

Results of Operations

	Year Ended December 31	
	2005	2004
	RMB	RMB
Sales and other operating revenues		
Sales to third parties	66,265	53,819
Intersegment sales	261,558	176,894
	327,823	230,713
Production costs excluding taxes	(41,713)	(34,821)
Exploration expenses	(15,566)	(12,090)
Depreciation, depletion and amortisation	(25,819)	(26,287)
Taxes other than income taxes	(10,239)	(7,712)
Accretion expense	(60)	(54)
Profit before taxation	234,426	149,749
Taxation	(64,816)	(42,089)
Results of operations from producing activities	169,610	107,660
Profit from associates' results of operations from producing activities	1,878	767

Capitalised Costs

	December 31, 2005	December 31, 2004
	RMB	RMB
Property costs	-	-
Producing assets	359,539	303,784
Support facilities	138,093	124,793
Construction-in-progress	19,394	15,856
Total capitalised costs	517,026	444,433
Accumulated depreciation, depletion and amortisation	(203,416)	(180,926)
Net capitalised costs	313,610	263,507
Share of associates' net capitalised costs	1,996	1,632

Costs Incurred in Property Acquisitions, Exploration and Development Activities

	Year Ended December 31	
	2005	2004
	RMB	RMB
Property acquisition costs	-	-
Exploration costs	25,335	18,338
Development costs	72,551	47,508
Total	97,886	65,846
Share of associates' costs of property acquisition, exploration, and development	2,394	1,143

Proved Reserve Estimates

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

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

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. However, in accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses effective March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms coextensive with the projected productive life of those reservoirs, ranging up to 55 years. Production licenses to be issued to the Group in the future will be subject to the 30-year maximum unless additional special approvals can be obtained from the State Council. Each of the Group's production licenses is renewable upon application by the Group 30 days prior to expiration. Oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses.

Proved reserve estimates as of December 31, 2004 and 2005 were based on reports prepared by DeGolyer and MacNaughton and Gaffney, Cline & Associates, independent engineering consultants. These reserve estimates were prepared for each oil and gas region (as opposed to individual fields within a region) and adjusted for the estimated effects of using prices and costs prevailing at the end of the period. The Company's reserve estimates include only crude oil and natural gas, which the Company believes can be reasonably produced within the current terms of production licenses.

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

	Crude Oil and Condensate	Natural Gas
	(millions of barrels)	(billions of cubic feet)
Proved developed and undeveloped		
Reserves at January 1, 2004	11,495	41,787
Changes resulting from:		
Revisions of previous estimates	141	83
Improved recovery	109	43
Extensions and discoveries	573	4,405
Production	(817)	(1,069)
Reserves at December 31, 2004	11,501	45,249
Changes resulting from:		
Revisions of previous estimates	157	213
Improved recovery	101	-
Extensions and discoveries	606	4,005
Production	(829)	(1,344)
Reserves at December 31, 2005	11,536	48,123
Proved developed reserves at:		
December 31, 2004	9,068	17,255
December 31, 2005	9,195	19,858
Proportional interest in proved reserves of associates		
December 31, 2004	439	100
December 31, 2005	426	102

At December 31, 2005, 10,935 million barrels of crude oil and condensate and 47,323.3 billion cubic feet of natural gas proved developed and undeveloped reserves are located within China, and 601 million barrels of crude oil and condensate and 799.8 billion cubic feet of natural gas proved developed and undeveloped reserves are located overseas.

Standardised Measure

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

The standardised measure of discounted future net cash flows related to proved oil and gas reserves at the end of each of the two years in the period ended December 31, 2004 and 2005 is as follows (in millions of RMB):

At December 31, 2004	
Future cash inflows	4,046,151
Future production costs	(912,881)
Future development costs	(106,332)
Future income tax expense	(934,068)
Future net cash flows	2,092,870
Discount at 10% for estimated timing of cash flows	(1,092,412)
Standardised measure of discounted future net cash flows	1,000,458
At December 31, 2005	
Future cash inflows	5,337,329
Future production costs	(1,043,358)
Future development costs	(156,575)
Future income tax expense	(1,279,133)
Future net cash flows	2,858,263
Discount at 10% for estimated timing of cash flows	(1,472,069)
Standardised measure of discounted future net cash flows	1,386,194
Share of associates' standardised measure of discounted future net cash flows	
At December 31, 2004	10,851
At December 31, 2005	15,288

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

Changes in the standardised measure of discounted net cash flows for the Group for each of the two years ended December 31, 2004 and 2005 are as follows:

	Year Ended December 31	
	2005	2004
	RMB	RMB
CHANGES IN STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS		
Beginning of year	1,000,458	715,114
Sales and transfers of oil and gas produced, net of production costs	(274,921)	(187,020)
Net changes in prices and production costs and other	523,089	366,417
Extensions, discoveries and improved recovery	157,343	119,790
Development costs incurred	(11,282)	14,829
Revisions of previous quantity estimates	21,678	13,420
Accretion of discount	144,709	101,787
Net change in income taxes	(174,880)	(143,879)
End of year	1,386,194	1,000,458