PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended December 31, 2004

(Amounts in millions except for per share data)

	Note	2004	2003
		RMB	RMB
TURNOVER	4	388,633	303,779
OPERATING EXPENSES			
Purchases, services and other		(116,353)	(90,850)
Employee compensation costs	6	(22,309)	(19,542)
Exploration expenses, including exploratory dry holes		(11,723)	(10,577)
Depreciation, depletion and amortisation		(46,411)	(40,531)
Selling, general and administrative expenses		(26,377)	(23,930)
Shut down of manufacturing assets	7	(220)	(2,355)
Taxes other than income taxes		(18,685)	(15,879)
Revaluation loss of property, plant and equipment	14	-	(391)
Other income/(expense), net		31	(538)
TOTAL OPERATING EXPENSES		(242,047)	(204,593)
PROFIT FROM OPERATIONS		146,586	99,186
FINANCE COSTS			
Exchange gain		50	53
Exchange loss		(123)	(233)
Interest income		1,107	677
Interest expense	8	(2,303)	(2,346)
TOTAL FINANCE COSTS		(1,269)	(1,849)
SHARE OF PROFIT OF ASSOCIATES	15	1,824	985
PROFIT BEFORE TAXATION	5	147,141	98,322
TAXATION	10	(42,563)	(28,072)
PROFIT BEFORE MINORITY INTERESTS		104,578	70,250
MINORITY INTERESTS		(1,651)	(636)
NET PROFIT		102,927	69,614
BASIC AND DILUTED EARNINGS PER SHARE	12	0.59	0.40
DIVIDENDS ATTRIBUTABLE TO:			
Interim dividend declared during the year	13	20,381	17,379
Final dividend proposed after the balance sheet date	13	25,936	13,947
		46,317	31,326

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

As of December 31, 2004

(Amounts in millions)

	Note	2004 RMB	2003 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	468,519	427,875
Investments in associates	15	7,923	5,571
Available-for-sale investments	16	1,510	1,839
Advance operating lease payments	18	12,248	7,252
Intangible and other assets	19	2,987	3,024
		493,187	445,561
CURRENT ASSETS			
Inventories	20	45,771	28,872
Accounts receivable	21	2,662	3,263
Prepaid expenses and other current assets	22	17,563	13,528
Notes receivable	23	4,824	2,416
Receivables under resale agreements	24	33,217	24,224
Time deposits with maturities over three months		1,400	2,640
Cash and cash equivalents	25	11,304	11,231
TOTAL CURRENT ASSETS		116,741	86,174
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	26	70,696	64,180
Income tax payable		17,484	12,043
Other taxes payable		4,633	8,916
Short-term borrowings	27	27,276	28,890
		120,089	114,029
NET CURRENT LIABILITIES		(3,348)	(27,855)
TOTAL ASSETS LESS CURRENT LIABILITIES		489,839	417,706
FINANCED BY			
Share capital	28	175,824	175,824
Retained earnings		143,624	89,577
Reserves	29	105,764	91,212
Shareholders' equity		425,212	356,613
Minority interests		9,391	5,608
NON CURRENT LIABILITIES			
Long-term borrowings	27	38,458	41,959
Other long-term obligations		2,438	2,000
Deferred taxation	30	14,340	11,526
		55,236	55,485
		489,839	417,706

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, 2004
(Amounts in millions)

	Note	2004 RMB	2003 RMB
NON CURRENT ASSETS			
Property, plant and equipment	14	335,338	311,105
Investments in associates	15	5,774	4,520
Available-for-sale investments	16	1,364	1,462
Subsidiaries	17	130,242	116,698
Advance operating lease payments	18	8,831	5,002
Intangible and other assets	19	2,153	1,803
		483,702	440,590
CURRENT ASSETS			
Inventories	20	37,278	24,186
Accounts receivable	21	1,902	1,761
Prepaid expenses and other current assets	22	30,409	18,893
Notes receivable	23	4,491	2,158
Receivables under resale agreements	24	33,106	24,087
Time deposits with maturities over three months		-	2,640
Cash and cash equivalents	25	8,391	8,022
TOTAL CURRENT ASSETS		115,577	81,747
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	26	84,662	78,010
Income tax payable		16,811	11,572
Other taxes payable		3,932	4,929
Short-term borrowings	27	24,738	26,667
		130,143	121,178
NET CURRENT LIABILITIES		(14,566)	(39,431)
TOTAL ASSETS LESS CURRENT LIABILITIES		469,136	401,159
FINANCED BY			
Share capital	28	175,824	175,824
Retained earnings		154,724	100,677
Reserves	29	94,664	80,112
Shareholders' equity		425,212	356,613
NON CURRENT LIABILITIES			
Long-term borrowings	27	34,072	36,222
Other long-term obligations		2,363	1,936
Deferred taxation	30	7,489	6,388
		43,924	44,546
		469,136	401,159

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, 2004

(Amounts in millions)

	Note	2004	2003
		RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES	31	137,299	137,236
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(90,448)	(79,739)
Acquisition of associates		(485)	(1,044)
Acquisition of available-for-sale investments		(476)	(722)
Net acquisition of receivables under resale agreements with maturities not greater than three months		(8,049)	(10,182)
Acquisition of receivables under resale agreements with maturities over three months		(8,301)	(4,676)
Acquisition of intangible assets		(531)	(473)
Acquisition of other non-current assets		(280)	(569)
Proceeds from receivables under resale agreements with maturities over three months		7,357	420
Repayment of capital by associates		206	336
Proceeds from disposal of property, plant and equipment		778	202
Proceeds from disposal of associates		27	23
Proceeds from disposal of available-for-sale investments		83	87
Proceeds from disposal of intangible and other non-current assets		37	-
Dividends received		309	152
Decrease/(Increase) in time deposits with maturities over three months		1,240	(28)
NET CASH USED FOR INVESTING ACTIVITIES		(98,533)	(96,213)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings		(21,700)	(30,373)
Repayments of long-term borrowings		(22,783)	(7,951)
Principal payment on finance lease obligations		(35)	(66)
Dividends paid to minority interests		(357)	(85)
Cash payment for acquisition of CNPC marketing enterprises		(1,476)	(170)
Dividends paid	13	(34,328)	(29,678)
Increase in short-term borrowings		23,789	25,128
Increase in long-term borrowings		15,614	2,823
Capital contribution from minority interests		2,145	287
Change in other long-term obligations		438	316
NET CASH USED FOR FINANCING ACTIVITIES		(38,693)	(39,769)
Increase in cash and cash equivalents		73	1,254
Cash and cash equivalents at beginning of year	25	11,231	9,977
Cash and cash equivalents at end of year	25	11,304	11,231

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended December 31, 2004

(Amounts in millions)

	Share Capital (Note 28)	Retained Earnings	Reserves (Note 29)	Total
	RMB	RMB	RMB	RMB
Balance at January 1, 2003	175,824	59,004	81,848	316,676
Net profit for the year ended December 31, 2003	-	69,614	-	69,614
Revaluation surplus of property, plant and equipment, net of tax	-	-	527	527
Revaluation loss offset against previous revaluation surplus of property, plant and equipment, net of tax	-	-	(526)	(526)
Transfer to reserves	-	(9,363)	9,363	-
Final dividend for 2002 (Note 13)	-	(12,299)	-	(12,299)
Interim dividend for 2003 (Note 13)	-	(17,379)	-	(17,379)
Balance at December 31, 2003	175,824	89,577	91,212	356,613
Net profit for the year ended December 31, 2004	-	102,927	-	102,927
Transfer to reserves	-	(14,552)	14,552	-
Final dividend for 2003 (Note 13)	-	(13,947)	-	(13,947)
Interim dividend for 2004 (Note 13)	-	(20,381)	-	(20,381)
Balance at December 31, 2004	175,824	143,624	105,764	425,212

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 HongKong and in the United States of America. (See Note 28.) 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 38.)

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. 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 net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

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

(b) Investments in associates

Investments in associates are accounted for by the equity method. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the 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 in which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associate.

A listing of the Group's principal associates is shown in Note 15.

(c) Foreign currencies

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. Substantially all assets and operations of the Group are located in the PRC, and the measurement currency is RMB. The Group also owns certain crude oil and natural gas exploration and production operations in Indonesia and the measurement currency for these operations is US dollars. The consolidated financial statements are presented in RMB, which is the measurement currency of the parent and most of the consolidated entities.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account. Monetary assets and liabilities are translated at balance sheet date exchange rates.

Profit and loss account and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates at year end. Currency translation differences are recognised in shareholders' equity.

The Group did not enter into any hedge contracts during any of the years presented. No foreign currency exchange gains or losses were capitalised for any years presented.

(d) Financial instruments

Financial instruments carried at the balance sheet date include cash and bank balances, investments, receivables, payables, leases and borrowings. Where necessary the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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.

(e) Investments

The Group classifies its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. 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; during the year the Group did not hold any investment in this category. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the effective acquisition or sale date. Cost of purchase includes transaction costs. Available-for-sale investments are measured at fair value except there are no quoted market prices in active markets and whose fair values cannot be reliably measured using valution techniques. Available-for-sale investments carried at cost are subject to review for impairment.

(f) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3 (g)), are initially recorded at cost less accumulated depreciation, depletion and amortisation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at a revalued amount. Revaluations are performed by independent qualified valuers on a regular basis.

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 14. Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases in valuation of property, plant and equipment are first offset against increases from earlier valuations in respect of the same asset and are thereafter charged to the 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.

Property, plant and equipment, including oil and gas properties (Note 3(g)), 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 net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the assets in the cash generating unit and from their ultimate disposal.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the property for its intended use. Costs for planned major maintenance activities, primarily related to refinery turnarounds, are expensed as incurred except for costs of components that result in improvements and betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

(g) Oil and gas properties

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. 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. 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. The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current PRC regulations governing such activities.

(h) Intangible assets

Expenditure on acquired patents, trademarks, technical know-how and licenses is capitalised and amortised using the straight-line method over their useful lives, generally over 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 net selling price and value in use which is the present value of estimated future cash flows to be derived from continuing use of the asset and from its ultimate disposal.

(i) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Property, plant and equipment acquired under finance leases are generally depreciated over the useful life of the asset as the Group usually obtains ownership of such leased assets by the end of the leased term.

Leases of assets under which substantially all of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the lease term. 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.

(j) Related parties

Related parties are corporations in which CNPC is a major shareholder and is able to control or exercise significant influence.

(k) Inventories

Inventories are oil products, chemical products, and materials and supplies which are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes interest expense. Net realisable value is the estimate of the selling price in the ordinary course of business, less the cost of completion and selling expenses.

(l) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(m) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash in hand and investments with maturities of three months or less from the time of purchase.

(n) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings, except for the portion eligible for capitalisation.

(o) Taxation

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

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

The principal temporary differences arise from depreciation on oil and gas properties and equipment and provision for impairment of receivables, inventories, investments and property, plant and equipment. Deferred tax assets relating to the carryforward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

The Group also incurs various other taxes 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.

(p) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of sales taxes and discounts. Revenues are recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(r) Research and development

Research expenditure incurred is recognised as an expense. Cost incurred on development projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits.

(s) Retirement benefit plans

The Group contributes to various employee retirement benefit plans organised by municipal and provincial governments under which it is required to make monthly contributions to these plans at rates prescribed by the related municipal and provincial governments. The municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group. Contributions to these plans are charged to expense as incurred.

(t) Share appreciation rights

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

(u) Reclassification

Certain balances of the prior year have been reclassified to conform with current year presentation, including separate presentation of advance operating lease payments in Note 18.

(v) New accounting developments

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

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

In December 2004, the IASB issued IFRS 6 "Exploration for and Evaluation of Mineral Resources". Adoption of IFRS 6 is required for annual periods beginning on or after January 1, 2006. IFRS 6 permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraph 11 and 12 of IAS 8 and allows an entity to use the accounting policies applied immediately before adopting IFRS 6. IFRS 6 requires entities recognising exploration and evaluation assets to perform an impairment test on these assets. However, IFRS 6 allows variation in recognition of impairment from that specified in IAS 36 but measures the impairment as set forth in IAS 36 once impairment is identified. The Group's accounting policies with respect to exploration and evaluation asset are described in Note 3 (g) and 3 (f). The Group is evaluating the manner and effect of adoption of IFRS 6.

The following standards of IASB also will be effective January 1, 2005 - IFRS 2, "Share-based Payment", IFRS 3, "Business Combination", IFRS 4, "Insurance Contracts", and IFRS 5, "Non Current Assets Held for Sale and Discontinued Operations". The Group is evaluating the manner of adoption of these IFRS and does not expect the adoption of these new standards will have a material effect on the financial condition or results of operations of the Group.

4 TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil and natural gas. Analysis of turnover by segment is shown in Note 38.

5 PROFIT BEFORE TAXATION

	2004 RMB	2003 RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale investments	90	69
Reversal of impairment of receivables	1,346	551
Reversal of impairment of available-for-sale investments	155	21
Reversal of write down in inventories	229	23
Charging		
Amortisation on intangible and other assets	754	635
Auditors' remuneration	43	44
Cost of inventories (approximates cost of goods sold) recognised as expense	165,025	134,935
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	45,040	39,293
- assets under finance leases	23	21
Impairment of available-for-sale investments	181	179
Impairment of receivables	1,826	1,985
Interest expense (Note 8)	2,303	2,346
Loss on disposal of property, plant and equipment	2,806	1,048
Operating lease expenses	3,873	3,573
Repair and maintenance	6,205	4,721
Research and development expenditure	2,936	2,411
Transportation expenses	10,029	8,780
Write down in inventories	375	159

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

6 EMPLOYEE COMPENSATION COSTS

	2004	2003
	RMB	RMB
Wages and salaries	14,926	12,893
Social security costs (i)	7,383	6,649
	22,309	19,542

(i) Social security costs represent contributions to funds for staff welfare organised by the municipal and provincial governments including contribution to the retirement benefit plans (Note 32).

7 SHUT DOWN OF MANUFACTURING ASSETS

During the years ended December 31, 2004 and 2003, the Group provided RMB 220 and RMB 2,355 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.

	2004	2003
	RMB	RMB
Refining facilities	192	1,596
Chemical facilities	28	759
	220	2,355

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

8 INTEREST EXPENSE

	2004	2003
	RMB	RMB
Interest on		
Bank loans		
- wholly repayable within five years	1,564	1,773
- not wholly repayable within five years	475	697
Other loans		
- wholly repayable within five years	1,068	1,046
- not wholly repayable within five years	199	146
Finance leases	2	4
Less: amounts capitalised	(1,005)	(1,320)
	2,303	2,346

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings was 5.02 % (2003: 5.02%) per annum.

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

9 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2004	2003
	RMB'000	RMB'000
Fee for directors and supervisors	120	83
Salaries, allowances and other benefits	2,012	1,377
Contribution to retirement benefit scheme	43	34
	2,175	1,494

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

	2004	2003
	Number	Number
Nil – RMB 1	24	19

Fee for directors and supervisors disclosed above included RMB 95 thousand (2003: RMB 62 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2004 (2003: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2003 and 2004 were also directors or supervisors and their emoluments are reflected in the analysis shown above.

During 2003 and 2004, 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, 2004, none of the holders of the stock appreciation rights has exercised the rights. The liability for the units awarded under the scheme has been calculated based on the difference between the exercise price and the market price of the shares and amounted to approximately RMB 367 (2003: RMB 406) at December 31, 2004.

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

10 TAXATION

	2004	2003
	RMB	RMB
Income tax	39,404	26,347
Deferred tax (Note 30)	2,814	1,594
Share of tax of associates	345	131
	42,563	28,072

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

	2004	2003
	RMB	RMB
Profit before taxation	147,141	98,322
Tax calculated at a tax rate of 33%	48,556	32,446
Prior year tax return adjustment	27	419
Effect of preferential tax rate	(6,886)	(5,190)
Utilisation of previously unrecognised tax loss of subsidiaries	(832)	-
Income not subject to tax	(605)	(566)
Expenses not deductible for tax purposes	2,303	963
Tax charge	42,563	28,072

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB 102,927 (2003: RMB 69,614) for the year ended December 31, 2004.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31, 2004 and 2003 have been computed by dividing net profit by the number of 175.82 billion shares issued and outstanding for each of the years.

There are no dilutive potential ordinary shares.

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

13 DIVIDENDS

	2004	2003
	RMB	RMB
Final dividend for 2002 (Note (i))	-	12,299
Interim dividend for 2003 (Note (ii))	-	17,379
Final dividend for 2003 (Note (iii))	13,947	-
Interim dividend for 2004 (Note (iv))	20,381	-
	34,328	29,678

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

(ii) An interim dividend in respect of 2003 of RMB 0.098841 per share amounting to a total of RMB 17,379 was paid on October 8, 2003, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2003.

(iii) A final dividend in respect of 2003 of RMB 0.079324 per share amounting to a total of RMB 13,947 was paid on June 2, 2004, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2004.

(iv) As authorised by shareholders in the Annual General Meeting on May 18, 2004, the Board of Directors, in a meeting held on August 26, 2004, resolved to distribute an interim dividend in respect of 2004 of RMB 0.115919 per share amounting to a total of RMB 20,381. The interim dividend was paid on October 8, 2004, and was accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2004.

(v) At the meeting on March 16, 2005, the Board of Directors proposed a final dividend in respect of 2004 of RMB 0.147511 per share amounting to a total of RMB 25,936. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2005.

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

14 PROPERTY, PLANT AND EQUIPMENT

Group

Year Ended December 31, 2003	Buildings	Oil and Gas Property	Plant and Equipment	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	50,539	337,998	205,921	7,384	5,272	30,594	637,708
Additions	243	289	952	946	73	80,426	82,929
Revaluation surplus	-	-	(1,568)	-	-	-	(1,568)
Revaluation loss	-	-	(2,133)	-	-	-	(2,133)
Transfers	6,263	43,308	27,834	-	354	(77,759)	-
Disposals or write off	(1,738)	(12,785)	(8,285)	(537)	(249)	-	(23,594)
At end of the year	55,307	368,810	222,721	7,793	5,450	33,261	693,342
Accumulated depreciation and impairment							
At beginning of the year	(10,866)	(137,653)	(90,462)	(3,649)	(1,783)	-	(244,413)
Charge for the year	(1,817)	(21,060)	(15,120)	(731)	(586)	-	(39,314)
Revaluation surplus	-	-	2,440	-	-	-	2,440
Revaluation loss	-	-	876	-	-	-	876
Disposals or write off	1,474	7,871	5,007	416	176	-	14,944
At end of the year	(11,209)	(150,842)	(97,259)	(3,964)	(2,193)	-	(265,467)
Net book value							
At end of the year	44,098	217,968	125,462	3,829	3,257	33,261	427,875
Analysis of cost or valuation							
At valuation (i)	25,412	212,573	162,954	3,139	1,395	-	405,473
At cost (ii)	29,895	156,237	59,767	4,654	4,055	33,261	287,869
	55,307	368,810	222,721	7,793	5,450	33,261	693,342
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	39,229	203,025	104,976	3,304	2,622	33,261	386,417

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

Group (continued)

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	55,307	368,810	222,721	7,793	5,450	33,261	693,342
Additions	940	203	2,130	1,227	76	90,773	95,349
Transfers	9,327	48,240	28,865	-	370	(86,802)	-
Disposals or write off	(2,142)	(8,703)	(5,508)	(241)	(61)	-	(16,655)
At end of the year	63,432	408,550	248,208	8,779	5,835	37,232	772,036
Accumulated depreciation and impairment							
At beginning of the year	(11,209)	(150,842)	(97,259)	(3,964)	(2,193)	-	(265,467)
Charge for the year	(2,049)	(24,839)	(16,569)	(794)	(610)	(202)	(45,063)
Disposals or write off	843	2,985	2,931	208	46	-	7,013
At end of the year	(12,415)	(172,696)	(110,897)	(4,550)	(2,757)	(202)	(303,517)
Net book value							
At end of the year	51,017	235,854	137,311	4,229	3,078	37,030	468,519
Analysis of cost or valuation							
At valuation (i)	23,270	203,870	157,446	2,898	1,334	-	388,818
At cost (ii)	40,162	204,680	90,762	5,881	4,501	37,232	383,218
	63,432	408,550	248,208	8,779	5,835	37,232	772,036
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	46,520	226,567	118,590	3,711	2,506	37,030	434,924

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

Company

Year Ended December 31, 2003	Buildings	Oil and Gas Property	Plant and Equipment	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	34,730	221,071	164,947	4,884	4,766	25,949	456,347
Additions	200	114	422	485	53	65,495	66,769
Revaluation surplus	-	-	(1,497)	-	-	-	(1,497)
Revaluation loss	-	-	(2,026)	-	-	-	(2,026)
Transfers	4,823	31,773	25,199	-	196	(61,991)	-
Disposals or write off	(1,419)	(7,411)	(8,103)	(491)	(174)	-	(17,598)
At end of the year	38,334	245,547	178,942	4,878	4,841	29,453	501,995
Accumulated depreciation and impairment							
At beginning of the year	(8,783)	(88,166)	(73,407)	(2,579)	(1,305)	-	(174,240)
Charge for the year	(1,474)	(14,789)	(12,542)	(517)	(398)	-	(29,720)
Revaluation surplus	-	-	2,366	-	-	-	2,366
Revaluation loss	-	-	795	-	-	-	795
Disposals or write off	1,201	3,272	4,923	406	107	-	9,909
At end of the year	(9,056)	(99,683)	(77,865)	(2,690)	(1,596)	-	(190,890)
Net book value							
At end of the year	29,278	145,864	101,077	2,188	3,245	29,453	311,105
Analysis of cost or valuation							
At valuation (i)	17,305	122,716	133,302	2,222	1,376	-	276,921
At cost (ii)	21,029	122,831	45,640	2,656	3,465	29,453	225,074
	38,334	245,547	178,942	4,878	4,841	29,453	501,995
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	27,513	135,071	82,158	1,873	2,586	29,453	278,654

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

Company (continued)

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	38,334	245,547	178,942	4,878	4,841	29,453	501,995
Additions	235	135	2,728	805	16	62,410	66,329
Transfers	6,720	36,247	23,179	-	243	(66,389)	-
Disposals or write off	(1,167)	(7,187)	(5,160)	(211)	(55)	-	(13,780)
At end of the year	44,122	274,742	199,689	5,472	5,045	25,474	554,544
Accumulated depreciation and impairment							
At beginning of the year	(9,056)	(99,683)	(77,865)	(2,690)	(1,596)	-	(190,890)
Charge for the year	(1,704)	(17,973)	(13,459)	(580)	(428)	(189)	(34,333)
Disposals or write off	795	2,395	2,601	184	42	-	6,017
At end of the year	(9,965)	(115,261)	(88,723)	(3,086)	(1,982)	(189)	(219,206)
Net book value							
At end of the year	34,157	159,481	110,966	2,386	3,063	25,285	335,338
Analysis of cost or valuation							
At valuation (i)	16,138	115,529	128,142	2,011	1,321	-	263,141
At cost (ii)	27,984	159,213	71,547	3,461	3,724	25,474	291,403
	44,122	274,742	199,689	5,472	5,045	25,474	554,544
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	32,588	150,773	93,417	2,084	2,461	25,285	306,608

(i) Amount for which revaluations have been undertaken by independent valuers.

(ii) Cost of property, plant and equipment acquired or constructed since the applicable revaluation.

The depreciation charge of the Group for the year ended December 31, 2004 included RMB 3,789 (2003: RMB 1,487) relating to impairment provision for property, plant and equipment held for use. Of this amount, RMB 798 (2003: RMB 863) was related to the Chemicals and Marketing segment, RMB 1,398 (2003: RMB 624) was for the Refining and Marketing segment and RMB 1,593 (2003:RMB Nil) was for the Exploration and Production segment.

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

The following table indicates the changes to the Group's exploratory well costs for the years ended December 31, 2004 and 2003.

	2004	2003
	RMB	RMB
Beginning balance at January 1	4,255	3,764
Additions to capitalized exploratory well costs pending the determination of proved reserves	10,908	9,232
Reclassified to wells, facilities, and equipment based on the determination of proved reserves	(4,756)	(4,050)
Capitalized exploratory well costs charged to expense	(4,718)	(4,691)
Ending balance at December 31	5,689	4,255
Number of wells at year end	782	636

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

	2004	2003
	RMB	RMB
One year or less	5,278	3,988
Over one year	411	267
Balance at December 31	5,689	4,255

The RMB 411 at December 31, 2004 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.

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	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Short-term lease (less than 10 years)	335	1,125	331	719
Medium-term lease (10 to 50 years)	50,682	42,973	33,826	28,559
	51,017	44,098	34,157	29,278

Substantially all the buildings of the Group are located in the PRC.

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

Property, plant and equipment under finance leases at the end of year are as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Exploration and Production	45	-	45	-
Refining and Marketing	94	94	94	94
Chemicals and Marketing	110	221	110	221
Accumulated depreciation	(74)	(75)	(74)	(75)
	175	240	175	240

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.

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

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

Bank borrowings are secured on property, plant and equipment at net book value of RMB 218 (2003: RMB 152) at December 31, 2004.

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

15 INVESTMENTS IN ASSOCIATES

Principal associates accounted for under the equity method are:

Company Name	Country of Incorporation and Operations	Paid-up / Registered Capital	Attributable Equity Interest Held (%)	Principal Activities
Dalian West Pacific Petrochemical Co., Ltd.	PRC	USD 258	28.4	Production and sale of refined and petrochemical products
China Marine Bunker (PetroChina) Co., Ltd.	PRC	RMB1,000	50	Supplying bunker oils, marine lubricant and fresh water to foreign trading vessels and coastal vessels, transportation, storage, import and export of oil products

Share of profit of associates included in the profit and loss account of the Group was RMB 1,824 (2003: RMB 985) in 2004.

Share of net profit of associates included in retained earnings of the Group was RMB 1,860 (2003: RMB 584) at December 31, 2004. Dividends received and receivable from associates were RMB 203 (2003: RMB 134) in 2004.

16 AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Unlisted available-for-sale ivestments	2,265	2,652	2,109	2,264
Less: Impairment provision	(755)	(813)	(745)	(802)
	1,510	1,839	1,364	1,462

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 90 (2003: RMB 69) in 2004.

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

17 SUBSIDIARIES

Principal subsidiaries are:

Company Name	Country of Incorporation and Operations	Paid-up Capital RMB	Type of Legal Entity	Attributable Equity Interest %	Principal Activities
*Daqing Oilfield Company Limited	PRC	47,500	Φ	100.00	Exploration, production and the sale of crude oil and natural gas; production and sale of refined products
*Jinzhou Petrochemical Company Limited	PRC	788	Ψ	80.95	Production and sale of oil and chemical products
*Jilin Chemical Industrial Company Limited	PRC	3,561	Ψ	67.29	Production and sale of chemical products
Daqing Yu Shu Lin Oilfield Company Limited	PRC	1,272	Φ	88.16	Exploration and production of crude oil and natural gas
*Liaohe Jinma Oilfield Company Limited	PRC	1,100	Ψ	81.82	Exploration, production, transportation and sale of crude oil and natural gas
*PetroChina International Limited	British Virgin Islands	USD 0.9	Φ	100.00	Exploration and production of crude oil and natural gas outside of PRC
PetroChina International Indonesia Limited	Bahamas	USD 0.005	Φ	100.00	Exploration and production of crude oil and natural gas in Indonesia

Φ – Limited liability company.

Ψ – Joint stock company with limited liability.

* – Subsidiaries directly held by the Company as of December 31, 2004.

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

18 ADVANCE OPERATING LEASE PAYMENTS

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Land use rights	7,952	5,544	5,683	3,646
Advance lease payments	4,296	1,708	3,148	1,356
	12,248	7,252	8,831	5,002

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.

19 INTANGIBLE AND OTHER ASSETS

Group

	2004			2003		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,873	(958)	915	1,721	(769)	952
Technical know-how	248	(181)	67	239	(155)	84
Other	1,421	(395)	1,026	1,300	(348)	952
Intangible assets	3,542	(1,534)	2,008	3,260	(1,272)	1,988
Other assets			979			1,036
			2,987			3,024

Company

	2004			2003		
	Cost	Accumulated Amortisation	Net	Cost	Accumulated Amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	1,213	(694)	519	1,070	(569)	501
Technical know-how	28	(9)	19	19	(5)	14
Other	1,078	(297)	781	1,039	(276)	763
Intangible assets	2,319	(1,000)	1,319	2,128	(850)	1,278
Other assets			834			525
			2,153			1,803

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

Patents principally represent expenditure incurred in acquiring processes and techniques that are generally protected by relevant government authorities. Technical know-how amounts are attributable to operational technology acquired in connection with purchase of equipment. The technical know-how costs are included as part of the purchase price by contracts and are distinguishable.

Other assets primarily consist of long-term prepaid expenses to service providers.

20 INVENTORIES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Crude oil and other raw materials	13,895	9,553	9,550	6,989
Work in progress	5,320	3,652	4,461	3,242
Finished goods	27,394	16,367	23,781	14,424
Spare parts and consumables	59	66	47	55
	46,668	29,638	37,839	24,710
Less: Write down in inventories	(897)	(766)	(561)	(524)
	45,771	28,872	37,278	24,186

Inventories of the Group carried at net realisable value amounted to RMB 3,282 (2003: RMB 2,249) at December 31, 2004.

21 ACCOUNTS RECEIVABLE

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Accounts receivable due from third parties	6,905	8,263	5,408	5,827
Less: Impairment provision	(4,740)	(5,872)	(3,825)	(4,759)
	2,165	2,391	1,583	1,068
Accounts receivable due from related parties				
- Fellow CNPC subsidiaries	482	592	306	415
- Associates	15	280	13	278
	2,662	3,263	1,902	1,761

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

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

The aging analysis of accounts receivable at December 31, 2004 is as follows:

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Within 1 year	2,332	2,594	1,709	1,369
Between 1 to 2 years	63	136	49	127
Between 2 to 3 years	119	423	112	293
Over 3 years	4,888	5,982	3,857	4,731
	7,402	9,135	5,727	6,520

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

22 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Other receivables	8,948	10,173	6,328	7,490
Less: Impairment provision	(7,046)	(6,283)	(4,469)	(3,690)
	1,902	3,890	1,859	3,800
Amounts due from CNPC	3,385	2,038	3,385	2,038
Amounts due from fellow CNPC subsidiaries	4,397	2,705	3,679	2,002
Amounts due from subsidiaries	-	-	14,945	7,287
Advances to suppliers	7,539	4,105	6,234	2,977
Prepaid expenses	230	103	175	68
Other current assets	110	687	132	721
	17,563	13,528	30,409	18,893

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

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

23 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.

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

24 RECEIVABLES UNDER RESALE AGREEMENTS

Securities purchased under agreements to resell ("resale agreements") are recorded as receivables under resale agreements. The difference between purchase and resell prices is treated as interest income and accrued over the life of resale agreements using the effective yield method.

Resale agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus interest accrued. The underlying collaterals are principally the PRC government bonds.

25 CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Cash at bank and in hand	11,304	11,231	8,391	8,022

The weighted average effective interest rate on bank deposits was 1.23 % (2003: 1.30%) for the year ended December 31, 2004.

26 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Trade payables	11,802	10,150	8,645	6,448
Advances from customers	6,950	6,861	5,677	5,835
Salaries and welfare payable	5,869	5,413	4,888	4,394
Accrued expenses	7	5	7	5
Dividends payable by subsidiaries to minority shareholders	38	118	-	-
Interest payable	33	130	32	127
Construction fee and equipment cost payables	17,113	13,760	11,971	10,411
Payable to Sinopec	663	610	640	585
Advances from Sinopec	42	233	38	233
One-time employee housing remedial payment payable	1,740	2,270	1,740	2,270
Other payables	10,986	10,628	7,299	7,395
Amounts due to related parties				
- CNPC	2,681	1,531	2,681	1,484
- Fellow CNPC subsidiaries	12,202	11,880	9,865	9,746
- Subsidiaries	-	-	30,652	28,536
- Associates	570	591	527	541
	70,696	64,180	84,662	78,010

Other payables consist primarily of customer deposits.

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

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

The aging analysis of trade payables at December 31, 2004 is as follows:

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Within 1 year	11,094	9,108	8,077	5,763
Between 1 to 2 years	182	402	129	211
Between 2 to 3 years	86	127	69	89
Over 3 years	440	513	370	385
	11,802	10,150	8,645	6,448

27 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Bank loans				
- secured	29	114	7	7
- unsecured	10,631	8,450	10,174	7,592
Loans from fellow CNPC subsidiaries	600	610	-	-
Other	8	5	3	4
	11,268	9,179	10,184	7,603
Current portion of long-term borrowings	16,008	19,711	14,554	19,064
	27,276	28,890	24,738	26,667

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

(b) Long-term borrowings

	Interest Rate and Final Maturity	Group		Company	
		2004	2003	2004	2003
		RMB	RMB	RMB	RMB
Renminbi – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Majority variable interest rates ranging from 4.94% to 5.85% per annum as of December 31, 2004, with maturities through 2010	16,195	20,327	15,749	19,631
Bank loans for working capital	Majority variable interest rate at 4.94% per annum as of December 31, 2004, with maturities through 2007	6,016	6,073	6,001	6,033
Loans from related parties 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, 2004, with maturities through 2032	15,610	15,620	15,610	15,620
Working capital loans from related parties	Floating interest rate at 4.39 % per annum as of December 31, 2004, with maturities through 2007	4,000	4,000	4,000	4,000
Working capital loans	Fixed interest rates at 6.32 % per annum with no fixed repayment term	8	10	8	8
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	
		2004	2003	2004	2003
		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 8.66% per annum with maturities through 2038	1,535	2,881	721	1,070
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from 1.65% to 3.43% per annum as of December 31, 2004, with maturities through 2014	1,609	1,403	755	853
Bank loans for working capital	Floating interest rate at LIBOR plus 0.60% per annum as of December 31, 2004 with maturities through 2006	492	-	-	-
Bank loans for acquisition of overseas oil and gas properties	Floating interest rates ranging from LIBOR plus 0.55% to LIBOR plus 0.60% per annum as of December 31, 2004, with maturities through 2009	1,490	1,493	-	-
Loans from related parties for the development of oil fields and construction of refining plants	Floating interest rate at LIBOR minus 0.25% per annum as of December 31, 2004, with maturities through 2005	1,633	3,633	1,633	3,633
Loans from related parties for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2004, with maturities through 2006	608	608	-	-
Loans from related parties for working capital	Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2004, with maturities through 2006	717	717	-	-
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum with maturities through 2022	554	586	554	586

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

	Interest Rate and Final Maturity	Group		Company	
		2004	2003	2004	2003
		RMB	RMB	RMB	RMB
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	430	578	269	371
Euro – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Fixed interest rates ranging from 2.00% to 8.30% per annum with maturities through 2023	360	381	117	121
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	338	454	338	454
		54,445	61,614	48,605	55,230
Finance lease obligations		21	56	21	56
Total long-term borrowings		54,466	61,670	48,626	55,286
Less: Current portion of long-term borrowings		(16,008)	(19,711)	(14,554)	(19,064)
		38,458	41,959	34,072	36,222

For loans denominated in RMB with floating rates, the rates are re-set annually on the respective anniversary dates based on rates announced by the People's Bank of China. For loans denominated in currencies other than RMB with floating rates, the rates are re-set quarterly or semi-annually as stipulated in the respective agreements. Other loans represent loans from independent third parties other than banks with interest rates ranging from 1.55% to 6.32% per annum. Interest free loans amounted to RMB 87 (2003: RMB 215) at December 31, 2004. Interest free loans were treated as government assistance and no imputation of interest expense on such loans was recognised in the Group's consolidated financial statements.

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

Borrowings of RMB 756 (2003: RMB 853) were guaranteed by CNPC and its subsidiaries at December 31, 2004.

The Group's borrowings include secured liabilities (leases and bank borrowings) totalling RMB 50 (2003: RMB 170) at December 31, 2004. Bank borrowings are secured over certain of the Group's property, plant and equipment (Note 14). Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Total borrowings:				
- at fixed rates	17,790	17,024	15,066	13,122
- at variable rates	47,944	53,825	43,744	49,767
	65,734	70,849	58,810	62,889
Weighted average effective interest rates:				
- bank loans	4.73%	4.77%	4.86%	4.92%
- loans from related parties	4.55%	4.23%	4.63%	4.37%
- loans from third parties	1.68%	1.64%	1.63%	1.64%
- corporate debentures	4.30%	4.30%	4.30%	4.30%
- finance lease obligations	4.78%	3.22%	4.78%	3.22%

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

	Group		Company	
	Carrying Amounts			
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Bank loans	28,465	33,590	23,950	28,533
Loans from related parties	22,568	24,578	21,243	23,253
Corporate debentures	2,850	2,850	2,850	2,850
Other	562	596	562	594
	54,445	61,614	48,605	55,230

	Group		Company	
	Fair Values			
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Bank loans	28,346	33,514	23,969	28,565
Loans from related parties	22,568	24,578	21,243	23,253
Corporate debentures	2,632	2,640	2,632	2,640
Other	404	422	404	421
	53,950	61,154	48,248	54,879

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

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 0.86% to 6.38% per annum as of December 31, 2004 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	**2004**	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	8,747	11,291	7,836	10,644
Between one to two years	3,894	9,963	3,512	7,812
Between two to five years	14,751	10,397	11,985	9,336
After five years	1,073	1,939	617	741
	28,465	33,590	23,950	28,533

	Group		Company	
Other loans	**2004**	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	7,240	8,381	6,697	8,381
Between one to two years	4,236	8,203	3,454	6,878
Between two to five years	8,210	6,711	8,210	6,711
After five years	6,294	4,729	6,294	4,727
	25,980	28,024	24,655	26,697

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

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Within one year	22	41	22	41
Between one to two years	-	17	-	17
	22	58	22	58
Future finance charges on finance lease obligations	(1)	(2)	(1)	(2)
Present value of finance lease obligations	21	56	21	56
The present value of finance lease obligations can be analysed as follows:				
- Within one year	21	39	21	39
- Between one to two years	-	17	-	17
	21	56	21	56

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

28 SHARE CAPITAL

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Registered, issued and fully paid:				
State-owned shares	158,242	158,242	158,242	158,242
H shares	17,582	17,582	17,582	17,582
	175,824	175,824	175,824	175,824

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.

The 17,582,418,000 H shares issued by the Company comprise 15,824,176,000 shares offered by the Company, and 1,758,242,000 shares offered by CNPC pursuant to an approval from China Securities Regulatory Commission to convert the state-owned shares owned by CNPC.

Shareholders' rights are governed by the PRC Company Law that requires an increase in registered capital to be approved by the shareholders in general meeting and the relevant PRC Government and regulatory authorities.

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

29 RESERVES

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Revaluation Reserve				
Beginning balance	79,946	79,945	79,946	79,945
Revaluation surplus of property, plant and equipment (Note e)				
-gross	-	774	-	774
-tax	-	(247)	-	(247)
Revaluation loss offset against previous revaluation surplus of property, plant and equipment				
-gross	-	(768)	-	(768)
-tax	-	242	-	242
Ending balance	79,946	79,946	79,946	79,946
Capital Reserve				
Beginning balance	(28,557)	(28,557)	(28,557)	(28,557)
Ending balance	(28,557)	(28,557)	(28,557)	(28,557)
Statutory Common Reserve Fund (Note a)				
Beginning balance	26,370	20,128	18,935	12,693
Transfer from retained earnings	9,701	6,242	9,701	6,242
Ending balance	36,071	26,370	28,636	18,935
Statutory Common Welfare Fund (Note b)				
Beginning balance	16,653	13,532	12,988	9,867
Transfer from retained earnings	4,851	3,121	4,851	3,121
Ending balance	21,504	16,653	17,839	12,988
Other Reserves				
Beginning balance	(3,200)	(3,200)	(3,200)	(3,200)
Ending balance	(3,200)	(3,200)	(3,200)	(3,200)
	105,764	91,212	94,664	80,112

(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.

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

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% (2003: 5%) of the net profit, as determined under the PRC accounting regulations, for the year ended December 31, 2004 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 95,248 (2003: RMB 59,104) as of December 31, 2004. The distributable reserve computed under the PRC accounting regulations at December 31, 2004 has been arrived at after the accrual for the proposed final dividend in respect of year 2004 of RMB 25,936 (Note 13 (v)).

(d) As of December 31, 2004, revaluation surplus relating to depreciation and disposals amounted to approximately RMB 46,757 (2003: RMB 38,064).

(e) The revaluation surplus recognised during the formation of the Group in 1999 was partially utilised to offset against the revaluation loss on the same assets arising in 2003 (Note 14). Additional valuation surplus arising in 2003 was credited to the revaluation reserve.

30 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	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
At beginning of year	11,526	9,927	6,388	6,090
Transfer to profit and loss account (Note 10)	2,814	1,594	1,101	293
Charged to equity				
-net surplus on revaluation	-	5	-	5
At end of year	14,340	11,526	7,489	6,388

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

Deferred tax balances are attributable to the following items:

	Group		Company	
	2004	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	4,549	4,015	3,482	3,278
Tax losses of subsidiaries	-	39	-	-
Non current:				
Shut down of manufacturing assets and impairment of long-term assets	2,454	1,039	2,190	949
Other	538	579	489	529
Total deferred tax assets	7,541	5,672	6,161	4,756
Deferred tax liabilities:				
Current:				
Sales (Note (i))	4,401	4,401	4,401	4,401
Non current:				
Accelerated tax depreciation	17,230	12,519	8,999	6,465
Other	250	278	250	278
Total deferred tax liabilities	21,881	17,198	13,650	11,144
Net deferred tax liabilities	14,340	11,526	7,489	6,388

(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, 2004.

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

31 CASH FLOWS FROM OPERATING ACTIVITIES

	Note	2004	2003
		RMB	RMB
Net profit		102,927	69,614
Adjustments for:			
Minority interests		1,651	636
Taxation	10	42,563	28,072
Depreciation, depletion and amortisation		46,411	40,531
Provision for shut down of manufacturing assets	7	220	2,355
Dry hole costs	14	4,718	4,691
Share of profit of associates	15	(1,824)	(985)
Impairment of receivables, net	5	480	1,434
Write down in inventories, net	5	146	136
Impairment of available-for-sale investments, net	5	26	158
Loss on disposal of property, plant and equipment	5	2,806	1,048
Loss on disposal of associates		33	-
Loss on disposal of available-for-sale investments		6	21
Loss on disposal of intangible and other assets		50	143
Revaluation loss of property, plant and equipment	14	-	391
Dividend income	16	(90)	(69)
Interest income		(1,107)	(677)
Interest expense	8	2,303	2,346
Advance payments on long-term operating leases		(5,598)	(1,584)
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		(5,649)	3,612
Inventories		(17,045)	(567)
Accounts payable and accrued liabilities		533	8,738
CASH GENERATED FROM OPERATIONS		173,560	160,044
Interest received		1,107	677
Interest paid		(3,405)	(3,769)
Income taxes paid		(33,963)	(19,716)
NET CASH PROVIDED BY OPERATING ACTIVITIES		137,299	137,236

32 PENSIONS

The Group participates in various retirement benefit plans organised by municipal and provincial governments under which it is required to make monthly contributions to these plans at rates ranging from 16% to 22% of the employees' basic salary for the relevant periods. The Group currently has no additional obligations for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. Expenses incurred by the Group in connection with the retirement benefit plans were RMB 2,476 (2003: RMB 2,193) for the year ended December 31, 2004.

33 FINANCIAL INSTRUMENTS

The Group holds or issues various financial instruments which expose it to credit, interest rate, foreign exchange rate and fair value risks. In addition, the Group's operations are affected by certain commodity price movements. The Group historically has not used derivative instruments for hedging or trading purposes. Such activities are subject to policies approved by the Group's senior management. Substantially all of the financial instruments the Group holds is for purposes other than trading. The Group regards an effective market risk system as an important element of the Group's treasury function and is continuously enhancing its systems. A primary objective is to implement certain methodologies to better measure and monitor risk exposures.

(a) Credit risk

The carrying amounts of accounts receivable included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk. Cash is placed with state-owned banks and financial institutions.

(b) Interest rate risk

The Group is exposed to the risk arising from changing interest rates. A detailed analysis of the Group's borrowings, together with their respective interest rates and maturity dates, are included in Note 27.

(c) Foreign exchange rate risk

Renminbi is not a freely convertible currency. Future exchange rates of Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates of Renminbi are affected by changes in PRC government policies. The exchange rates of Renminbi are also affected by economic developments and political changes domestically and internationally, and supply and demand for Renminbi. The official exchange rate for the conversion of Renminbi to US Dollars has generally been stable recently. As Renminbi is the measurement currency of the Company and most of its consolidated entities, the fluctuation of exchange rates of Renminbi may have positive or negative impacts on the results of operations of the Group. Because prices for the Group's crude oil and refined products are set generally with reference to US Dollar-denominated international prices, a devaluation of Renminbi against US Dollar may not have a negative impact on the Group's revenue, but may increase the cost incurred by the Group to acquire imported materials and equipment as well as the foreign currency-denominated obligations of the Group. On the other hand, an appreciation of Renminbi against US Dollar may decrease the Group's revenue, but the cost for acquiring imported materials and equipment may be reduced. The results of operations and the financial condition of the Group also may be affected by fluctuations in exchange rates against Renminbi of a number of other foreign currencies other than US Dollar.

(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 PRC government currently publishes prices for onshore crude oil, gasoline and diesel according to international benchmark prices. A decline in prices of crude oil and refined products could adversely affect its financial performance. The Group historically has not used commodity derivative instruments to hedge the potential price fluctuations of crude oil and other refined products. Therefore, during 2004 and 2003, the Group was exposed to the general price fluctuations of broadly traded oil and gas commodities.

(e) Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair value: cash, short-term investments, trade receivables and payables, other receivables and payables, lease obligations, short-term borrowings and floating rate long-term borrowings. The fair value of the fixed rate long-term borrowings is likely to be different from their carrying amounts. As the majority of the borrowings are at variable rates, the difference between fair value and carrying amounts is likely to be immaterial. Analysis of the fair value and carrying amounts of long-term borrowings are presented in Note 27.

34 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2004, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

	2004	2003
	RMB	RMB
Guarantee of borrowings of associates	203	448

(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.

(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, 2004, CNPC has obtained formal land use right certificates in relation to 26,549 out of the above-mentioned 28,649 parcels of land, some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively-owned land. The Directors of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events will not have a material adverse effect on the results of operations or the financial position of the Group.

(e) Group insurance

Except for limited insurance coverage for vehicles and certain assets subject to significant operating risks, the Group does not carry any other insurance for property, facilities or equipment with respect to its business operations. In addition, the Group does not carry any third-party liability insurance against claims relating to personal injury, property and environmental damages or business interruption insurance since such insurance coverage is not customary in China. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes that it may have a material impact on the operating results but will not have a material adverse effect on the financial position of the Group.

(f) Cost reduction measures

The Group may further streamline its production facilities within the next several years to further improve the operating efficiency and competitiveness of the Group. Management has not approved all significant actions to be taken to complete such plans. Management does not believe such plans will have a material adverse impact on the Group's financial position, but may have a material adverse effect on the Group's results of operations.

(g) Other

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

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

35 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, 2004 and 2003 under non-cancellable operating leases are as follows:

	2004	2003
	RMB	RMB
First year	2,701	2,552
Second year	2,473	2,433
Third year	2,452	2,409
Fourth year	2,434	2,391
Fifth year	2,356	2,380
Thereafter	83,035	84,776
	95,451	96,941

Operating lease expenses for land and buildings and equipment were RMB 3,873 (2003: RMB 3,573) for the year ended December 31, 2004.

(b) Capital commitments

	2004	2003
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	645	896
Plant and equipment	4,614	10,055
Other	111	194
	5,370	11,145

(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, 2004, future minimum delivery commitments under the contracts are as follows:

	Quantities (billion of cubic feet)
2005	229
2006	443
2007	581
2008	637
2009	701
2010 and thereafter	6,111
	8,702

(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 444 (2003: RMB 296) for the year ended December 31, 2004.

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

	RMB
2005	618
2006	681
2007	712
2008	712
2009	712

(e) Dividends

Dividends received from the Company are likely to be one of the principal sources of funding for CNPC. Subject to the relevant provisions of the PRC Company law and the Articles of Association of the Company, CNPC, as the major shareholder of the Company, may seek to influence the determination of the amount of dividends paid by the Company with a view to satisfying its cash flow requirements including those relating to its obligations to provide supplementary social services to its employees and a limited number of third parties. The Ministry of Finance has committed to provide subsidies to enable CNPC to fund a portion of future operating shortfalls arising out of CNPC's obligation to provide social services. The directors believe that these subsidies will substantially reduce CNPC's reliance on dividends from the Company.

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

36 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2004		2003	
	Revenue	% to Total Revenue	Revenue	% to Total Revenue
	RMB	%	RMB	%
Sinopec	36,977	9	35,932	12
CNPC	14,516	4	9,323	3
	51,493	13	45,255	15

37 RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under CNPC and has extensive transactions and relationships with members of the CNPC group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to corporations in which CNPC is a major shareholder and is able to control or exercise significant influence.

CNPC itself is a state-owned enterprise. In accordance with a specific exemption in IAS 24, "Related Party Disclosure", the Group does not accumulate or disclose transactions with other state-owned enterprises as related party transactions, other than those with other CNPC group companies and significant customers as described in Note 36.

The majority of the Group's business activities are conducted with state-owned enterprises. Sale of certain products to these state-owned enterprises are at state-prescribed prices which are similar to prices to other customers. The Group considers that these sales are activities in the ordinary course of business and has not accumulated or disclosed such related party transactions.

As a result of the restructuring 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 (Note 34(d)) under which CNPC leases 42,476 parcels of land located throughout the PRC to the Company; and a Buildings Leasing Contract under which CNPC leases 191 buildings located throughout the PRC to the Company.

The term of the Comprehensive Products and Services Agreement is 10 years commencing from November 5, 1999. The products and services to be provided by the CNPC group to the Company under the Comprehensive Products and Services Agreement include construction and technical services, production services, supply of material services, social services, ancillary services and financial services. The products and services are provided in accordance with (1) state-prescribed prices; or (2) where there is no state-prescribed price, relevant market prices; or (3) where neither (1) nor (2) is applicable, actual cost incurred; or the agreed contractual price, being the actual cost plus a margin of no more than 15% for certain construction and technical services, and 3% for all other types of services.

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

The Land Use Rights Contract provides for the lease of an aggregate area of approximately 1,145 million square meters of land located throughout the PRC to business units of the Group for a term of 50 years at an annual fee of RMB 2,000. The total fee payable for the lease of all such property may, after the expiration of 10 years, be adjusted by agreement between the Company and CNPC.

Under the Buildings Leasing Contract, 191 buildings covering an aggregate area of 269,770 square meters located throughout the PRC are leased at an aggregate annual fee of RMB 39 for a term of 20 years.

The Company also entered into a Supplemental Buildings Leasing Agreement with CNPC in September 2002 to lease an additional 404 buildings covering approximately 442,730 square meters at an annual rental of RMB 157. The Supplemental Buildings Leasing Agreement will expire at the same time as the Buildings Leasing Agreement.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and entities controlled by CNPC during the years indicated below:

	Note	2004	2003
		RMB	RMB
Sale of goods	(a)	14,516	9,323
Fees paid for construction and technical services	(b)		
-Exploration and development services	(c)	29,030	25,180
-Other construction and technical services	(d)	18,469	15,688
Fees for production services	(e)	16,313	16,042
Social services charge	(f)	1,289	1,326
Ancillary service charges	(g)	1,717	1,683
Interest income	(h)	25	30
Interest expense	(i)	1,097	1,052
Rental expense	(j)	2,106	2,001
Commission expense and other charges	(k)	884	971

Notes:

(a) Represents sale of crude oil, refined and chemical products conducted principally at market prices.

(b) Under the Comprehensive Products and Services Agreement entered into between CNPC and the Company, certain construction and technical services provided by CNPC are charged at cost plus an additional margin of no more than 15%, including exploration and development services and oilfield construction services.

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

(d) The fees paid for other construction and technical services comprise fees for construction of refineries and chemical plants and technical services in connection with oil and gas exploration and production activities such as oilfield construction, technology research, engineering and design, etc.

(e) The fees paid for production services comprise fees for the repair of machinery, supply of water, electricity and gas, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery.

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

(g) Ancillary service charges represent mainly fees for property management, the provision of training centres, guesthouses, canteens, public shower rooms, etc.

(h) The Group had deposits placed with China Petroleum Finance Company Limited ("CP Finance"), a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China, amounting to RMB 1,782 (2003: RMB 2,331) as of December 31, 2004. The deposits yield interest at prevailing saving deposit rates.

(i) The Group had unsecured short-term and long-term loans from CP Finance amounting to RMB 23,168 (2003: RMB 25,188) as of December 31, 2004 included under loans from related parties. The loans were interest bearing at market rates.

(j) Rental expenses are calculated in accordance with the lease agreements entered into between the Company and CNPC.

(k) CNPC purchases materials on behalf of the Company and charges commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.

(l) The Group had a 7.5% equity interest in CP Finance at a book value of RMB 299 as of December 31, 2004 and as of December 31, 2003.

38 SEGMENT INFORMATION

The Group is engaged in a broad range of petroleum related activities through its four major business segments: Exploration and Production, Refining and Marketing, Chemicals and Marketing and Natural Gas and Pipeline.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas.

The Refining and Marketing segment is engaged in the refining, transportation, storage and marketing of crude oil and petroleum products.

The Chemicals and Marketing segment is engaged in the production and sale of basic petrochemical products, derivative petrochemical products, and other chemical products.

The Natural Gas and Pipeline segment is engaged in the transmission of natural gas, crude oil and refined products and the sale of natural gas.

In addition to these four major business segments, the Other segment includes the assets, income and expenses relating to cash management, financing activities, the corporate center, research and development, and other business services to the operating business segments of the Group.

Substantially all assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns. In addition to its operations in the PRC in April 2002 the Group acquired all the share capital of Devon Energy Indonesia Ltd., a company engaging in the exploration and production of crude oil and natural gas in Indonesia. In April 2003, the Group acquired for RMB 679 a 50% interest in Amerada Hess Indonesia Holdings Co., which has a 30% interest in one of the oil and gas concessions that the Group acquired in 2002.

The accounting policies of the operating segments are the same as those described in Note 3 - "Summary of Principal Accounting Policies".

Operating segment information for the years ended December 31, 2003 and 2004 is presented below:

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

Primary reporting format –business segments

Year Ended December 31, 2003	Exploration and Production RMB	Refining and Marketing RMB	Chemicals and Marketing RMB	Natural Gas and Pipeline RMB	Other RMB	Total RMB
Turnover (including intersegment)	177,271	223,584	39,211	15,067	-	455,133
Less: Intersegment sales	(128,963)	(16,867)	(2,263)	(3,261)	-	(151,354)
Turnover from external customers	48,308	206,717	36,948	11,806	-	303,779
Depreciation, depletion and amortisation	(25,486)	(7,601)	(5,795)	(1,543)	(106)	(40,531)
Segment result	98,819	20,679	2,621	2,248	(713)	123,654
Other costs	(6,449)	(15,644)	(1,580)	(326)	(469)	(24,468)
Profit/(loss) from operations	92,370	5,035	1,041	1,922	(1,182)	99,186
Finance costs						(1,849)
Share of (loss)/ profit of associates	(33)	104	42	13	859	985
Profit before taxation						98,322
Taxation						(28,072)
Minority interests						(636)
Net profit						69,614
Interest income (including intersegment)	2,222	552	446	117	4,403	7,740
Less: Intersegment interest income						(7,063)
Interest income from external entities						677
Interest expense (including intersegment)	(2,537)	(1,686)	(843)	(356)	(3,987)	(9,409)
Less: Intersegment interest expense						7,063
Interest expense to external entities						(2,346)
Segment assets	310,431	117,652	55,595	46,450	451,949	982,077
Elimination of intersegment balances						(455,913)
Investments in associates	1,184	1,889	232	41	2,225	5,571
Total assets						531,735
Segment capital expenditure - for property, plant and equipment	52,713	12,650	3,898	13,530	138	82,929
Segment liabilities	86,050	58,372	17,634	33,535	104,326	299,917
Other liabilities						32,548
Elimination of intersegment balances						(162,951)
Total liabilities						169,514

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

Primary reporting format –business segments (continued)

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)	222,305	295,598	57,179	18,255	-	593,337
Less: Intersegment sales	(176,458)	(21,862)	(2,679)	(3,705)	-	(204,704)
Turnover from external customers	45,847	273,736	54,500	14,550	-	388,633
Depreciation, depletion and amortisation	(29,092)	(8,829)	(5,741)	(2,645)	(104)	(46,411)
Segment result	131,448	28,502	11,025	2,475	(518)	172,932
Other costs	(5,877)	(16,521)	(3,370)	60	(638)	(26,346)
Profit/(loss) from operations	125,571	11,981	7,655	2,535	(1,156)	146,586
Finance costs						(1,269)
Share of profit/(loss) of associates	99	108	214	24	1,379	1,824
Profit before taxation						147,141
Taxation						(42,563)
Minority interests						(1,651)
Net profit						102,927
Interest income (including intersegment)	2,336	891	205	27	4,723	8,182
Less: Intersegment interest income						(7,075)
Interest income from external entities						1,107
Interest expense (including intersegment)	(2,559)	(1,721)	(502)	(693)	(3,903)	(9,378)
Less: Intersegment interest expense						7,075
Interest expense to external entities						(2,303)
Segment assets	339,322	140,405	55,568	61,631	507,164	1,104,090
Elimination of intersegment balances						(502,085)
Investments in associates	1,407	2,832	280	192	3,212	7,923
Total assets						609,928
Segment capital expenditure - for property, plant and equipment	59,488	17,467	4,319	13,901	174	95,349
Segment liabilities	93,871	73,529	18,484	35,385	99,711	320,980
Other liabilities						36,470
Elimination of intersegment balances						(182,125)
Total liabilities						175,325

(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 income/(expense).

Note (c) – Segment results for the years ended December 31, 2003 and 2004 included impairment provision for property, plant and equipment (Note 14) and shut down of manufacturing assets (Note 7).

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

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

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
Year Ended December 31,	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
PRC	387,639	302,854	606,147	529,209	94,235	82,275
Other (Exploration and Production)	994	925	3,781	2,526	1,114	654
	388,633	303,779	609,928	531,735	95,349	82,929

39 ULTIMATE HOLDING COMPANY

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

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on March 16, 2005 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 26, 2005.