11	54,180	43,598
Depreciation, depletion and amortisation		51,305	48,362
Provision for shutting down manufacturing asset	8	-	220
Dry hole costs	15	6,547	4,741
Share of profit of associates	16	(2,401)	(1,621)
Impairment of receivables, net	6	(455)	676
Write down in inventories, net	6	(139)	147
Impairment of available-for-sale investments, net	6	(23)	26
Loss on disposal of property, plant and equipment	6	2,026	2,818
Loss on disposal of associates		2	33
Loss on disposal of available-for-sale investment		27	6
Loss on disposal of intangible and other asset		106	50
Dividend income	17	(109)	(113)
Interest income		(1,924)	(1,373)
Interest expense	9	2,762	2,896
Advance payments on long-term operating leases		(5,170)	(5,624)
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		165	(6,195)
Inventories		(15,896)	(17,460)
Accounts payable and accrued liabilities		22,089	398
CASH GENERATED FROM OPERATIONS		252,734	179,231
Interest received		1,917	1,373
Interest paid		(3,628)	(3,998)
Income taxes paid		(47,138)	(34,915)
NET CASH PROVIDED BY OPERATING ACTIVITIES		203,885	141,691

34 PENSIONS

The Group participates in various retirement benefit plans organised by Chinese 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 material obligations for the payment of retirement and other post-retirement benefits of employees in China or overseas other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plans were RMB 3,104 (2004: RMB 2,476) for the year ended December 31, 2005.

35 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 are 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. Majority of 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 28.

(c) Foreign exchange rate risk

From July 21, 2005, the PRC government has reformed the Renminbi exchange rate regime and implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and international economic developments and political changes, and supply and demand for Renminbi. Future exchange rates of Renminbi against other currencies could vary significantly from the current exchange rates. As Renminbi is the base currency of the Company and most of its consolidated entities, the fluctuation of the exchange rate of Renminbi may have positive or negative impacts on the results of operations of the Group. An appreciation of Renminbi against United States Dollar may decrease the Group's turnover, but the cost of acquiring imported materials and equipment may be reduced. A devaluation of Renminbi against United States Dollar may not have a negative impact on the Group's turnover but may increase the cost for acquiring imported materials and equipment as well as the debt obligations denominated in foreign currencies of the Group. The results of operations and financial position of the Group may also be affected by fluctuations in exchange rates of a number of other foreign currencies against Renminbi.

(Amounts in millions except for per share data or unless otherwise stated)

(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 prices of onshore crude oil are determined with reference to international benchmark crude oil 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 2005 and 2004, 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 as all of them are in short-term nature: 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. Analysis of the fair value and carrying amounts of long-term borrowings are presented in Note 28.

36 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2005, the Group had contingent liabilities in respect of guarantees made to China Petroleum Finance Company Limited ("CP Finance"), a subsidiary of CNPC, from which it is anticipated that no material liabilities will arise.

	2005	2004
	RMB	RMB
Guarantee of borrowings of associates	187	203

(b) Environmental liabilities

CNPC and the Group have operated in China for many years. 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.

On November 13, 2005, explosions occurred at a manufacturing facility of a branch of the Company located in the Jilin Province. The impact of the accident is undergoing government investigation. The Company is presumed to bear related liability according to the investigation results.

(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, 2005, CNPC has obtained formal land use right certificates in relation to 27,400 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.

(Amounts in millions except for per share data or unless otherwise stated)

37 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, 2005 and 2004 under non-cancellable operating leases are as follows:

	2005	2004
	RMB	RMB
First year	3,208	2,701
Second year	2,595	2,473
Third year	2,558	2,452
Fourth year	2,437	2,434
Fifth year	2,926	2,356
Thereafter	81,266	83,035
	94,990	95,451

Operating lease expenses for land and buildings and equipment were RMB 4,850 (2004: RMB 3,873) for the year ended December 31, 2005.

(b) Capital commitments

	2005	2004
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	847	728
Plant and equipment	12,496	4,650
Other	22	169
	13,365	5,547

(c) Long-term natural gas supply commitments

The Group markets a portion of its natural gas production under long-term take-or-pay contracts. Under these contracts, the customers are required to take or pay, and the Group is obligated to deliver, minimum quantities of natural gas annually. The prices for the natural gas are based on those approved by the PRC State Development and Reform Commission at the time of deliveries.

(Amounts in millions except for per share data or unless otherwise stated)

At December 31, 2005, future minimum delivery commitments under the contracts are as follows:

	December 31, 2005
	Quantities (billion of cubic feet)
2006	451
2007	583
2008	639
2009	704
2010	583
2011 and thereafter	5,528
	8,488

(d) 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 534 (2004: RMB 444) for the year ended December 31, 2005.

Estimated annual payments for the next five years are as follows:

	RMB
2006	681
2007	712
2008	712
2009	712
2010	850

38 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2005		2004	
	Revenue	% to Total Revenue	Revenue	% to Total Revenue
	RMB	%	RMB	%
Sinopec	35,848	6%	36,977	9%
CNPC	19,823	4%	10,720	3%
	55,671	10%	47,697	12%

39 RELATED PARTY TRANSACTIONS

CNPC, the immediate parent of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CNPC group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither CNPC nor the PRC government publishes financial statements available for public use.

The Group has extensive transactions with other members of the CNPC group. Because of the relationship, it is possible that the terms of the transactions between the Group and other members of the CNPC group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

As a result of the restructuring of CNPC to form the Company in 1999, 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 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 current Comprehensive Products and Services Agreement were amended during 2005 and the agreement is effective through December 31, 2008. 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 Leasing 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 its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

(Amounts in millions except for per share data or unless otherwise stated)

(a) Bank deposits

	Note	December 31, 2005	December 31, 2004
		RMB	RMB
Bank deposits balance at the end of the year			
CP Finance	(i)	24,356	1,827
State-controlled banks and other financial institutions		55,139	10,614
		79,495	12,441

	Note	Year Ended December 31	
		2005	2004
		RMB	RMB
Interest income from bank deposits			
CP Finance	(i)	33	29
State-controlled banks and other financial institutions		1,582	132
		1,615	161

(i) CP Finance is a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China. The deposits yield interest at prevailing saving deposit rates.

(b) Sales of goods and services

	Year Ended December 31	
	2005	2004
	RMB	RMB
Sales of goods		
Associates		
- Crude Oil	883	2,597
- Refined Products	9,766	6,397
- Chemical Products	308	153
Fellow subsidiaries (CNPC Group)		
- Crude Oil	155	100
- Refined Products	12,364	5,720
- Chemical Products	4,805	2,927
- Natural Gas	820	737
- Other	650	320
Other state-controlled enterprises		
- Crude Oil	37,168	34,212
- Refined Products	86,505	61,138
- Chemical Products	18,275	14,155
- Natural Gas	8,127	5,093
	179,826	133,549

Sales of goods to related parties are conducted at market prices.

(Amounts in millions except for per share data or unless otherwise stated)

	Year Ended December 31	
	2005	2004
	RMB	RMB
Sales of services		
Fellow subsidiaries (CNPC Group)	1,029	916
Other state-controlled enterprises	3,592	3,047
	4,621	3,963

Sales of services principally represent the provision of the services in connection with the transportation of crude oil and natural gas at market prices.

(c) Purchases of goods and services

		Year Ended December 31	
	Notes	2005	2004
		RMB	RMB
Purchases of goods	(i)		
Associates		4,220	2,185
Other state-controlled enterprises		59,719	36,048
Purchases of services			
Associates		43	29
Fellow subsidiaries (CNPC Group)			
- Fees paid for construction and technical services	(ii)		
- exploration and development services	(iii)	39,653	30,058
- other construction and technical services	(iv)	25,010	18,673
- Fees for production services	(v)	23,344	16,313
- Social services charges	(vi)	2,153	1,289
- Ancillary services charges	(vii)	2,345	1,717
- Commission expense and other charges	(viii)	1,612	884
Other state-controlled enterprises	(ix)	6,390	4,752
		164,489	111,948

(i) Purchases of goods principally represent the purchases of raw materials, spare parts and low cost consumables at market prices.

(ii) 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.

(iii) Direct costs for exploration and development services comprise geophysical survey, drilling, well cementing, logging and well testing.

(Amounts in millions except for per share data or unless otherwise stated)

(iv) 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..

(v) The fees paid for production services comprise fees for the repair of machinery, supply of water, electricity and gas at the state-prescribed prices, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery at cost or market prices.

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

(vii) Ancillary services charges represent mainly fees for property management, the provision of training centers, guesthouses, canteens, public shower rooms, etc.. at market prices.

(viii) 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.

(ix) Purchases of services from other state-controlled enterprises principally represent the purchases of the construction and technical services at market prices.

(d) Purchases of assets

	Year Ended December 31	
	2005	**2004**
	RMB	**RMB**
Purchases of assets		
Associates	11	9
Fellow subsidiaries (CNPC Group)	5,870	4,018
Other state-controlled enterprises	6,813	3,480
	12,694	7,507

Purchases of assets principally represent the purchases of manufacturing equipments, office equipments, transportation equipments, etc. at market prices.

(Amounts in millions except for per share data or unless otherwise stated)

(e) Year-end balances arising from sales/purchases of goods/services/assets

	December 31, 2005 RMB	December 31, 2004 RMB
Accounts receivable from related parties at the end of the year		
Associates	12	138
Fellow subsidiaries (CNPC Group)	337	477
Other state-controlled enterprises	1,796	3,470
	2,145	4,085
Less: Impairment provision		
Associates	-	-
Fellow subsidiaries (CNPC Group)	(246)	(399)
Other state-controlled enterprises	(924)	(1,451)
	(1,170)	(1,850)
	975	2,235
Prepayment and other receivables from related parties at the end of the year		
Associates	3,634	1,332
Parent (CNPC)	103	3,385
Fellow subsidiaries (CNPC Group)	7,430	3,573
Other state-controlled enterprises	2,357	3,171
	13,524	11,461
Less: Impairment provision		
Associates	(240)	(295)
Fellow subsidiaries (CNPC Group)	(70)	(20)
Other state-controlled enterprises	(330)	(365)
	(640)	(680)
	12,884	10,781
Accounts payable and accrued liabilities to related parties at the end of the year		
Associates	3,118	572
Parent (CNPC)	2,516	2,681
Fellow subsidiaries (CNPC Group)	20,285	13,083
Other state-controlled enterprises	15,163	17,555
	41,082	33,891

(Amounts in millions except for per share data or unless otherwise stated)

	Year ended December 31	
	2005	2004
	RMB	RMB
Impairment provision of accounts receivable from related parties charged to the profit and loss account		
Associates	-	-
Fellow subsidiaries (CNPC Group)	24	42
Other state-controlled enterprises	(62)	(36)
	(38)	6
Impairment provision of prepayment and other receivables from related parties charged to the profit and loss account		
Associates	(55)	49
Fellow subsidiaries (CNPC Group)	55	47
Other state-controlled enterprises	(35)	82
	(35)	178

(f) Leases

		Year Ended December 31	
	Notes	2005	2004
		RMB	RMB
Advance operating lease payments paid to related parties	(i)		
Parent (CNPC)		232	186
Other state-controlled enterprises		33	15
		265	201
Other operating lease payments paid to related parties			
Parent (CNPC)	(ii)	2,192	2,106
Other state-controlled enterprises		5	5
		2,197	2,111

(i) Advance operating lease payments principally represent the advance payment paid for the long-term operating lease of land and gas stations at prices prescribed by local governments or market prices.

(ii) Other operating lease payments to CNPC principally represent the rental paid for the operating lease of land and buildings at the prices prescribed in the Land Use Rights Leasing Contract, the Building Leasing Contract and Supplemental Buildings Leasing Agreement with CNPC.

(Amounts in millions except for per share data or unless otherwise stated)

	December 31, 2005	December 31, 2004
	RMB	RMB
Operating lease payable to related parties		
Parent (CNPC)	2	52
Other state-controlled enterprises	1	33
	3	85

(g) Loans

	Year ended December 31	
	2005	2004
Loans to related parties	RMB	RMB
Loans to associates:		
Beginning of the year	569	1,718
Loans advanced during year	1,392	235
Loans repayments received	(321)	(1,384)
Interest charged	29	41
Interest received	(29)	(41)
End of the year	1,640	569

Loans to associates are included in prepaid expenses and other current assets (see Note 23).

The loans to related parties are mainly with interest rates ranging from 5.26% to 8.54% per annum as of December 31, 2005.

(Amounts in millions except for per share data or unless otherwise stated)

		Year Ended December 31	
	Notes	2005	2004
Loans from related parties		RMB	RMB
Loans from CP Finance:	(i)		
Beginning of the year		29,932	29,575
Loan received during year		10,187	12,003
Loan repayments paid		(12,803)	(11,646)
Interest charged		1,297	1,234
Interest paid		(1,294)	(1,234)
End of the year		27,319	29,932
Loans from state-controlled banks and other financial institutions:	(ii)		
Beginning of the year		36,562	38,341
Loan received during year		24,715	24,990
Loan repayments paid		(30,105)	(26,739)
Interest charged		1,670	1,847
Interest paid		(1,664)	(1,877)
End of the year		31,178	36,562
Loans from other related parties:	(iii)		
Beginning of the year		16	13
Loan received during year		51	5
Loan repayments paid		(5)	(2)
Interest charged		1	-
Interest paid		(1)	-
End of the year		62	16

(i) The loans from CP Finance are mainly with interest rates ranging from 4.45% to 5.70% per annum as of December 31, 2005, with maturities through 2032;

(ii) The loans from state-controlled banks and other financial institutions are mainly with interest rates ranging from free to 8.66% per annum as of December 31, 2005, with maturities through 2038;

(iii) The loans from other related parties are mainly with interest rates ranging from free to 6.32% per annum as of December 31, 2005, with no fixed repayment term.

The secured loans from related parties amounts RMB 54 at December 31, 2005 (December 31, 2004: RMB 39).

The guaranteed loans amounts RMB 674 at December 31, 2005 (December 31, 2004: RMB 756). All these guaranteed loans are from non-related parties, long-term and guaranteed by CNPC.

(Amounts in millions except for per share data or unless otherwise stated)

(h) Key management compensation

	Year ended December 31	
	2005	**2004**
	RMB'000	**RMB'000**
Fee for key management personnel		
- Directors and supervisors	897	120
Salaries, allowances and other benefits		
- Directors and supervisors	4,031	2,012
- Other key management	2,207	1,330
Pension costs-defined contribution plans		
- Directors and supervisors	57	43
- Other key management	37	31
	7,229	3,536

As at December 31, 2005, none of the key management personnel has exercised the stock appreciation rights. The liability for the units awarded to key management personnel amounted to approximately RMB 177 (December 31, 2004: RMB 103) at December 31, 2005.

(i) Contingent liabilities

The Group has disclosed in Note 36 in respect of the contingent liabilities arising from the guarantees made for related parties.

(j) Collateral for borrowings

The Group pledged time deposits with maturities over one year as collateral with Citibank, N.A, Singapore Branch for the borrowings of subsidiaries and associates. As at December 31, 2005, the balance of these time deposits amounted to RMB 3,428 (December 31, 2004: RMB 3,744), including RMB 968 (December 31, 2004: RMB 1,738) for the borrowings of subsidiaries and RMB 2,460 (December 31, 2004: RMB 2,006) for the borrowings of associates.

40 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.

Most 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 also has oversea operations through subsidiaries engaging in the exploration and production of crude oil and natural gas.

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, 2004 and 2005 is presented below:

(Amounts in millions except for per share data or unless otherwise stated)

Primary reporting format –business segments

Year Ended December 31, 2004	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Turnover (including intersegment)	233,948	296,427	57,179	18,255	-	605,809
Less: Intersegment sales	(180,129)	(21,862)	(2,679)	(3,785)	-	(208,455)
Turnover from external customers	53,819	274,565	54,500	14,470	-	397,354
Depreciation, depletion and amortisation	(30,915)	(8,957)	(5,741)	(2,645)	(104)	(48,362)
Segment result	138,129	28,445	11,025	2,475	(518)	179,556
Other costs	(7,916)	(16,554)	(3,370)	60	(638)	(28,418)
Profit/(loss) from operations	130,213	11,891	7,655	2,535	(1,156)	151,138
Finance costs						(1,515)
Share of profit of associates	225	75	211	16	1,094	1,621
Profit before taxation						151,244
Taxation						(43,598)
Profit for the year						107,646
Interest income (including intersegment)	2,598	895	205	27	4,723	8,448
Less: Intersegment interest income						(7,075)
Interest income from external entities						1,373
Interest expense (including intersegment)	(3,096)	(1,777)	(502)	(693)	(3,903)	(9,971)
Less: Intersegment interest expense						7,075
Interest expense to external entities						(2,896)
Segment assets	364,477	142,480	55,568	61,631	507,164	1,131,320
Elimination of intersegment balances						(502,771)
Investments in associates	3,352	2,862	280	192	3,212	9,898
Total assets						638,447
Segment capital expenditure - for property, plant and equipment	62,868	17,684	4,319	13,901	174	98,946
Segment liabilities	109,602	75,664	18,484	35,385	99,711	338,846
Other liabilities						39,440
Elimination of intersegment balances						(182,811)
Total liabilities						195,475

(Amounts in millions except for per share data or unless otherwise stated)

Primary reporting format –business segments (continued)

Year Ended December 31, 2005	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Turnover (including intersegment)	337,208	428,494	73,978	26,214	-	865,894
Less: Intersegment sales	(270,943)	(33,019)	(4,754)	(4,949)	-	(313,665)
Turnover from external customers	66,265	395,475	69,224	21,265	-	552,229
Depreciation, depletion and amortisation	(30,896)	(8,964)	(6,869)	(4,478)	(98)	(51,305)
Segment result	220,452	2,116	6,896	3,639	(1,357)	231,746
Other costs	(12,372)	(21,926)	(3,620)	(456)	(1,201)	(39,575)
Profit/(loss) from operations	208,080	(19,810)	3,276	3,183	(2,558)	192,171
Finance costs						(750)
Share of profit of associates	1,851	165	15	-	370	2,401
Profit before taxation						193,822
Taxation						(54,180)
Profit for the year						139,642
Interest income (including intersegment)	3,912	998	387	100	5,763	11,160
Less: Intersegment interest income						(9,236)
Interest income from external entities						1,924
Interest expense (including intersegment)	(3,631)	(2,659)	(636)	(1,105)	(3,967)	(11,998)
Less: Intersegment interest expense						9,236
Interest expense to external entities						(2,762)
Segment assets	460,814	207,724	76,439	69,232	631,696	1,445,905
Elimination of intersegment balances						(680,216)
Investments in associates	5,470	4,531	250	-	2,127	12,378
Total assets						778,067
Segment capital expenditure - for property, plant and equipment	83,214	16,454	13,569	11,137	427	124,801
Segment liabilities	146,616	97,918	30,559	40,847	161,753	477,693
Other liabilities						47,731
Elimination of intersegment balances						(291,024)
Total liabilities						234,400

(Amounts in millions except for per share data or unless otherwise stated)

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, 2004 and 2005 included impairment provision for property, plant and equipment (Note 15) and shut down of manufacturing assets (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	
Year Ended December 31	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
PRC	531,520	384,717	717,934	607,566	119,505	94,452
Other (Exploration and Production)	20,709	12,637	60,133	30,881	5,296	4,494
	552,229	397,354	778,067	638,447	124,801	98,946

41 SUBSEQUENT EVENT

As described in Note 18, the Company offered to acquire all the outstanding A shares and H shares (including ADS) of JCIC. Subsequent to the end of the respective offering periods in February 2006, the Company paid total cash consideration of RMB 3,372 and acquired from tendering minority shareholders 908,113,053 H shares (including ADS) and 157,700,200 A shares of JCIC, representing totally 29.93% of the total issued share capital. As approved by the related authorities, JCIC ceased its listing on The Stock Exchange of HongKong Limited, New York Stock Exchange and Shenzhen Stock Exchange on January 23, 2006, February 15, 2006 and February 20, 2006 respectively.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 20, 2006 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 26, 2006.