1. CORPORATION INFORMATION

Jilin Chemical Industrial Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 13 December 1994 as a joint stock limited company to hold the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary (hereinafter collectively referred to as the "Contributed Net Assets") of Jilin Chemical Industrial Corporation (the "Predecessor"), which was then a state-owned enterprise controlled by and under the administration of the Jilin Provincial Government.

In connection with the first stage of the Group's restructuring and reorganisation, the Contributed Net Assets of the Predecessor as at 30 September 1994 were revalued to reflect their then current fair values and were then taken over by the Company from the Predecessor on 1 October 1994 in consideration of which 2,396,300,000 domestic invested shares in the form of State-owned shares ("Domestic Shares"), with a par value of RMB1.00 each, were issued by the Company to the Predecessor. The Predecessor was then renamed Jilin Chemical Group Corporation ("JCGC") and became the Company's then ultimate holding company.

Effective from 1 July 1998, pursuant to a directive issued by the PRC State Council on 12 May 1998, the oil and petrochemical industry in the PRC was restructured and JCGC became a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), a State-owned enterprise established in the PRC. Following the aforesaid restructuring, CNPC became the ultimate holding company of the Company through its control of JCGC.

According to an announcement relating to the corporate restructuring of CNPC Group in November 1999, JCGC was to transfer a total of 2,396,300,000 Domestic Shares held in the Company, together with certain assets and businesses of JCGC to PetroChina Company Limited ("PetroChina"), a wholly-owned subsidiary of CNPC which was established on 5 November 1999. Accordingly, PetroChina replaced JCGC to become the immediate holding company of the Company. As at 31 December 1999, the aforesaid transfer of Domestic Shares had yet to be completed. However, since the change in shareholder has been approved by China Securities Regulatory Commission ("CSRC"), the said change has been effective from 5 November 1999. The transfer was completed in early 2000. The Company expects to receive the continuing support of CNPC and PetroChina for its working capital requirements and its capital expenditure in the foreseeable future.

With the approval from CSRC, the Company issued 150,000,000 A shares in January 2000. The net proceeds, amounting to RMB 485 million net of issuing expenses, have been used to repay bank loan in respect of the Ethylene project and as working capital.

The Company had 23,364 employees as at 31 December 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

With effect from 1 January 2000, the Company adopted IAS 10 (revised 1999) "Events After Balance Sheet Date". The Standard requires that if dividends to holders of equity instruments are proposed or declared after the balance sheet date, the Company should not recognise those dividends as a liability at the balance sheet date.

In addition, transfers to discretionary common reserve were previously reported in the financial statements in the respective years the transfers were proposed by the directors. Effective from 1 January 2000, transfers to discretionary common reserve are reported in the financial statements in the respective years the transfers are approved by the Annual General Meeting.

The adoption of IAS 10 (revised 1999) and the revised accounting policy for the proposed dividend and transfer to discretionary common reserve on 1 January 2000 resulted in a credit adjustment to retained earnings of RMB35,611,000 and a debit adjustment to discretionary common reserve of RMB70,696,000, respectively. Further details are set out in note 7 and note 28.

Basis of preparation

The financial statements have been prepared in accordance with IAS and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs from that used in the preparation of the PRC statutory and management accounts of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"), which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to joint stock limited companies established in the PRC. A reconciliation of the Group's results under IAS and PRC accounting standards is presented in note 34. These financial statements have been prepared under the historical cost convention, except for the remeasurement of fixed assets and land use rights in connection with the listing of the shares of the Company in 1994. The principal accounting policies adopted are further discussed below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company has the power to control its financial and operating policies so as to obtain benefits from its activities, notwithstanding the proportion of its equity interest in that company.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Subsidiaries *(Continued)*

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Joint ventures

A joint venture is an interest in a venture between two or more venturers whose rights and obligations with respect to the venture are specified in a contractual joint venture agreement which gives the venturers joint control over the venture and in which no single venturer is in a position to control, unilaterally, the activity of the venture.

The Group's investments in joint ventures are accounted for using the equity method of accounting.

The results of joint ventures are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in joint ventures are treated as long term investments and are stated at cost less any provisions for diminution in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Related parties generally include affiliates of the Company; entities for which investments are accounted for by the equity method by the Company; principal owners and management of the Company and members of their immediate families. Parties are also considered to be related if they are subject to common control.

Fixed assets and depreciation

Fixed assets are stated at cost or at revalued amounts, as determined for the purposes of the Group reorganisation and in connection with the flotation of the Company, less accumulated depreciation.

Depreciation of fixed assets is calculated on a straight-line basis to write off the cost or revalued amount of each asset over its estimated useful life, after taking into account any estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings and other constructions	10 to 45 years
Plant, machinery and equipment	8 to 28 years
Land use rights	50 years

No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fixed assets and depreciation *(Continued)*

The carrying amounts are reviewed periodically in order to assess whether they are recorded in excess of their recoverable amounts, and where carrying amounts exceed the estimated recoverable amounts, assets are written down to their recoverable amounts.

Subsequent expenditure relating to property, plant and equipment already recognised is added to the carrying amounts of the assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing assets, will flow to the enterprise. All other restoration costs are recognised as an expense in the period in which they are incurred.

Construction in progress and borrowing costs

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges and other borrowing costs incurred during the period of construction, installation and testing, and certain exchange differences on any related borrowed funds. Capitalisation of interest charges and exchange differences ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities. Where the construction of the fixed assets is financed by loans other than specific borrowings, a weighted average capitalisation rate is applied to calculate the interest charges to be capitalised. The weighted average capitalisation rate is calculated based on the borrowings of the Company that are outstanding during the year. The weighted average capitalisation rate applied to capitalise the interest charges incurred in 2000 was 6.84 %. The construction of fixed assets was largely financed by specific borrowings in prior years.

Investments

Investments held on a long term basis, other than investments in joint ventures, are stated at cost less any provisions for permanent diminution in values deemed necessary by the directors.

Deferred staff costs

Deferred staff costs represent capitalised losses arising from the disposal of staff quarters to employees at preferential prices, under the housing reform policy as required by the PRC government policy. These are amortised on a straight-line basis to the profit and loss account over 20 years, which represents the estimated expected average remaining service life of the relevant employees, starting from 1 January 1998.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Intangible assets

Intangible assets represent the purchase cost of know-how in relation to the Ethylene Project and other project facilities. The costs of know-how are included as part of the total contract price of the construction contract and are distinguishable. They are capitalised as intangible assets and are amortised on a straight-line basis to the profit and loss account over the estimated useful life of 10 years of the underlying facilities, starting from the date when the underlying facilities are completed and ready for their intended use.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash and bank balances.

Deferred tax

Deferred tax is provided, using the liability method, on all 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.

Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Spare parts and consumables are stated at the lower of cost determined on the weighted average basis and replacement cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currency translation

The Group's financial records are maintained and the financial statements are stated in Renminbi ("RMB").

Transactions in foreign currencies are translated into RMB at exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at rates of exchange quoted by the People's Bank of China on the balance sheet date.

Foreign currency translation differences relating to borrowed funds to the extent that they are adjustments to the interest cost of funds used to finance the construction of fixed assets are capitalised during the period of construction. The capitalised amount is calculated by applying the interest rate differential between the foreign currency denominated loans and RMB loans to the average foreign currency denominated loans outstanding. The remaining foreign currency differences arising from long term monetary liabilities denominated in foreign currencies are dealt with in the profit and loss account.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured on the following bases:

(i) the sale of goods, when the significant risks and rewards of ownership of the goods have been passed to buyers; and

(ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the profit and loss account as incurred.

Research and development expenses

Research and development expenses are written off to the profit and loss account in the year in which they are incurred.

Government revenue grants and subsidies

Government revenue grants and subsidies are recognised as income upon approval by the relevant Government authority, at which stage the eventual collectibility is also ascertainable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits

Retirement benefits are charged to the profit and loss account based on the contributions to a defined contribution government retirement benefit scheme. The Company contributed to a defined contribution plan to the extent of 26% of the actual incurred employees' wages and bonuses.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates.

3. TURNOVER

Turnover represents the revenue arising in respect of the invoiced value of goods sold, net of consumption taxes, discounts and returns.

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2000	1999
	RMB'000	*RMB'000*
Other revenue:		
Write back on deferred VAT receivable	**–**	(1,078)
Exchange gains, net	**(55,960)**	(322)
Bank interest income	**(4,987)**	(3,034)
Investment income, unlisted	**–**	(6)
Government grants and subsidies	**(1,297)**	(4,603)
	(62,244)	(9,043)
Cost of sales:		
Raw materials	**9,381,761**	6,401,540
Utility expenses	**1,125,538**	883,152
Depreciation	**712,916**	690,618
Repairs and maintenance	**412,518**	347,963
Wages, bonuses and benefits	**287,023**	280,830
Sewage expenses	**66,248**	66,106
Others	**178,157**	322,942
	12,164,161	8,993,151
Finance costs		
Interest on bank loans and other loans repayable		
Within five years	**644,098**	603,826
After five years	**39,856**	23,340
Less: Amounts capitalised to construction in progress	**(42,830)**	(28,033)
Interest expense, net	**641,124**	599,133
Depreciation (distribution costs and administrative expenses)	**98,252**	64,212
Repairs and maintenance (distribution costs and administrative expenses)	**9,182**	31,064
Wages, bonuses and benefits, including directors and supervisor's remuneration (distribution cost and administrative expenses)	**64,416**	122,302
Provision for doubtful debts	**60,938**	11,392
Provision for write-down of inventories		
– cessation of production *(notes 6)*	**37,120**	–
– others	**18,100**	1,114
Retirement benefit contributions	**97,103**	135,218
Research and development expenses	**11,245**	23,634
Directors' and supervisors' remuneration	**401**	530
Auditors' remuneration	**2,700**	2,700
Fixed assets written off		
– cessation of production *(note 6)*	**601,774**	–
– others	**8,410**	24,443
Amortisation of intangible assets	**51,656**	49,930
Amortisation of deferred staff costs	**4,204**	4,204
Operating lease rentals on plant and machinery	**2,184**	955
Severance cost - cessation of production *(note 6)*	**297,639**	–

Government grants and subsidies represent VAT refunds in respect of sales of certain newly developed products as approved by the relevant authorities.

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES *(Continued)*

At the balance sheet date, there were no forfeited contributions of retirement benefits available for future utilisation.

Directors' and supervisors' emoluments:

	2000	1999
	RMB'000	*RMB'000*
Fees	**267**	313
Salaries and other benefits	**129**	194
Retirement scheme contributions	**5**	23
	401	530

The aggregate emoluments of the directors and supervisors in 2000 were RMB341,000 (1999: RMB418,000) and RMB60,000 (1999: RMB112,000) respectively.

The five highest paid individuals in the Group in 2000 and 1999 were all directors whose total emoluments are included above. None of the directors and supervisors received remuneration in excess of HK$1 million (equivalent to RMB1.06 million).

Included above are salaries and other benefits paid to non-executive directors amounting to RMB37,000 (1999: RMB80,000).

5. TAX

	2000	1999
	RMB'000	*RMB'000*
PRC income tax provision for the year:		
Group and subsidiaries	**983**	75,649
Share of tax attributable to joint ventures	**–**	146
	983	75,795
Deferred tax *(note 25)*	**(59,493)**	942
	(58,510)	76,737

The Company's income tax liability is generally calculated at the rate of 33% in accordance with the relevant PRC tax legislation.

5. TAX *(Continued)*

One of the Company's subsidiaries, Jilin Xinghua Nitrochlorobenzene Company Limited ("JNCB"), a Sino-foreign co-operative joint venture, was eligible for a full exemption from joint venture income tax for the first two years starting from its first profitmaking year of operations, which was 1994, followed by a 50% reduction during the third to fifth years. Although JNCB had taxable profits in 1994, it did not enjoy any tax exemption benefits since it took the option of paying tax in that year and delayed the first tax exemption year to 1995. Since 1996, it was not subject to PRC income tax as it incurred tax losses.

The other subsidiary of the Company, Jilin Winsway Chemical Industrial Store and Transport Limited ("Winsway"), a Sino-foreign equity joint venture, was eligible for a full exemption from joint venture income tax for the first two years starting from its first profitable year of operation, which was 1995, followed by a 50% reduction from the third to fifth years. Although Winsway had taxable profits in 1995, it did not enjoy any tax exemption benefits as it took the option of paying tax in that year and delayed the first tax exemption year to 1996. Accordingly, 1996 and 1997 were the tax exemption years for Winsway and no provision for income tax was required. Since 1998, Winsway has incurred taxable profits and has been subject to a reduced PRC income tax rate of 15%.

Jilin City Songmei Acetic Acid Co., Ltd. ("Songmei"), being a subsidiary of the Company and a Sino-foreign co-operative joint venture, is eligible to a full exemption from joint venture income tax for the first two years starting from its first profit-making year of operation followed by a 50% reduction from the third to fifth years. The current year is the joint venture's first profit-making year, accordingly, no income tax is provided.

The Sino-foreign joint venture company, Jilian (Jilin) Petrochemicals Limited ("Jilian"), was eligible to a full exemption from joint venture income tax for the first two years starting from its first profitable year of operation, which was 1995, followed by a 50% reduction from the third to sixth years. No provision for income tax was required in 1995 as it enjoyed its first income tax exemption year. In 1996, 1997 ,1998 and 1999, it was not subject to PRC income tax as it incurred tax losses. No provision for income tax was required in 2000 as it had accumulated tax losses to offset against assessable profits for the year.

In 1996 and 1997, Jilin Province BASF JCIC NPG Co., Ltd. ("BASF"), a joint venture company, was in its pre-operating stage and was not subject to PRC income tax. In 1998, 1999 and 2000, BASF commenced operation and no tax provision was made as it did not generate any assessable income during those years.

Another joint venture company, Jilin Jite FRP Company Limited ("Jite"), was subject to a tax rate of 33%. No tax provision was made in 1996, 1997 or 1998 as Jite did not generate any assessable income during those years. Jite was subject to a tax rate of 33% on its assessable profits in 1999. The joint venture arrangement in Jite ended as at 18 June 2000. The Company has officially withdrawn their investment in Jite at 31 August 2000. Jite did not derive any assessable profits for the year.

5. **TAX** *(Continued)*

A reconciliation of the expected tax with the actual tax expense is presented below:

	2000	1999
	RMB'000	*RMB'000*
Profit/(loss) before tax and share of profits/(losses) of joint ventures	**(914,770)**	232,453
Statutory/applicable tax rate	**33%**	33%
Expected PRC tax	**–**	76,709
Tax effect on non-taxable income	**–**	(402)
Tax charge/(reduction) of a subsidiary – Winsway	**983**	(1,336)
Tax loss of a subsidiary – JNCB	**–**	1,620
Recognition of deferred tax assets net of valuation allowance *(note 25)*	**(59,493)**	–
Actual tax (credit)/expense	**(58,510)**	76,591
Attributable tax charge of joint ventures	**–**	146
	(58,510)	76,737

6. **OTHER OPERATING EXPENSES**

The Group underwent a comprehensive review of all its existing fixed assets in late 2000. As a result of the review, the Group determined the cessation of production of certain production lines and had accordingly written off fixed assets with a net book value amounting to approximately RMB601,774,000 relating to the production of certain dye-stuff, fertilisers and other chemical products that were not expected to be profitable in the near future. The Group also introduced a lay-off program for the workers in connection with the aforesaid cessation of production. The severance cost associated with the lay-off of approximately 7,000 workers is RMB297,639,000 of which approximately RMB37,000,000 has been paid as at 31 December 2000. In addition, the Group has also written off inventory amounting to RMB37,120,000 which are directly related to the aforementioned cessation of production.

7. DIVIDENDS

During 2000, dividends of RMB11,279,780 in respect of 1999 has been paid while the balance of RMB24,331,000 is recorded as payable to PetroChina Group Companies (note 9). No final dividend is proposed to be payable to both the existing shareholders and new shareholders of the Company for financial year 2000.

According to the prospectus issued by the Company in relation to the additional issue of 150,000,000 A shares in January 2000, the shareholders to whom the additional A shares are allotted (hereinafter collectively referred to as "new shareholders") are entitled to distribution in respect of 1999 final dividends. As such, pursuant to a resolution passed at the directors' meeting held on 11 April 2000, a final dividend of RMB0.010 per share, totalling RMB35,610,780, is proposed to be payable to both the existing shareholders and new shareholders of the Company whose names appear on the Register of Members at the close of business on 16 May 2000.

As a result of the change in accounting policy, the dividend declared after the year end date is not booked in the financial statements. Accordingly the dividend declared in 2000 in respect of 1999 was not recognised as a liability as at 31 December 1999 and the financial statements have been restated to reflect such change.

8. EARNINGS/(LOSS) PER SHARE

In January 2000, the Company issued 150,000,000 A shares and the total number of shares of the Company was increased to 3,561,078,000 shares. The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of RMB835,990,000 (1999: net profit of RMB148,800,000) and the weighted average number of 3,551,025,000 shares (1999: 3,440,761,201 shares) in issue during the year adjusted to reflect the bonus element of the additional issuance of A shares in January 2000.

Diluted earnings/(loss) per share has not been presented as no diluting events existed in 2000 and 1999.

9. RELATED PARTY TRANSACTIONS

Related party relationships where control exists are set out in note 1. In addition to the details set out in notes 22 and 23, the following is a summary of the significant transactions carried out by the Group in the normal course of business with CNPC Group Companies (including PetroChina Group Companies but excluding JCGC Group Companies) and JCGC Group Companies throughout the year:

	2000	1999
	RMB'000	*RMB'000*
CNPC Group Companies		
Purchases of crude oil	**7,930,123**	4,850,127
Purchases of naphtha	**428,748**	444,985
Purchases of benzene	**85,724**	13,463
Purchases of methyl alcohol	**47,667**	30,761
Purchases of other raw materials	**67,230**	–
Sales of gasoline	**1,855,183**	1,269,809
Sales of diesel oil	**2,436,329**	1,482,209
Sales of liquid ammonia	**67,702**	2,944
Sales of residual oil	**21,185**	45,495
Sales of xylene	**37,139**	76,923
Sales of acetic acid	**14,183**	27,142
Sales of butylene-1	**74,581**	16,542
Sales of ethylene	**1,659,822**	–
Sales of butadiene	**84,377**	–
Sales of propylene	**301,592**	–
Sales of styrene	**532,907**	–
Sales of ethylene tar	**20,910**	–
Sales of #7 fuel oil	**30,222**	–
Sales of electricity	**34,555**	–
Sales of others	**76,982**	–
JCGC Group Companies		
Sales of finished goods	**119,396**	2,128,914
Sub-contracting fees	**28,877**	8,017
Construction of fixed assets	**145,660**	16,842
Purchases of raw materials and parts	**24,065**	247,506
Fees for welfare and support services	**202,784**	103,495
Interest expense	**215,728**	297,287

9. RELATED PARTY TRANSACTIONS *(Continued)*

Pursuant to the corporate restructuring of CNPC on 5 November 1999 (note 1), certain related party transactions, which are also connected transactions, between the Group and CNPC Group Companies have become related party transactions between the Group and PetroChina Group Companies. Since a waiver from strict compliance with the disclosure requirements as stipulated by the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") had been granted for certain connected transactions with CNPC before the aforesaid corporate restructuring, the Group applied to the Hong Kong Stock Exchange for the waiver from strict compliance with the disclosure requirements regarding the additional connected transactions carried out with PetroChina Group Companies and was notified by the Hong Kong Stock Exchange on 5 September 2000 that the original waiver remained valid. The significant transactions carried out by the Group in the normal course of business with PetroChina Group Companies throughout the year are summarised as follows (the amount has already been included in the related party transactions with CNPC Group Companies as listed above):

	2000	1999
	RMB'000	*RMB'000*
PetroChina Group Companies		
Purchases of crude oil	**7,930,123**	808,355
Purchases of naphtha	**428,748**	74,165
Purchases of benzene	**85,724**	2,244
Purchases of methyl alcohol	**47,667**	5,514
Purchases of other raw materials	**67,230**	–
Sales of gasoline	**1,855,183**	211,635
Sales of diesel oil	**2,436,329**	247,035
Sales of liquid ammonia	**67,702**	491
Sales of residual oil	**21,185**	7,582
Sales of xylene	**37,139**	12,821
Sales of acetic acid	**14,183**	4,524
Sales of butylene-1	**74,581**	2,757
Sales of ethylene	**1,659,822**	–
Sales of butadiene	**84,377**	–
Sales of propylene	**301,592**	–
Sales of styrene	**532,907**	–
Sales of ethylene tar	**20,910**	–
Sales of #7 fuel oil	**30,222**	–
Sales of electricity	**34,555**	–
Sales of others	**76,982**	–

Except for an amount due to CNPC Group Companies of RMB1,000,000,000 which bears interest at 4.5% and is not repayable within one year, the balances with CNPC Group Companies (including due from but excluding due to JCGC Group Companies) and PetroChina Group Companies are unsecured, interest-free, and have to fixed terms of repayment. Amount due to PetroChina Group companies included under current liabilities as at 31 December 2000 represented 1999 final dividend payable.

9. RELATED PARTY TRANSACTIONS *(Continued)*

The consideration payable for the welfare and support services rendered by JCGC Group Companies is based on State regulated prices, market prices or cost as provided in a service agreement entered into between the Group and JCGC Group Companies.

The Company's independent non-executive directors have reviewed the transactions listed above and confirmed that:

(i) the transactions have been entered into by the Group in the ordinary and usual course of its business;

(ii) the transactions have been entered into either (a) on normal commercial terms (by reference to transactions of a similar nature made by similar entities within the PRC) or (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(iii) the transactions have been entered into either (a) in accordance with the terms of the agreement governing each transaction or (b) where there is no such agreement, on terms no less favourable than terms available to third parties;

(iv) the transactions entered into by the Group with CNPC Group Companies have been:

(a) conducted on normal commercial terms in the ordinary and usual course of business;

(b) of a total value not exceeding the relevant annual caps set forth below for the year ended 31 December 2000:

Related party transactions	**Annual cap as percentage to turnover**
Purchases of crude oil from CNPC Group Companies	65%
Sales of gasoline to CNPC Group Companies	30%
Sales of diesel oil to CNPC Group Companies	22%
Purchases of materials from CNPC Group Companies	17%
Sales of petrochemical products, synthetic rubber products, dyestuff and dye intermediates to CNPC Group Companies	31%

(c) fair and reasonable so far as the shareholders of the Company are concerned; and

(d) entered into in accordance with the applicable State prices or the relevant prevailing market prices and, in the case of liquid ammonia, at an agreed price which is not more than 5% above or below the relevant prevailing market price, and on terms no less favourable than terms available from independent third parties.

10. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is RMB902,985,000 (1999: net profit of RMB153,356,000).

11. FIXED ASSETS

	Buildings and other constructions	Plant, machinery and equipment	Land use rights	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group				
Cost or valuation:				
At beginning of year	1,364,128	11,888,747	1,087,058	14,339,933
Additions	282,558	68,974	300	351,832
Transferred from construction in progress *(note 12)*	–	747,312	–	747,312
Write-off – cessation of production	(176,041)	(1,121,710)	–	(1,297,751)
– others	(2,209)	(8,226)	–	(10,435)
At 31 December 2000	1,468,436	11,575,097	1,087,358	14,130,891
Accumulated depreciation:				
At beginning of year	243,388	2,730,381	115,125	3,088,894
Charge for the year	120,303	669,112	21,753	811,168
Write-off – cessation of production	(86,624)	(609,353)	–	(695,977)
– others	(369)	(1,656)	–	(2,025)
At 31 December 2000	276,698	2,788,484	136,878	3,202,060
Net book value:				
At 31 December 2000	1,191,738	8,786,613	950,480	10,928,831
At 31 December 1999	1,120,740	9,158,366	971,933	11,251,039
Company				
Cost or valuation:				
At beginning of year	1,331,180	11,605,444	1,085,181	14,021,805
Additions	282,490	66,546	300	349,336
Transferred from construction in progress *(note 12)*	–	745,139	–	745,139
Write-off – cessation of production	(168,130)	(1,057,605)	–	(1,225,735)
– others	(2,106)	(8,130)	–	(10,236)
At 31 December 2000	1,443,434	11,351,394	1,085,481	13,880,309
Accumulated depreciation:				
At beginning of year	240,458	2,697,293	114,956	3,052,707
Charge for the year	119,277	650,940	21,519	791,736
Write-off – cessation of production	(85,457)	(597,013)	–	(682,470)
– others	(351)	(1,647)	–	(1,998)
At 31 December 2000	273,927	2,749,573	136,475	3,159,975
Net book value:				
At 31 December 2000	1,169,507	8,601,821	949,006	10,720,334
At 31 December 1999	1,090,722	8,908,151	970,225	10,969,098

11. FIXED ASSETS *(Continued)*

The fixed assets of the Company acquired pursuant to the first stage of the Group reorganisation and restructuring described in note 1, were revalued as at 30 September 1994 by independent equipment and property valuers. The plant, machinery and equipment were valued using either the cost approach or the market approach. The former valuation approach was used in respect of those assets which did not have sufficient market information and the valuation was determined by reference to depreciated replacement cost. The latter valuation approach was determined by reference to the most recent prices paid for similar assets. Buildings were valued using a depreciated replacement cost method. The valuation of land use rights was commonly based on standard land prices determined by the Jilin Province Land Bureau.

Pursuant to the first stage of the Group restructuring and reorganisation exercise of the Company and by virtue of a document dated 21 November 1994 issued by the State-owned Assets Administration Bureau, the total value of the fixed assets assumed by the Group on 1 October 1994 was RMB3,922,877,000 as at 30 September 1994, resulting in a revaluation surplus of RMB1,540,039,000 to the Company and the Group.

In preparation for the second stage of the Group restructuring and reorganisation comprising the listing of the Company's shares on the Hong Kong Stock Exchange, an exercise to update the revaluation was carried out for the Group's fixed assets as at 28 February 1995. The update was done by American Appraisal Hong Kong Limited, using the same basis as that of the previous 30 September 1994 revaluation. This resulted in a further revaluation surplus of RMB29,033,000 to the Company and the Group.

The effect of these revaluation surpluses of RMB1,540,039,000 and RMB29,033,000 was to increase the depreciation charge for fixed assets by approximately RMB57 million (1999: RMB68 million) and RMB1,452,000 (1999: RMB1,452,000), respectively, for the current year. Had the fixed assets of the Group been stated at cost, that is, the effect of the two revaluations being excluded, the net book value of buildings and other constructions, plant and machinery and equipment, and land use rights as at 31 December 2000 would be RMB1,077,095,000, RMB8,771,309,000 and RMBnil, respectively.

The net book value of fixed assets written off as mentioned in note 6 to the financial statements has taken into account the aforementioned revaluations. Had the fixed assets of the Group been stated at cost, that is, the effect of the two revaluations being excluded, the net book value of the fixed assets disposed of would be approximately RMB288,290,000.

All of the Company's and the Group's buildings are located in the PRC and the land where the Group's buildings are situated is State-owned. Pursuant to an approval document dated 23 November 1994 issued by the State Land Administration Bureau, the Group was granted the right to use the land on which the Group's buildings are erected for a period of 50 years commencing 1 October 1994.

11. FIXED ASSETS *(Continued)*

In view of the unique circumstances relating to the revaluation of the Groupís fixed assets as part of the restructuring and reorganisation, the Group has no plans to revalue its fixed assets on a regular basis as a matter of accounting policy.

The Ethylene Project facilities transferred from construction in progress to fixed assets in 1997 and 1998 have been pledged to certain banks to secure bank loans granted to the Company through JCGC, of which RMB1.8 billion (1999: RMB4.7 billion) had been utilised at the balance sheet date and was reflected as amounts due to JCGC Group Companies (see note 23). The net book value of fixed assets pledged as at 31 December 2000 amounted to RMB5,169,306,000 (1999: RMB5,458,116,000).

12. CONSTRUCTION IN PROGRESS

	Group *RMB'000*	**Company** *RMB'000*
Balance at beginning of year	321,756	321,259
Additions	914,022	912,346
	1,235,778	1,233,605
Transferred to fixed assets *(note 11)*	(747,312)	(745,139)
Balance at end of year	488,466	488,466

Construction in progress of the Group represents the following major projects which remained incomplete as at 31 December 2000:

Name of project	**Stage of completion**	**Expected year of completion**	**Balance at 31 December 2000** ***RMB'000***
Synthetic ammonia facilities	25%	2002	427,326
Others			61,140
Construction in progress balance at end of year			488,466

Details of future capital expenditure commitments are set out in note 29 to the financial statements.

13. INTERESTS IN SUBSIDIARIES

Company

	2000	1999
	RMB'000	*RMB'000*
Unlisted investments, at cost	**51,146**	70,396
Amounts due from subsidiaries	**62,775**	164,730
	113,921	235,126

The particulars of subsidiaries, all of which are limited companies established and operating in the PRC, are as follows:

Name	**Registered capital** *RMB'000*	**Percentage of equity held by Company**	**Principal activities**
Jilin Xinghua Nitrochloro-benezene Company Limited ("JNCB")	25,668	75%	Manufacturing of dyestuff
Jilin Winsway Chemical Industrial Store and Transport Limited ("Winsway")	51,454	70%	Provision of transportation services for chemical products
Jilin City Songmei Acetic Acid Co., Ltd. ("Songmei")	72,000	66%	Manufacturing of acetic acid

JNCB is a Sino-foreign co-operative joint venture which was established on 21 February 1991. Pursuant to a supplementary joint venture agreement entered into between the Predecessor and the foreign joint venture partner dated 5 August 1994, JNCB agreed to pay the foreign joint venture partner a guaranteed return, on an annual basis, at various rates based on the capital amount contributed by the foreign joint venture partner during a 19-year period. After providing the guaranteed return, the Company is entitled to the benefit of 100% of all profits or losses arising from JNCB. Accordingly, the financial statements of JNCB were reflected in the Group's consolidated profit and loss account and consolidated balance sheet on the basis that it is a wholly-owned subsidiary of the Company.

Winsway is a Sino-foreign equity joint venture company which was established on 7 August 1995. The duration of the joint venture operation is 10 years starting from 7 August 1995, expiring on 6 August 2005.

Songmei is a Sino-foreign co-operative joint venture company which was established on 26 December 1997. The tenure of the joint venture is 20 years starting from 26 December 1997, expiring on 25 December 2017.

14. LONG TERM INVESTMENTS

Group and Company

	2000	1999
	RMB'000	*RMB'000*
Government bonds	**–**	90
Interests in joint ventures	**243,774**	207,563
Due from joint venture companies	**92,228**	133,041
	336,002	340,694

The particulars of joint ventures, all of which are limited companies established and operating in the PRC, are as follows:

Name	**Registered capital** *RMB'000*	**Percentage of equity held by Company**	**Principal activities**
Jilian (Jilin) Petrochemicals Limited ("Jilian")	416,972	65%	Manufacturing of petrochemicals
Jilin Province BASF JCIC NPG Co., Ltd. ("BASF")	150,000	40%	Manufacturing of NPG

The Company has a 65% equity interest in Jilian, which was established in March 1994. The Company has four of the seven votes of the board of directors. The Company does not have the ability to exercise control over Jilian's board as unanimous approval is required for significant board resolutions. Accordingly, it is not accounted for as a subsidiary.

In 1995, the Company entered into a joint venture agreement pursuant to which a Sino-foreign equity joint venture, BASF was established on 15 November 1995. Pursuant to the joint venture agreement, the Company has a 40% interest in BASF. The entire capital contribution has been made as at 31 December 1998.

Jite was an equity joint venture company which was established on 7 June 1996. The tenure of the joint venture was four years starting from 7 June 1996, expiring on 18 June 2000.

14. LONG TERM INVESTMENTS *(Continued)*

A summary of the financial position and operating results of the joint ventures is as follows:

			Group's share	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Long term assets	**1,068,973**	1,067,913	**657,585**	652,118
Current assets	**411,964**	384,137	**253,076**	237,413
Current liabilities	**853,618**	846,372	**540,687**	535,999
Long term liabilities	**208,585**	239,000	**126,200**	145,969
Net sales	**186,009**	755,758	**95,815**	470,113
Gross profit	**86,841**	89,178	**32,012**	56,133
Other income/(expenses)	**9,740**	(104,663)	**5,415**	(61,302)
Profit/(loss) before tax	**96,581**	(15,194)	**37,427**	(5,023)
Tax	**–**	291	**–**	146
Profit/(loss) after tax	**96,581**	(15,485)	**37,427**	(5,169)

15. DEFERRED STAFF COSTS

Group and Company

	RMB'000
Cost:	
At beginning of year and 31 December 2000	84,089
Accumulated amortisation:	
At beginning of year	8,408
Charge for the year	4,204
At 31 December 2000	12,612
Net book value:	
At 31 December 2000	71,477
At 31 December 1999	75,681

16. INTANGIBLE ASSETS

Group and Company

	RMB'000
Cost:	
At beginning of year	457,813
Additions	173,960
At 31 December 2000	631,773
Accumulated amortisation:	
At beginning of year	103,596
Charge for the year	51,656
At 31 December 2000	155,252
Net book value:	
At 31 December 2000	476,521
At 31 December 1999	354,217

17. INVENTORIES

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**701,361**	654,050	**701,361**	644,925
Work in progress	**234,613**	181,618	**231,493**	181,618
Finished goods	**556,974**	435,799	**552,901**	435,799
Spare parts	**393,223**	313,953	**393,223**	313,953
	1,886,171	1,585,420	**1,878,978**	1,576,295
Less: Provision for write-down of inventories	**(65,457)**	(10,237)	**(65,019)**	(10,237)
	1,820,714	1,575,183	**1,813,959**	1,566,058

The carrying amount of inventories carried at net realisable value included in the above is RMB 195,664,000 (1999: RMB 36,762,000).

18. ACCOUNTS RECEIVABLE

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**799,866**	758,649	**798,403**	751,058
More than one year but within two years	**219,193**	149,034	**210,941**	147,956
More than two years but within three years	**105,083**	75,059	**102,686**	73,165
More than three years	**140,679**	101,620	**139,328**	100,766
	1,264,821	1,084,362	**1,251,358**	1,072,945
Less: Provision for doubtful debts	**(240,777)**	(173,442)	**(240,724)**	(173,394)
	1,024,044	910,920	**1,010,634**	899,551

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to another two to three months. Credit limit has been set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

19. PREPAYMENTS, OTHER RECEIVABLES AND DEFERRED EXPENSES

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other receivables	**191,948**	95,794	**185,948**	72,646
Less: Provision for doubtful debts	**(23,457)**	(29,854)	**(23,457)**	(29,854)
	168,491	65,940	**162,491**	42,792
Prepayments	**276,066**	260,204	**251,867**	259,126
Deferred expenses	**10,897**	8,974	**10,709**	8,974
	455,454	335,118	**425,067**	310,892

20. VAT RECEIVABLE

This represents VAT paid by the Group and the Company in respect of purchases offset against the VAT payable on sales. The net amount is available to offset future VAT payable on the sales of the Group and the Company.

21. BANK AND OTHER LOANS

Group

	2000		1999	
	Bank loans	**Other loans**	Bank loans	Other loans
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Balances due:				
Within one year	**993,431**	**400**	1,757,570	150,000
In the second year	**29,400**	**1,200**	731,342	–
In the third to fifth years, inclusive	**527,150**	**–**	190,500	1,200
After the fifth year	**559,918**	**–**	309,514	–
	2,109,899	**1,600**	2,988,926	151,200
Portion classified as current liabilities	**(993,431)**	**(400)**	(1,757,570)	(150,000)
	1,116,468	**1,200**	1,231,356	1,200

Company

	2000		1999	
	Bank loans	**Other loans**	Bank loans	Other loans
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Balances due:				
Within one year	**903,431**	**400**	1,727,570	150,000
In the second year	**29,400**	**1,200**	731,342	–
In the third to fifth years, inclusive	**527,150**	**–**	190,500	1,200
After the fifth year	**559,918**	**–**	309,514	–
	2,019,899	**1,600**	2,958,926	151,200
Portion classified as current liabilities	**(903,431)**	**(400)**	(1,727,570)	(150,000)
	1,116,468	**1,200**	1,231,356	1,200

The bank and other loans are unsecured and bear interest at rates ranging from 4.32% to 8.66% per annum (1999: 4.88% to 10.07% per annum).

22. LOANS DUE TO A FELLOW SUBSIDIARY

	2000		1999	
	Group	**Company**	Group	Company
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Balances due:				
Within one year	**–**	**–**	488,896	488,896
In the second year	**3,855,550**	**3,855,550**	–	–
In the third to fifth years, inclusive	**889,100**	**889,100**	–	–
	4,744,650	**4,744,650**	488,896	488,896
Portion classified as current liabilities	**(1,350,000)**	**(1,350,000)**	(488,896)	(488,896)
	3,394,650	**3,394,650**	–	–

The loans due to a fellow subsidiary are unsecured and bear interest at rates ranging from 5.58% to 6.875% per annum (1999: 5.91% to 12.24% per annum).

23. DUE TO JCGC GROUP COMPANIES

The long term liability balances of the Group and the Company include the following loans:

Group

	2000		1999	
	Original Currency		Original Currency	
	'000	***RMB'000***	*'000*	*RMB'000*
Secured *(note 11)*				
Ethylene Project Loans				
Renminbi	**–**	**–**	4,746,952	4,746,952
US Dollar	**154,904**	**1,282,313**		–
Japanese Yen	**5,062,678**	**366,649**		–
Deutsche Mark	**30,195**	**118,821**		–
Subtotal		**1,767,783**		4,746,952
Other loans, unsecured		**1,000,000**		97,568
		2,767,783		4,844,520
Portion classified as current liabilities		**(700,000)**		–
Amount due to JCGC Group Companies		**2,067,783**		4,844,520

23. DUE TO JCGC GROUP COMPANIES *(Continued)*

Company

	2000		1999	
	Original Currency ***'000***	***RMB'000***	Original Currency *'000*	*RMB'000*
Secured *(note 11)*				
Ethylene Project Loans				
Renminbi	**–**	**–**	4,746,952	4,746,952
US Dollar	**154,904**	**1,282,313**		–
Japanese Yen	**5,062,678**	**366,649**		–
Deutsche Mark	**30,195**	**118,821**		–
Subtotal		**1,767,783**		4,746,952
Other loans, unsecured		**1,000,000**		97,460
		2,767,783		4,844,412
Portion classified as current liabilities		**(700,000)**		–
Amount due to JCGC Group Companies		**2,067,783**		4,844,412

The loans in relation to the Ethylene Project referred to in note 11 are interest bearing at floating market rates ranging from 5.2% to 8.4% (1999: 6.16% to 10.98%) and have no fixed terms of repayment but are not repayable within one year. The weighted average interest rate of Ethylene Project loans was 7.74% at 31 December 2000 (1999: 7.77%).

Pursuant to an agreement entered into between the Company and JCGC on 30 September 1998 all the outstanding foreign currency loans in connection with the Ethylene Project would be repaid by the Company in Renminbi using the fixed exchange rates quoted by the People's Bank of China on 30 September 1998. Accordingly, all the aforesaid foreign currency loans have been reclassified as Renminbi loans as at 31 December 1998 and 1999. Pursuant to a revised agreement with JCGC in late 2000, the outstanding loans were reconverted to foreign currency loans effective from 1 January 2000. All the exchange risks were borne by JCGC during the period from 1 October 1998 through 31 December 1999. The related exchange differences subsequent to 31 December 1999 were borne by the Group.

Other loans due to JCGC Group Companies bear interest at 8% to 9% per annum (1999: non interest bearing).

24. ACCOUNTS PAYABLE

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**408,242**	321,251	**416,529**	313,861
More than one year but within two years	**65,164**	38,564	**65,164**	35,331
More than two years but within three years	**33,417**	26,164	**33,417**	23,864
More than three years	**27,938**	26,355	**27,938**	24,242
	534,761	412,334	**543,048**	397,298

25. DEFERRED TAX

Group and Company

	2000	1999
	RMB'000	*RMB'000*
Balance at beginning of year	**35,906**	34,964
Transfer from/(to) profit and loss account *(note 4)*		
and from reserve *(note 28)*		
Different tax base under IAS and PRC		
accounting standards *(note 34)*	**24,414**	(81)
Other timing differences	**(2,388)**	1,023
Tax loss	**(310,561)**	–
Less: Valuation allowance	**252,629**	–
Balance at end of year	**–**	35,906

25. DEFERRED TAX *(Continued)*

Deferred tax liabilities and assets of the Group comprise the following:

	2000	1999
	RMB'000	*RMB'000*
Deferred tax liabilities:		
Revaluation of fixed assets on 28 February 1995	**5,259**	7,265
Exchange gain in respect of loans borrowed for fixed assets	**27,954**	30,367
Loan interest capitalised in construction in progress	**5,913**	4,588
Deferred tax effect on housing subsidy	**22,200**	–
Total deferred tax liabilities	**61,326**	42,220
Deferred tax assets:		
Fixed assets written off	**–**	5,308
Unrealised gain on ending inventory	**3,394**	1,006
Tax loss	**310,561**	–
Total deferred tax assets	**313,955**	6,314
Net deferred tax asset/(liability) before valuation	**252,629**	(35,906)
Valuation allowance	**(252,629)**	–
Net deferred tax liability	**–**	(35,906)

Under PRC tax regulations, tax loss can only be utilised within a period of five years. Since there is uncertainty as to whether the tax loss can be fully utilised in the future, valuation allowance is made to write down the deferred tax assets.

26. SHARE CAPITAL

	2000	1999
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
2,396,300,000 (1999: 2,396,300,000) domestic shares of RMB 1.00 each	**2,396,300**	2,396,300
964,778,000 (1999: 964,778,000) foreign invested shares in the form of H shares ("H shares") of RMB1.00 each	**964,778**	964,778
200,000,000 (1999: 50,000,000) A shares of RMB1.00 each	**200,000**	50,000
	3,561,078	3,411,078

27. SHARE PREMIUM

	2000	1999
	RMB'000	*RMB'000*
At beginning and end of year	**1,945,574**	1,945,574
Additional issue of 150,000,000 A shares during the year	**335,518**	–
At end of year	**2,281,092**	1,945,574

28. RESERVES

	Revaluation reserve	**Capital reserve**	**Statutory common reserve**	**Statutory public welfare fund**	**Discretionary common reserve**	**Retained profits/ (accumulated losses)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Group							
At beginning of year	16,392	–	154,633	140,997	400,291	94,900	807,213
Cumulative effect of change in accounting policy	–	–	–	–	(70,696)	106,307	35,611
At beginning of year, after cumulative effect of change in accounting policy	16,392	–	154,633	140,997	329,595	201,207	842,824
Net loss attributable to shareholders	–	–	–	–	–	(835,990)	(835,990)
Transfer to retained profits on the realisation of revaluation reserve	(4,072)	–	–	–	–	4,072	–
Appropriation to reserves	–	–	321	–	70,696	(71,017)	–
Write back of payable to JCGC in respect of housing subsidy, net of tax effect	–	60,502	–	–	–	–	60,502
Dividends	–	–	–	–	–	(35,611)	(35,611)
At 31 December 2000	**12,320**	**60,502**	**154,954**	**140,997**	**400,291**	**(737,339)**	**31,725**

28. RESERVES *(Continued)*

	Revaluation reserve	Capital reserve	Statutory common reserve	Statutory public welfare fund	Discretionary common reserve	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Company							
At beginning of year	16,392	–	152,443	140,997	400,291	141,936	852,059
Cumulative effect of change in accounting policy	–	–	–	–	(70,696)	106,307	35,611
At beginning of year, after cumulative effect of change in accounting policy	16,392	–	152,443	140,997	329,595	248,243	887,670
Net loss attributable to shareholders	–	–	–	–	–	(902,985)	(902,985)
Transfer to retained profits on the realisation of revaluation reserve	(4,072)	–	–	–	–	4,072	–
Appropriation to reserves					70,696	(70,696)	–
Write back of payable to JCGC in respect of housing subsidy, net of tax effect	–	60,502	–	–	–	–	60,502
Dividends	–	–	–	–	–	(35,611)	(35,611)
At 31 December 2000	**12,320**	**60,502**	**152,443**	**140,997**	**400,291**	**(756,977)**	**9,576**

(i) In accordance with the PRC Company Law and the Company's articles of association, the Company is required to transfer 10% and 5% to 10% of its net profit after tax to the Statutory common reserve and the Statutory public welfare fund, respectively. Pursuant to a document issued by the Ministry of Finance of the PRC in August 1995 (Cai Kuai Zi [1995] No. 31) in respect of profit appropriations for overseas listed PRC companies, the transfer to the Statutory common reserve, Statutory public welfare fund and Discretionary common reserve should be based on the net profit in the accounts prepared under PRC accounting standards. In 1999, the calculations of the Statutory common reserve, Statutory public welfare fund and Discretionary common reserve of the Company are based on 10%, 10% and 48%, respectively, of the Company's net profit in the accounts prepared under PRC accounting standards of RMB148,627,000, respectively. Since the Company has incurred net loss for the current year, no appropriation for the Statutory common reserve, Statutory public welfare fund and Discretionary common reserve was made in 2000. The transfer to the above reserves must be made before any distribution of dividends to the Company's shareholders.

28. RESERVES *(Continued)*

The Statutory common reserve and Discretionary common reserve can be used to offset previous years' losses, if any, and for the issue of rights or shares provided that the remaining reserve balance after such issue is not less than 25% of the registered capital. In addition, under special circumstances and subject to the approval by special resolution of a shareholders' general meeting, the Company can use the Statutory common reserve and the Discretionary common reserve to pay dividends or bonuses or to increase the par value of each share provided that the amount of such reserve remaining after such distribution shall not be less than 25% of the registered capital of the Company.

According to the PRC regulations, the Statutory public welfare fund can only be used for the collective benefit of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as only the employees can use these facilities, the title of which will remain with the Company. The fund is non-distributable other than upon liquidation.

In 2000, one of the Company's subsidiaries, Winsway, which is a Sino-foreign joint venture, made an appropriation to the Statutory common reserve of which RMB321,000 (1999: RMB309,000) was attributable to the Group.

(ii) In accordance with the Company's articles of association, for the purpose of approving the distribution of profit, the amount shall be deemed to be the lesser of the Company's profits after appropriations to reserves as determined in accordance with IAS and PRC accounting standards. The Company's accumulated losses as at 31 December 2000 determined under PRC accounting standards amounted to RMB902,985,000. Accordingly, the Company did not declare a dividend for the year 2000.

As noted in (i) above, distribution can be made out of the Statutory common reserve and the Discretionary common reserve under certain circumstances. The Statutory public welfare fund is non-distributable other than upon liquidation. The revaluation reserve is not recorded under PRC accounting standards and is not distributable.

(iii) Capital reserve of RMB60,502,000 represents the write back of housing subsidy which was payable to JCGC, (net of deferred tax of RMB23,587,000). The write back was as a result of the reorganisation of CNPC and PetroChina whereby PetroChina agreed to bear the cost of housing subsidy.

29. CAPITAL COMMITMENTS

Commitments for capital expenditure at the balance sheet date are as follows:

Group and Company

	2000	1999
	RMB'000	*RMB'000*
In respect of plant and machinery		
Contracted, but not provided for	**137,596**	442,182

30. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As at 31 December 2000, balances denominated in foreign currencies were translated into Renminbi at the exchange rates quoted by the People's Bank of China as at that date. The details of these balances are as follows:

Group and Company

	2000	1999
	RMB'000	*RMB'000*
Cash and bank balances	**2,249**	260
Other receivables	**–**	16,566
Bank loans	**559,917**	279,034
Ethylene Project loans	**1,767,783**	–
Loans from a fellow subsidiary	**–**	13,826

31. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and bank balances, accounts receivable, prepayments, other receivables and amounts due from CNPC Group Companies and PetroChina Group Companies. Financial liabilities of the Group include bank and other loans, loans from a fellow subsidiary, amounts due to CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies, accounts payable, advances from customers and other payables.

(i) Interest rate risks

The interest rates and terms of repayment of bank and other loans, loans from a fellow subsidiary and amounts due to JCGC Group Companies are disclosed in notes 21 to 23.

31. FINANCIAL INSTRUMENTS *(Continued)*

(ii) Credit risks

Cash and bank balances

Substantial amounts of cash and bank balances of the Group are deposited with the Bank of China, the Industrial and Commercial Bank of China and the People's Construction Bank of China.

Accounts receivable

The Group does not have a significant exposure to any individual customer or counterparty. The major concentrations of credit risk arise from exposures to a substantial number of accounts receivable operating in one geographical region, i.e. the PRC.

(iii) Fair value

The fair values of cash and bank balances, accounts receivable, prepayments, other receivables, accounts payable, advances from customers, other payables and balances with CNPC, PetroChina and JCGC Group Companies are not materially different from their carrying amounts.

During 1999 and 2000, there was a significant deterioration in some areas of the Chinese debt market. This deterioration led to illiquidity and a lack of transparency in the valuation of secondary debt paper as at the balance sheet date and hence resulted in the fair values of the short term and long term bank loans and other loans not readily determinable. The fair values of the long term loans from a fellow subsidiary and JCGC Group Companies are not determinable because of the related party nature of the loans.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

32. SEGMENT INFORMATION

Primary reporting format - business segments

The Group is principally engaged in five business segments in the PRC: petroleum products, petrochemicals and organic chemicals, dyestuff and dye intermediates, chemical fertilisers and inorganic chemicals, and synthetic rubber.

(a) The Group's petroleum products segment has relatively advanced atmospheric and vacuum distillation facilities used to produce gasoline, diesel oil, solvent oil and other by-products such as lubricants. While certain of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, a substantial portion is sold to outside customers.

(b) The petrochemicals and organic chemicals segment primarily produces ethanol, acetic acid and acetic anhydride.

(c) The dyestuff and dye intermediates segment primarily produces aniline, H-acid and 2-naphthol.

(d) The chemical fertilisers segment principally produces ammonium nitrate, urea and ammonium chloride while the inorganic chemicals segment primarily produces sulphuric acid and slag.

(e) The synthetic rubber segment primarily produces styrene-butadiene-rubber.

(f) The selling prices amongst the segments are determined on the basis of normal commercial terms.

32. SEGMENT INFORMATION *(Continued)*

Primary reporting format - business segments *(Continued)*

Reportable information on the Groupís business segments is as follows :

	2000	1999
	RMB'000	*RMB'000*
Sales		
Petroleum products		
External sales	**5,410,401**	3,413,288
Intersegment sales	**2,205,101**	1,675,290
Total	**7,615,502**	5,088,578
Petrochemical and organic chemicals		
External sales	**5,297,286**	4,390,168
Intersegment sales	**3,441,156**	1,911,291
Total	**8,738,442**	6,301,459
Dyestuff and dye intermediates		
External sales	**533,509**	554,446
Intersegment sales	**4,714**	–
Total	**538,223**	554,446
Chemical fertilisers and inorganic chemicals		
External sales	**458,212**	626,899
Intersegment sales	**–**	503
Total	**458,212**	627,402
Synthetic rubber		
External sales	**878,455**	687,270
Intersegment sales	**–**	412
Total	**878,455**	687,682
Other products and services		
External sales	**818,384**	882,821
Intersegment sales	**2,737,717**	1,251,265
Total	**3,556,101**	2,134,086
Total external and intersegment sales	**21,784,935**	15,393,653
Less: Eliminations	**(8,388,688)**	(4,838,761)
Consolidated turnover	**13,396,247**	10,554,892

32. SEGMENT INFORMATION *(Continued)*

Primary reporting format - business segments *(Continued)*

	2000	1999
	RMB'000	*RMB'000*
		(Restated)
Operating profit/(loss)		
Petroleum products	**77,453**	222,088
Petrochemicals and organic chemicals	**(64,810)**	460,627
Dyestuff and dye intermediates	**(156,239)**	32,902
Chemical fertilisers and inorganic chemicals	**(57,125)**	32,897
Synthetic rubber	**(99,454)**	24,676
Other products and services	**(35,715)**	49,353
Total	**(335,890)**	822,543
Other revenue	**62,244**	9,043
Finance costs	**(641,124)**	(599,133)
Share of profit of joint ventures	**37,427**	(5,023)
Profit/(loss) before tax and minority interests	**(877,343)**	227,430
Tax	**58,510**	(76,737)
Profit before minority interests	**(818,833)**	150,693
Minority interests	**(17,157)**	(1,893)
Net profit/(loss) attributable to shareholders	**(835,990)**	148,800
Identifiable assets		
Petroleum products	**4,718,135**	5,447,591
Petrochemicals and organic chemicals	**7,350,199**	4,944,878
Dyestuff and dye intermediates	**762,534**	748,626
Chemical fertilisers and inorganic chemicals	**1,042,317**	1,202,916
Synthetic rubber	**1,085,824**	1,826,795
Other products and services	**3,014,834**	1,882,952
Total consolidated identifiable assets	**17,973,843**	16,053,758
Identifiable liabilities		
Petroleum products	**2,191,441**	4,024,656
Petrochemicals and organic chemicals	**4,382,709**	3,172,412
Dyestuff and dye intermediates	**1,619,677**	250,501
Chemical fertilisers and inorganic chemicals	**1,068,376**	439,056
Synthetic rubber	**736,134**	1,178,072
Other products and services	**2,043,727**	747,202
Total consolidated identifiable liabilities	**12,042,064**	9,811,899

32. SEGMENT INFORMATION *(Continued)*

Primary reporting format-business segments *(Continued)*

	2000	1999
	RMB'000	*RMB'000*
Depreciation		
Petroleum products	**244,227**	270,958
Petrochemicals and organic chemicals	**353,673**	220,186
Dyestuff and dye intermediates	**23,282**	30,566
Chemical fertilisers and inorganic chemicals	**43,971**	81,328
Synthetic rubber	**64,316**	97,900
Other products and services	**81,699**	53,892
Total consolidated depreciation	**811,168**	754,830
Capital expenditure		
Petroleum products	**109,260**	26,656
Petrochemicals and organic chemicals	**549,286**	458,068
Dyestuff and dye intermediates	**36,926**	13,137
Chemical fertilisers and inorganic chemicals	**409,594**	19,210
Synthetic rubber	**32,574**	5,744
Other products and services	**128,214**	56,766
Total consolidated capital expenditure	**1,265,854**	579,581

Secondary reporting format-geographical segments

The Group principally operates in one geographical region, i.e. the PRC, where the majority of the Group's products is sold.

33. SUBSEQUENT EVENTS

On 8 February 2001, the board of directors approved the setting up of two joint venture companies as follows:

(i) Jilin Lianli Industrial and Commerce Company Limited

This is formed by the Company and the workers union of the Company on a 47% : 53% basis with total investment of RMB27,060,000. The joint venture company will be mainly engaged in the technological development of chemical industrial products and anti-corrosion of chemical industrial equipment, and provision of consulting service in relation to the above.

(ii) Jilin Jihua Construction Company Limited

This is formed by the Company and Jilin City Longtan District Industrial Company Limited on a 98.9%: 1.1% basis with total investment of RMB45,200,000. The joint venture company will be mainly engaged in the construction and installation of piping and pressurised containers and provision of maintenance service.

34. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS

Other than the differences in classification of certain financial statement items and the accounting treatment of the items described below, there are no material differences between the Group's financial statements prepared in accordance with IAS and PRC accounting standards. The principal differences are:

(i) Depreciation expenses calculated under IAS include the effects of revaluation of fixed assets in connection with the Group restructuring and reorganisation as at 28 February 1995. Under PRC accounting standards, this revaluation, which was not officially approved as part of the first phase of the 1994 restructuring, was not recognised. Accordingly, depreciation charges calculated under PRC accounting standards are slightly lower than those under IAS. Certain fixed assets written off during the year as a result of cessation of production of certain products were revaluated and had a higher net book value under IAS.

(ii) Under existing PRC accounting statements, fixed assets that are written off cannot be charged to the profit and loss account until the assets are physically disposed of. With the promulgation of a new PRC accounting standard on "impairment of assets" in January 2001, early adoption of the standard was applied by the Company effective for the year ended 31 December 2000, resulting in a prior year adjustment in the financial statements prepared in accordance with PRC accounting statements. Under IAS, these assets are written off to the profit and loss account once they are identified as obsolete. As a result of the change in accounting policy under PRC accounting standards, there is no difference with IAS for the year 1999 and 2000. Reversal of related deferred tax effect which would have resulted in a prior year adjustment under IAS has not been considered because the tax effect to IAS is considered immaterial.

34. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

(iii) As stated in note 2, foreign currency translation differences relating to borrowed funds to the extent that they are adjustments to the interest costs of funds used to finance the construction of fixed assets are capitalised. Under PRC accounting standards, all foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. Accordingly, the cost of the underlying fixed assets is greater than that as determined under PRC accounting standards, and thus result in additional depreciation charges.

(iv) Under IAS, interest expenses relating to funds borrowed generally and used for the construction of fixed assets are capitalised by applying a weighted average rate applicable to the borrowings that are outstanding during the period. Under PRC accounting standards, only interest expenses incurred on borrowings made specifically for the construction of fixed assets are capitalised. The underlying fixed assets were put into operation in 1999 and 2000 and the related depreciation was immaterial.

(v) According to the relevant rules and regulations of the China Securities Regulatory Commission, for those new shares issued in 1996, the corresponding interest income generated during the allotment period should be included as part of the share premium. Interest income relating to the unsuccessful applicants is released to the profit and loss account over a period of five years starting from 1997. Under IAS, such income, when received, is recorded in the profit and loss account.

(vi) In 1999 and 2000, a subsidiary of the Company which is a Sino-foreign joint venture made an appropriation from retained profit to a staff and workers' bonus and welfare fund in accordance with the relevant rules and regulations in the PRC. Under IAS, such appropriation should be charged to the profit and loss account.

(vii) In the current year, as a result of the reorganisation of CNPC and PetroChina, PetroChina agreed to bear the cost of housing subsidy (note 28 (iii)) and accordingly the relevant payable of RMB84,089,000 to JCGC, after netting off deferred tax of RMB23,587,000, was credited to capital reserve, while deferred tax liabilities were increased by RMB23,587,000 under IAS.

Under PRC accounting standards, the payable of RMB84,089,000 was offset against the deferred staff costs brought forward of RMB75,681,000 and the balance RMB8,408,000 was credited to reserves. There is thus no amortisation of deferred staff costs under PRC accounting standards in 2000. There is no deferred tax effect under PRC accounting standards.

34. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

(viii) Under IAS, tax adjustment was made in respect of the deferred tax effects for items (i), (iii), (iv) and (vii). However , as a result of the substantial tax loss incurred during the year which would have created a huge deferred tax asset as at 31 December 2000, the net deferred tax liabilities created under IAS were offset against such deferred tax asset before considering valuation allowance (note 25). Accordingly, a net amount of RMB57,105,000 representing the net decrease in net deferred tax liabilities, comprising net deferred tax liabilities brought forward from 1999 and those created under item (vii) above, was credited to the consolidated profit and loss account for the year for IAS purposes. The deferred tax effect on item (ii) was not recognised due to its immateriality. There is no tax effect for items (v) and (vi).

(ix) As noted in note 2, the Company adopted IAS 10 (revised 1999), event after balance sheet Date effective from 1 January 2000. As a result, dividends proposed or declared after year end are not recognised as liabilities at the balance sheet date. This change resulted in a prior year adjustment for IAS. Under PRC accounting standards, the aforesaid dividends are recognised as liabilities at balance sheet date.

The effects of the above differences on net profit attributable to shareholders are summarised as below:

	Notes	**2000** **RMB'000**	1999 RMB'000 (Restated)
Net profit/(loss) attributable to shareholders under IAS		**(835,990)**	148,800
Adjustments:			
Write back on deferred VAT receivable		**–**	(1,078)
Depreciation charges due to revaluation on 28 February 1995	*(i)*	**1,452**	1,452
Fixed assets written off	*(i) and (ii)*	**4,626**	–
Additional depreciation on fixed assets due to differences in exchange gains capitalised	*(iii)*	**7,310**	7,312
Loan interest capitalised in CIP	*(iv)*	**(4,013)**	(4,387)
Interest income from share proceeds	*(v)*	**520**	520
Appropriation to reserves	*(vi)*	**230**	222
Amortisation of housing subsidy cost	*(vii)*	**4,203**	–
Tax adjustments *(note 25)*	*(viii)*	**(57,105)**	(81)
Net profit/(loss) attributable to shareholders under PRC accounting standards		**(878,767)**	152,760

34. DIFFERENCES BETWEEN IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

The effect on shareholders' equity of the significant difference between IAS and PRC accounting standards is shown below:

		2000	1999
		RMB'000	*RMB'000*
			(Restated)
Shareholders' equity under IAS		**5,873,895**	6,199,476
Adjustments:			
Reduction in depreciation charges due to revaluation on 28 February 1995		**8,469**	7,017
Revaluation surplus of fixed assets		**(29,033)**	(29,033)
Deferred tax effect on the revaluation surplus		**9,580**	9,580
Exchange gains in respect of funds borrowed for fixed assets		**(112,471)**	(112,471)
Interest expenses capitalised on construction in progress		**(17,917)**	(13,904)
Reduction in depreciation charges on fixed assets due to differences in exchange gains capitalised		**27,762**	20,452
Reduction in loss on disposal due to revaluation on 28 February 1995		**4,626**	–
Housing subsidy, net of tax		**(47,891)**	–
Tax adjustments		**(29,775)**	27,331
Dividends declared after the balance sheet date	*(ix)*	**–**	(35,611)
Shareholders' equity under PRC accounting standards, as restated		**5,687,245**	6,072,837

35. ULTIMATE HOLDING COMPANY

The Company is a subsidiary of PetroChina Company Limited, a joint stock limited company established in the PRC. In the opinion of the directors, the ultimate holding company of the Company is China National Petroleum Corporation, a State-owned enterprise established in the PRC.

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 March 2001.