I. CORPORATE AFFILIATION

Jilin Chemical Industrial Company (the "Company") was established in the People's Republic of China (the "PRC") in accordance with "The Company Law of People's Republic of China" (the "Company Law") on 13 December 1994 as a joint stock limited company. The registration number of business license is 2200001000906. The principal activities of the Company consist of production and sales of petroleum products, petrochemical and organic chemical products, dyestuff and dye intermediates, synthetic rubber products, chemical fertilizers and inorganic chemical products, as well as other products and services.

The Company holds 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"). In connection with the restructuring, the Contributed Net Assets of the Predecessor as at 30 September 1994 were revalued to reflect their then current fair values. The Contributed Net Assets 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 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 immediate holding company.

As a State-owned enterprise, the Predecessor was originally controlled and administered by Jilin provincial government, as well as supervised by the National Administration of Petroleum and Chemical Industries. According to the restructuring regulation promulgated by State Council of the PRC, the Predecessor, together with certain oil fields and oil distribution company situated in North Eastern part of the PRC, became subsidiaries wholly owned by China National Petroleum Group Corporation (the "CNPC") since 1 July 1998. Therefore, CNPC becomes the ultimate holding company of the Company through the control over JCGC.

CNPC and its subsidiaries launched corporate restructuring (the "Corporate Restructuring") in 1999. Accordingly to an announcement relating to Corporate Restructuring, JCGC would transfer a total of 2,396,300,000 State-owned shares of the Company, together with certain assets and business of the JCGC to PetroChina Company Limited ("PetroChina"), a wholly owned subsidiary of CNPC which was established on 5 November 1999. Accordingly, PetroChina became the Company's immediate holding company. As at 31 December 1999, the transfer of the state-owned shares was still in process. However, the conversion of the shareholder began to be effective on 5 November 1999 as approval has been granted by China Securities Regulatory Commission for the conversion and related announcement.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Accounting policy

The Company prepared its financial statements in accordance with the accounting standards and regulations contained in the "Accounting Principles for PRC Enterprises" and the "Accounting System for Joint Stock Enterprises" and the relevant supplementary regulations promulgated by the Ministry of Finance. The subsidiary and associated companies prepared their financial statements in accordance with "Accounting Principles for Foreign Investment Enterprises". In accordance with (Cai Kuai Zi) [2001]] No. 17 requirement, a prior year adjustment referred to in Note II.18 is put through in the current year as a result of a change in accounting policy. The Company will prepare next year's financial statements in accordance with the new "Accounting Principles for PRC Enterprise" which became ettective on 1 January 2001.

2. Financial year

The financial year of the Company is from 1 January to 31 December of each year.

3. Basis of consolidation

The basis of consolidation of the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") is based on Provisional Regulation for Consolidated Financial Statements [1995] No. 11 as promulgated by the Ministry of Finance. In general, enterprises over which the Group has over 50% of the equity interest (apart from those described in note IV 6(iii)) or those which are in substance under the control of the Group despite that the Group has less than 50% of the equity interest are consolidated in the Group's financial statements. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

4. Accounting currency

The Group's financial records are maintained and the financial statements are stated in Renminbi.

5. Basis of accounting

The Group's financial statements are prepared on accrual basis and under historical cost convention.

6. Foreign currency transactions

Foreign currency transaction are recorded at the applicable rate of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rate of exchange prevailing at the balance sheet date. Foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. All other exchange differences are dealt with in the profit and loss account.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

7. Cash equivalents

Cash equivalents represent short-term, highly liquid investments (due within 3 months from the purchase date) which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

8. Inventories

Inventories, which comprise raw materials, work in progress, finished goods, ancillary materials and spare parts, are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of production overheads. The cost of inventories may not be recoverable if those inventories are damaged, become wholly or partially obsolete, or their selling prices are below cost. Accordingly, the management determines provision for the diminution in the value of the inventories through an analysis of the age, turnover rate and net realizable value of these inventories.

9. Long term investments

(i) Investments in bonds are stated at cost and the respective interest income is accounted for in the period on accrual basis.

(ii) Investments in equity of less than 20% are stated at cost; investments in equity of not less than 20% and in which the Company is in a position to exercise significant influence are accounted for using the equity method. Investments in equity of more than 50% and where the Company has a controlling interest are included in the Company's consolidated financial statements using the equity method.

(iii) The difference between the sale proceeds and book value of the investments on disposal is accounted for in the profit and loss account.

(iv) Provision for permanent diminution in value of investment is made in the cases where there is a continuing diminution in the value of investment in bonds or there is a deterioration in the operating result of the investee company and such diminution in value is not expected to be recoverable in the foreseeable future.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

10. Fixed assets and depreciation

Fixed assets comprise building, plant, machinery and miscellaneous equipment having a useful life of more than one year, and those other than the major operating equipment of which their unit costs are more than Rmb2,000 with a useful life of more than two years.

The cost of an asset comprises its purchase price and directly attributable borrowing costs and exchange differences of bringing the asset to the working condition for its intended use. Expenses relating to significant upgrading, replacement and technical modification which are value-added are capitalized as cost of these fixed assets.

Routine repairs and maintenance expenses incurred are charged to the profit and loss account in the period.

Fixed assets are stated at cost or at revalued amount, pursuant to the Group's restructuring on 30 September 1994, less accumulated depreciation.

Depreciation of fixed assets is calculated on a straight-line basis. The depreciation rate of each asset is derived from its respective cost or revalued amount, estimated useful life and estimated residual amount (3% on cost or revalued amount). The estimated useful lives and depreciation rates of fixed assets are as follows:

	Estimated useful lives	**Annual depreciation rate**
Buildings and constructions	10 to 45 years	2.2 to 9.7%
Plant, machinery and equipment	10 to 35 years	2.8 to 9.7%
Transportation equipment	12 years	8.1%
General equipment	8 to 28 years	3.5 to 12.1%

In general, depreciation of fixed assets is provided monthly. The depreciation of the addition of fixed assets is provided in the subsequent month when the fixed assets are purchased. The depreciation of the disposed fixed assets ceases to be provided in the subsequent month when the fixed assets are disposed of.

11. Construction in progress

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 exchange differences on any related borrowed funds during the period of construction, installation and testing. Capitalization 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 issuance of the relevant commissioning certificates by the appropriate PRC authorities.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

12. Intangible assets and amortisation

Intangible assets include the land use rights and know-how.

Land use rights are stated at cost (the value of which was confirmed by the State Land Administration Bureau) less accumulated amortisation. The amortisation is calculated to write off the land use rights evenly over the estimated useful life of 50 years.

Know-how represents the purchased cost of know-how in relation to the Ethylene 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 to the profit and loss account over the estimated useful life of the underlying facilities, starting from the date when the underlying facilities are completed and ready for their intended use.

13. Other long term assets

Other long term assets represents deferred staff losts.

Deferred staff costs represents capitalised loss, amounting to RMB84.09 million, arising from the disposal of staff quarters to employees at preferential prices, under the housing reform policy as required by the PRC government, and is amortised on a straight-line basis to the profit and loss account over 20 years, which approximates the estimated remaining average service life of the relevant employees, starting from January 1998.

In current year, CNPC Group Companies agreed to bear the aforementioned loss of RMB84.09 million. Pursuant to this arrangement, the liability of RMB84.09 million due to JCGC Group Companies is set off against the net book value of the unamortised amount of RMB75.68 million. The difference of RMB8.41 million is transferred to capital reserve.

14. Accounting for income tax

Deferred tax is provided, using the liability method, on significant timing differences arising between the accounting bases and tax bases of certain items to the extent it is probable that these timing differences will be reversed in the foreseeable future.

15. Recognition of sales

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree ususally associated with ownership, nor effective control over the goods sold.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

15. Recognition of sales *(Continued)*

Turnover represents the net invoiced value of sales (not including output VAT), after allowance for goods returned and trade discounts.

The turnover in the consolidated financial statements does not include intra-group sales.

16. Provision for doubtful debts

Provision for doubtful debts is determined based on the aging analysis method by reference to the length of period for which the trade debtors and other debtors have been recorded. According to the relevant standards, policies and regulations issued by the Ministry of Finance, this aging analysis method is acceptable.

The basis of calculating the provision for doubtful debts is based on the aging of debts due from the trade debtors and other debtors after excluding those debtors that are not required to be provided (these debtors are related companies as disclosed in note V or those with good repayment records). The details are as follows:

Aging of debts	**Provision for doubtful debts**
Within six months	No provision
More than six months but within twelve months	10%
More than one year but within two years	50%
More that two years	100%

17. Profit appropriation

Amount available for profit distribution is based on the lower of the unappropriated profit under the IAS or PRC accounting standards after transferring the net profit to the Statutory common reserve, Statutory public welfare fund and Discretionary common reserve.

Pursuant to the relevant regulations in respect of the profit appropriation of enterprises listed overseas imposed by the Ministry of Finance in August 1995 (Cai Kuai Zi [1995] No. 31), the transfer to the Statutory common reserve and Statutory public welfare fund should be based on 10% and 5 to 10% of the net profit, respectively, under the PRC accounting standards.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

18. Change in accounting policy

In this fiscal year , the Company adopted Cai Kuai [2001] No.17 to account for the impairment of fixed assets. Retroactive prior year adjustment has been put through in respect of the figures of 1999 for proper comparison. As a result of the change in accounting policy the financial statements have been restated to reflect such change. The change in accounting policy resulted in an increase in profit of RMB 9.69 million in the year 2000. Cumulative effect of the change is a retroactive effect of RMB 16.09 million which consists of an increase in profit for the year 1999 by RMB 4.13 million and a reduction of retained profits brought forward from 1998 of RMB 20.22 million.

III. TAXATION

The principal kinds of taxes and the related rates are as follows;

(i) Value added tax ("VAT") – in accordance with the relevant tax regulations, the VAT rate of the Group's products is 17%. The output VAT, which is based on 17% of the Group's sales payable by the buyers to the Group is payable by the Group to the tax bureau, after offsetting against the input VAT paid on purchases.

(ii) Consumption tax ("CT") – according to the relevant PRC tax regulations, gasoline and diesel oil generated from the Group's sales are subject to the consumption tax. During 2000, CT on the Group's sales of gasoline and diesel oil were levied at RMB277.6/ton and RMB117.6/ton respectively.

(iii) Business tax ("BT") – according to the relevant PRC tax regulations, the Group has to pay a BT of 5% on the revenue from services rendered.

(iv) City construction and maintenance tax ("CCMT") – in accordance with the relevant PRC tax regulations, the Group has to pay a CCMT of 7% on the sum of net VAT payable, BT and CT.

(v) Education tax ("ET") – in accordance with the relevant PRC tax regulations, the Group has to pay an ET of 3 % on the sum of net VAT payable BT and CT.

(vi) Income tax - the Company is subject to a tax rate of 33% according to the "Provisional Rules of the People's Republic of China on Enterprise Income Tax" ("Provisional Rules on Enterprise Income Tax"). The subsidiaries and associated companies are levied under the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" ("Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises"). Details of income tax are shown in note IV (27).

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS

1. Cash and bank balances

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Cash on hand	**69,911**	35,624	**69,204**	34,873
Cash in bank	**228,894,626**	246,750,618	**198,632,229**	240,449,259
	228,964,237	246,786,242	**198,701,433**	240,484,132

2. Trade debtors

Balance of the trade debtors and respective aging analysis are as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Within one year	**2,321,597,831**	1,112,469,176	**2,318,135,119**	1,104,879,113
More than one year but within two years	**342,704,904**	149,034,062	**342,543,817**	147,956,428
More than two years but within three years	**105,083,462**	75,059,129	**105,083,462**	73,164,842
More than three years	**162,167,042**	101,619,913	**152,327,855**	100,766,017
	2,931,553,239	1,438,182,280	**2,918,090,253**	1,426,766,400
Less: provision for doubtful debts	**(240,777,394)**	(173,442,077)	**(240,724,482)**	(173,394,247)
	2,690,775,845	1,264,740,203	**2,677,365,771**	1,253,372,153

The five largest trade debtors are as follows:

Name of enterprises	Amount RMB	Period	Description
JCGC Jilin CIty Chang Song Chemical factory Plant*	141,578,189	1997-2000	Sales of goods
JCGC Butylene Plant*	111,907,199	1998-2000	Sales of goods
JCGC Import and Export Company*	25,758,121	2000	Sales of goods
JCGC Jilin City Northern Yun Que Gas Plant*	23,518,483	2000	Sales of goods
Liaoning Qing Yang Chemical Plant	25,356,538	1999-2000	Sales of goods

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

2. Trade debtors *(Continued)*

Except for the amounts due from CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies as disclosed in note V, there are no other balances included in trade debtors which are due from shareholders who hold more than 5% of the shares of the Company.

* *Being associated of companies of JCGC*

3. Prepayment/other debtors

(i) As at 31 December 2000, the five largest prepayment balances are as follows:

Name of enterprises	Amount RMB	Period	Description
Jihua Import & Export Company*	23,800,754	2000	Advances for purchases
JCGC*	17,373,204	2000	Advance for purchase
Jihua Public Utilities Compay*	10,009,039	2000	Prepaid electricity expenses
Jihua Construction Company*	9,357,694	2000	Advance for purchase of naphtha
Zhong Bei International Warehouse Company (Dalian Branch)	9,001,432	2000	Advance for purchase of naphtha

Except for the amounts due from CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies as disclosed in note V, there are no other balances included in prepayment which are due from shareholders who hold more than 5% of the shares of the Company.

* *Being associated of companies of JCGC*

(ii) Balance of the other debtors and the respective aging analysis are as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Within one year	**654,210,002**	331,105,359	**648,227,280**	307,880,064
More than one year but within two years	**8,145,674**	46,459,764	**8,146,254**	46,459,051
More than two years but within three years	**1,396,972**	7,094,008	**1,378,654**	7,094,008
More than three years	**11,703,938**	9,982,588	**11,704,245**	9,982,315
	675,456,586	394,641,719	**669,456,433**	371,415,438
Less: provision for doubtful debts	**(23,457,113)**	(29,854,000)	**(23,457,113)**	(29,854,000)
	651,999,473	364,787,719	**645,999,320**	341,561,438

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

3. Prepayment/other debtors *(Continued)*

Except for the amounts due from CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies as disclosed in note V, there are no balances included in other debtors which are due from shareholders who hold more than 5% of the shares of the Company.

The five largest other debtors are as follows:

Name of enterprises	Amount RMB	Period	Description
Jilian (Jilin) Petrochemicals Limited*	77,706,716	2000	Advance for interest expenses and loan
Jilin Xinghua Nitrochloro-benezenl Compay Limited*	23,374,367	2000	loan in advance
Jihua Public Utilities Company*	5,163,512	1997	Advance for house loan
JCGC*	4,353,447	1997-2000	Advance for staff house Loan
You Ji Xing Zheng Plant	2,358,567	1997	Advance for administrative expenses related to improvement of staff wealfare activities

* *Being associated companies of JCGC*

4. Inventories

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Raw materials	**701,360,675**	654,049,807	**694,169,491**	644,924,585
Work in progress	**234,613,226**	181,618,316	**234,613,226**	181,618,316
Finished goods	**556,973,982**	435,799,102	**556,973,982**	435,799,102
Spare parts	**393,223,419**	313,952,988	**393,221,624**	313,952,988
Total	**1,886,171,302**	1,585,420,213	**1,878,978,323**	1,576,294,991
Less: Provision for inventories	**(65,457,079)**	(10,236,808)	**(65,018,932)**	(10,236,808)
	1,820,714,223	1,575,183,405	**1,813,959,391**	1,566,058,183

The Group determines provision for inventories based on the difference that the net realisable value is lower than the cost. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

5. Deferred expenses

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Unutilised raw materials	**3,013,675**	768,106	**3,013,675**	768,106
Prepaid insurance	**4,008,083**	5,561,749	**3,819,364**	5,561,749
Others	**3,875,381**	2,644,506	**3,875,381**	2,644,506
	10,897,139	8,974,361	**10,708,420**	8,974,361

Unutilised raw materials represent those injected in the production facilities and can be used for a short period of time. Each item of raw material is amortised over the estimated period of consumption. The raw materials remained unamortised are included in unutilised raw materials at year end.

6. Long term investments

		Group		Company	
		2000	1999	**2000**	1999
		RMB	*RMB*	***RMB***	*RMB*
Investments in bonds		**–**	90,000	**–**	90,000
Investments in equity					
– interests in subsidiaries		**–**	–	**113,154,010**	190,590,219
– interests in joint ventures	*(ii)*	**243,774,101**	207,563,254	**243,774,101**	207,563,254
		243,774,101	207,653,254	**356,928,111**	398,243,473
Less: Provision for diminution in value		**–**	–	**–**	–
		243,774,101	207,653,254	**356,928,111**	398,243,473

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

6. Long term investments *(Continued)*

(i) Interests in subsidiaries

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

Name	Principal activities	Registered capital *RMB*	Percentage of equity held by the Company	Actual investments made by the Company 2000 *RMB*	Actual investments made by the Company 1999 *RMB*
Jilin Xinghua Nitrochlore – benzene Company Limited (JNCB)	Manufacturing of dyestuffs	25,668,000	75%	–	19,250,000
Jili Winsway Chemical Industral Store ad Transport Limited (Winsway)	Provision of transportation services for chemical products	51,454,000	70%	12,726,000	12,726,000
Jilin City Songmei Acetic Acid.Co., Ltd ("Songmei")	Manufacturing of acetic acid	72,000,000	66%	38,419,731	38,419,731
Share of retained profits/ (accumulated losses) of subsidiaries					
– JNCB				–	(46,978,397)
– Winsway				2,716,068	2,442,057
– Songmei				19,890,457	–
Amounts due from subsidiaries					
– JNCB				–	105,505,123
– Winsway				1,700,624	7,524,247
– Songmei				37,701,130	51,701,458
				113,154,010	190,590,219

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

6. Long term investments *(Continued)*

(i) Interests in subsidiaries (Continued)

JNCB is a Sino-foreign co-operative joint venture company established on 21 February 1991. The tenure of the joint venture is 20 years starting from 21 February 1991 to 20 February 2011. 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 since 1995. After providing the guaranteed return, the Company is entitled to the benefit of 100% of all profits or losses arising from JNCB and the net assets of JNCB will belong to the Company after its operation period.

JNCB has incurred significant loss and the operation was ceased in 2000. Pursuant to Enterprises Accounting Standard and Cai Kuai Zi [95] No. 11, the results of JNCB is not included in consolidation, and the long-term investment in JNCB amounting to RMB 19.25 million was fully written off.

Winsway is a Sino-foreign equity joint venture company established on 7 August 1995. The tenure of the joint venture is 10 years starting from 7 August 1995 to 6 August 2005. According to the joint venture agreement, the profit appropriation is based on the ratio of capital amount contributed.

Songmei is a sino-foreign co-operative joint venture company established on 26 December 1997. The tenure of the joint ventre company is 20 years starting from 26 December 1997 to 25 December 2017. According to the joint venture agreement entered into between the Company and the foreign joint venture partner, the profit appropriation ratios enjoyed by the foreign joint venture partner for the first four years, for the fifth to tenth year and for the eleventh to twentieth year are 50%, 34.6% and 25%, respectively.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

6. Long term investments *(Continued)*

(ii) Interests in joint ventures

Name	Investment period	Registered capital *RMB*	Percentage of equity held by the Company	Actual investments 2000 *RMB*	Actual investments 2000 *RMB*
Jilian (Jilin) Petrochemicals Limited ("Jilian")	50 years	416,971,720	65%	271,031,590	271,031,590
Jilin Province BASF FCIC NPG Co., Ltd. ("BASF")	no limit	150,000,000	40%	60,066,150	60,066,150
Jilin Jite FRP Company Limited ("Jite")	4 years	2,107,000	50%	–	1,053,000
Share of retained profits/ (accumulated losses)					
– Jilian				(72,765,837)	(113,174,617)
– BASF				(14,557,802)	(11,575,708)
– Jite				–	162,839
				243,774,101	207,563,254

The Company has a 65% equity interest in Jilian which was established on 15 March 1994. The principal activity of Jilian is the manufacturing of petrochemicals. According to Jilian's articles of association, the Company has four of the seven votes of the board of directors but does not have the ability to exercise control over this company's board as unanimous approval is required for significant board resolutions. In addition, the amounts of total assets, turnover and net profit of Jilian were less than 10% of the respective amounts of the Group's total assets, turnover and net profit. Accordingly, the financial statements of Jilian are not included in the Company's consolidated accounts and are accounted for using the equity method of accounting. Jilian generated a profit of RMB 62,167,353 for the year ended 2000.

BASF was established on 15 November 1995. The Company has a 40% equity interest in BASF and committed to an investment of RMB60,000,000 to be contributed by the Company in which RMB5,766,150 was in the form of land use rights and the remaining RMB54,300,000 was in the form of cash. Up to 31 December 2000, the Company has made a capital contribution in the form of cash of RMB54,300,000 and land use right of RMB5,766,150, respectively, to BASF. BASF incurred a loss of RMB7,455,235 for the year ended 31 December 2000.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

6. Long term investments *(Continued)*

(ii) Interests in joint ventures

Jite is an equity joint venture company established on 7 June 1996. The tenure of the joint venture is 4 years starting from 7 June 1996 to 18 June 2000. According to the joint venture agreement, the profit appropriation is based on the ratio of capital amount contributed. According to the investment and withdrawal of investment agreement, the company has withdrawn its investment on 31 August 2000 and ceased to enjoy any profit allocation. Jite's loss was RMB43,200 for the period from 1 January 2000 to date of withdrawal of investment.

7. Fixed assets

Group

	1 January 2000 RMB	Additions during the year RMB	Disposal during the year RMB	31 December 2000 RMB
Cost or revalued amount:				
Buildings and constructions	1,350,004,162	282,639,589	(178,248,213)	1,454,395,538
Plant, machinery and equipment	9,351,953,744	633,894,376	(845,839,229)	9,140,008,891
General equipment	2,213,398,560	174,659,103	(258,620,132)	2,129,437,531
Transportation equipment	186,498,131	3,264,437	(18,063,389)	171,699,179
Total	13,101,854,597	1,094,457,505	(1,300,770,963)	12,895,541,139
Accumulated depreciation:				
Buildings and constructions	241,561,794	119,628,391	(86,994,204)	274,195,981
Plant, machinery and equipment	1,712,677,653	399,037,256	(123,901,760)	1,987,813,149
General equipment	918,467,359	246,344,321	(472,100,940)	692,710,740
Transportation equipment	73,596,378	15,648,176	(12,220,821)	77,023,733
Total	2,946,303,184	780,658,144	(695,217,725)	3,031,743,603
Net book value	10,155,551,413			9,863,797,536

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

7. Fixed assets *(Continued)*

Company

	1 January 2000	Additions during the year	Disposal during the year	31 December 2000
	RMB	*RMB*	*RMB*	*RMB*
Cost or revalued amount:				
Buildings and constructions	1,317,047,011	283,432,489	(170,236,139)	1,430,243,361
Plant, machinery and equipment	9,170,689,954	684,526,823	(803,401,210)	9,051,815,567
General equipment	2,139,616,873	120,576,965	(238,477,164)	2,021,716,674
Transportation equipment	157,750,172	1,253,643	(15,945,300)	143,058,515
Total	12,785,104,010	1,089,789,920	(1,228,059,813)	12,646,834,117
Accumulated depreciation:				
Buildings and constructions	239,338,750	118,605,125	(85,808,262)	272,135,613
Plant, machinery and equipment	1,700,152,156	392,606,116	(466,154,213)	1,626,604,059
General equipment	908,361,226	239,667,430	(118,126,159)	1,029,902,497
Transportation equipment	61,934,034	10,579,210	(11,095,310)	61,417,934
Total	2,909,786,166	761,457,881	(681,183,944)	2,990,060,103
Net book value	9,875,317,844			9,656,774,014

All the Group's buildings are located in the PRC and the land where the Group's buildings are situated is State-owned.

The Ethylene Project facilities have been completed and transferred to fixed assets. Moreover, they have been pledged to certain banks to secure bank loans granted to the Company through JCGC, of which RMB 1.7 billion had been utilised at the balance sheet date and was reflected in the other long term liabilities, see [note IV (16)]. The net book value of the captioned fixed assets pledged to banks amounted to RMB 5,169,306,000 as at 31 December 2000.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

7. Fixed Assets *(Continued)*

Provision on impairment loss was made on fixed assets that are carried at no more than their recoverable amount. Such provision is required on fixed assets with the following indication:

1) Idle for a long time and will not be used in the foreseeable future and has no resaleable value.

2) Changes of technology and fixed assets becoming absolete

3) Cannot produce quality products although fixed assets can still be used

4) Physical damaged hence cannot function properly and contains no resaleable value.

5) Cannot generate further economic benefit to the Company.

8. Construction in progress

	2000	
	Group	**Company**
	RMB	*RMB*
Balance at beginning of year	317,368,593	316,872,404
Additions	910,009,437	908,333,418
including: Interest capitalised	38,817,278	38,817,278
Transfer to fixed assets	(742,924,587)	(740,752,379)
Balance at end of year	484,453,443	484,453,443

The following schedule listed out the construction in progress of the Company and the Group which remained incomplete as at 31 December 2000

Name of project	Budgeted amount	Approval document number	Source of capital	Stage of completion	Actual amount of expenditure Group	Company
	RMB		*RMB*	*RMB*	*RMB*	*RMB*
Synthetic ammonia	1,612,640,000	Jilin invest -ment [1998] NO.1976	loan and own capital	25%	430,435,608	430,435,608
facilities Others					54,017,835	54,017,835
Total construction in progress at end of year					484,453,443	484,453,443

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

9. Intangible assets *(Continued)*

Group

	Land use rights *RMB*	**Know-how** *RMB*	**Total** *RMB*
Cost			
Balance at beginning of year	1,087,058,000	457,812,471	1,544,870,471
Additions during the year	300,104	173,960,000	174,260,104
Balance at 31 December 2000	1,087,358,104	631,772,471	1,719,130,575
Accumulated amortisation			
Balance at beginning of year	115,124,563	103,596,942	218,721,505
Amortisation for the year	21,753,398	51,654,798	73,408,196
Balance at 31 December 2000	136,877,961	155,251,740	292,129,701
Net book value			
Balance at 31 December 2000	950,480,143	476,520,731	1,427,000,874
Balance at 31 December 1999	971,933,437	354,215,529	1,326,148,966

Company

	Land use rights *RMB*	**Know-how** *RMB*	**Total** *RMB*
Cost			
Balance at beginning of year	1,085,180,584	457,812,471	1,524,993,055
Additions during the year	300,104	173,960,000	174,260,104
Balance at 31 December 2000	1,085,480,688	631,772,471	1,717,253,159
Accumulated amortisation			
Balance at beginning of year	114,955,563	103,596,942	218,552,505
Amortisation for the year	21,518,309	51,654,798	73,173,107
Balance at 31 December 2000	136,473,872	155,251,740	291,725,612
Net book value			
Balance at 31 December 2000	949,006,816	476,520,731	1,425,527,547
Balance at 31 December 1999	970,225,021	354,215,529	1,324,440,550
Remaining year of amortisation	43 years and 9 months	7 years	

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

9. Intangible assets *(Continued)*

Pursuant to an approval document dated 23 November 1994 issued by the State Land Administration Bureau, the Company was granted the right to use the land on which the buildings are erected for a period of 50 years commencing 1 October 1994.

Know-how represents the purchase costs of know-how in relation to the Ethylene 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 to the profit and loss account over the estimated useful life of the underlying facilities, starting from the date when the underlying facilities are completed and ready for their intended use.

10. Other long term assets

Group and Company

	2000
	RMB
Cost	
Balance at beginning of year and	84,088,987
Written-off during the year	(84,088,987)
Balance at 31 December 2000	–
Accumulated amortisation	
Balance at beginning of year	8,408,898
Written-off during the year	(8,408,898)
Balance at 31 December 2000	–
Net book value	
Balance at 31 December 2000	–
Balance at 31 December 1999	75,680,089

Deferred staff cost represents the capitalised loss, amounting to RMB84.09 million, arising from the disposal of staff quarters to employees at preferential prices, under the housing reform policy as required by the PRC government, and is amortised on a straight-line basis to the profit and loss account over 20 years, which approximates the estimated remaining average service life of the relevant employees, starting from January 1998.

In current year, CNPC Group Companies agreed to bear the aforementioned loss of RMB84.09 million. Pursuant to this arrangement, the liability of RMB84.09 million due to JCGC Group Companies is set off with the net book value of the unamortised amount of RMB75.68 million. The difference of RMB8.41 million is transferred to capital reserve.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

11. Short term loans

The balances of short term loans of the Group and the Company as at the beginning and end of 2000 are as follows:

Group

Lending unit	Annual interest rate	Currency	Loan period	Conditions of borrowing	Balance at beginning of year *RMB*	Balance at end of year *RMB*
CNPC Finance Company	5.265%	RMB	One year	No pledge	625,070,000	1,350,000,000
Commercial and Industrial Bank of China	5.85%-6.44%	RMB	Six months to one year	No pledge	841,300,000	639,440,000
Construction Bank of China	4.88-10.07%	RMB	One year	No pledge	177,000,000	–
Communication Bank of China	5.36%	RMB	Nine months to one year	No pledge	505,000,000	–
Bank of China	6.14%-7.62%	RMB	Six months to one year	No pledge	106,930,000	–
The Commercial Bank of Jilin City	5.36%-6.35%	RMB	Ten months to one year	No pledge	24,000,000	–
Investment Company of Jilin Province	7.03%	RMB	Six months	No pledge	10,000,000	–
					2,289,300,000	1,989,440,000

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

11. Short term loans *(Continued)*

Company

Lending unit	Annual interest rate	Currency	Loan period	Conditions of borrowing	Balance at beginning of year *RMB*	Balance at end of year *RMB*
CNPC Finance Compny	5.265%	RMB	One year	No pledge	625,070,000	1,350,000,000
Commercial and Industrial Bank of China	5.85%-6.44%	RMB	Six months to one year	No pledge	811,300,000	549,440,000
Construction Bank of China	4.88%-10.07%	RMB	One year	No pledge	177,000,000	–
Communication Bank of China	5.36%	RMB	Nine months to one year	No pledge	505,000,000	–
Bank of China	6.14%-7.62%	RMB	Six months to one year	No pledge	106,930,000	–
The Commercial Bank of Jilin City	5.36%-6.35%	RMB	Ten months to one year	No pledge	24,000,000	–
Investment Company of Jilin Province	7.03%	RMB	Six months	No pledge	10,000,000	–
					2,259,300,000	1,899,440,000

12. Trade creditors/Advance from customers/Other creditors

At 31 December 2000, there are no balances due to related companies included in trade creditors and advance from customers except for those balances with CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies as disclosed in note V.

At 31 December 2000, there are no balances due to related companies included in other creditors except for those balances with CNPC Group Companies, PetroChina Group Companies and JCGC Group Companies as disclosed in note V. Other creditors mainly consist of outstanding amounts related to the construction in progress and fixed assets and other accrued expenses. Included in other creditors in the consolidated balance sheet is an amount due to JCGC Group Companies of amounting to RMB 700 million. Interest rate is 8% per annual with the maturity date at 1 June 2001.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

13. Taxes payable

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Value added tax	**(117,858,346)**	(101,098,317)	**(117,513,396)**	(99,002,048)
Consumption tax	**162,171**	(3,039,700)	**162,171**	(3,039,700)
City construction and maintenance tax	**(32,914,761)**	(15,139,143)	**(32,906,077)**	(15,139,143)
Real estates tax	**(3,734,332)**	(252,007)	**(3,734,332)**	(252,007)
Land use tax	**(1,729,126)**	236,888	**(1,729,126)**	236,888
Business tax	**(1,210,222)**	830,484	**(1,345,467)**	741,349
Income tax *(note 27)*	**(2,387,656)**	71,843,256	**(2,814,394)**	71,900,878
Others	**(10,536,044)**	(3,608,919)	**(10,556,904)**	(3,614,272)
	(170,208,316)	(50,227,458)	**(170,437,525)**	(48,168,055)

14. Current portion of long term liabilities

Group and Company

Lending unit	Date of borrowing	Annual interest rate	Maturity Currency	Conditions date	beginning of borrowing	Balance at end of of year	Balance at year
						RMB	*RMB*
Construction Bank of China	October 1995	10.53%	RMB	December 2000	No pledge	8,000,000	–
	August 1997	5.184%	RMB	August 1999*	No pledge	700,000	–
	September 1997	12.42%	RMB	September 2000	No pledge	15,600,000	–
	September 1997	10.35%	RMB	April 2000	No pledge	16,000,000	–
	July 1999	8.42%	RMB	July 2001	No pledge	–	238,641,381
Commercial and Industrial Bank of China	December 1997	9.36%	RMB	December 2000	No pledge	4,370,000	–
	November 1997	9.36%	RMB	November 2000	No pledge	20,000,000	–
	December 1997	9.36%	RMB	December 1999*	No pledge	13,000,000	–
	February 1998	9.504%	RMB	December 2000	No pledge	2,700,000	–
	August 1998	7.11%	RMB	August 2001	No pledge	–	9,200,000
	December 1999	5.94%	RMB	December 2001	No pledge	–	9,960,000
Bank of China	December 1996	11.70%	RMB	December 2000	No pledge	3,450,000	–
	December 1996	11.70%	RMB	December 2000	No pledge	9,520,505	–
CNPC Finance Company	July 1999	6.875%	RMB	July 2000	No pledge	9,151,730	
	July 1999	6.875%	RMB	July 2000	No pledge	4,673,753	
Agricultural Bank of China	September 1998	7.82%	RMB	September 2001	No pledge	–	96,190,000
Environment Protection Bureau, Jilin	April 1999	4.32%	RMB	January 2001	No pledge	–	400,000
JCGC Financial	June 1998	8%	RMB	June 2001	No Pledge	–	700,000
						107,165,988	1,054,391,381

* *The above loans have been overdue because the Group was in need of working capital. The Group maintains a good relationship with each of the financial institutions and the procedures for extending the repayment period are now being processed.*

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

15. Long term loans

Group and Company

Lending unit	Date of borrowing	Annual interest rate	Currency	Maturity date	Conditions of borrow	Balance at beginning of year RMB	Balance at end of year RMB
Construction Bank of China	September 1997	12.42%	RMB	October 2005	No pledge	122,400,000	–
	April 1998	10.35%	RMB	October 2005	No pledge	94,000,0000	–
	July 1997	8.66%	USD	December 2009	No pledge	269,513,079	242,544,191
	July 1999	8.42%	RMB	July 2001	No pledge	191,491,813	–
	July 1999	4.32%	RMB	January 2001	No pledge	400,000	–
	August 1999	5.04%	RMB	August 2002	No pledge	650,000	–
	October 1999	6.831%	RMB	October 2005	No pledge	12,000,000	–
	February 1999	7.11%	RMB	April 2001	No pledge	100,000,000	–
	March 1999	7.11%	RMB	September 2001	No pledge	70,000,000	–
	April 1999	7.11%	RMB	October 2001	No pledge	80,000,000	–
Commercial and Industrial Bank of China	September 1998	7.11%	RMB	September 2001	No pledge	1,700,000	–
	August 1998	7.11%	RMB	August 2001	No pledge	2,500,000	–
	July 1998	7.11%	RMB	July 2001	No pledge	5,000,000	–
	December 1999	6.030%	RMB	July 2003	No pledge	7,700,000	7,700,000
	December 1999	5.940%	RMB	December 2001	No pledge	9,960,000	–
	December 1999	5.940%	RMB	November 2002	No pledge	9,700,000	9,700,000
	December 1999	5.940%	RMB	December 2002	No pledge	9,900,000	9,900,000
	December 1999	5.940%	RMB	October 2002	No pledge	9,800,000	9,800,000
	April 1999	7.029%	RMB	April 2001	No pledge	20,000,000	–
	April 1999	7.029%	RMB	April 2001	No pledge	8,500,000	–
	December 1999	6.030%	RMB	July 2003	No pledge	9,950,000	9,950,000
	January 2000	6.030%	RMB	December 2004	No pledge	–	9,500,000
Development Bank of China	September 1998*	5.5%	USD	December 2012	No pledge	–	317,373,256
Communication Bank of China	September 2000	5.94%	RMB	September 2003	No pledge	–	200,000,000
	August 2000	5.94%	RMB	August 2003	No pledge		300,000,000
CNPC Financial	September 2000	5.265%	RMB	December 2002	No pledge	–	122,000,000
	June 2000	5.85%	RMB	December 2002	No pledge	–	353,000,000
	August 2000	5.265%	RMB	December 2002	No pledge	–	1,800,000,000
	December 2000	5.265%	RMB	December 2002	No pledge	–	97,000,000
	June 2000	6.03%	RMB	December 2005	No pledge		228,400,000
	2000	5.022%	RMB	December 2002	No pledge		133,550,000
	November 2000	5.346%	RMB	November 2003	No pledge		300,000,000
	November 2000	5.346%	RMB	November 2003	No pledge		105,800,000
	December 2000	5.346%	RMB	December 2003	No pledge		74,900,000
	December 2000	5.346%	RMB	December 2003	No pledge		80,000,000
	October 2000	5.427%	RMB	October 2003	No pledge		100,000,000
Environment Protection Bureau	November 1994	5.04%	RMB	December 2002	No pledge	1,200,000	1,200,000
Agricultural Bank of China	September 1998	7.82%	RMB	September 2001	No pledge	196,190,000	–
						1,232,554,892	4,512,317,447

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

15. Long term loans *(Continued)*

* *The loan was borrowed by JCGC for its investment in the Synthetic ammonia facilities project in September 1998. However, investment project had not been carried out by JCGC and the Loan was then transferred from JCGC this year as the Group started to carry out the Synthetic ammonia facilities improvement project.*

16. Other long term liabilities

Other long term liabilities include long term loans due to JCGC and PetroChina:

	Group		**Company**	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Long term loans due to JCGC				
Ethylene Project loans	**1,767,784,135**	4,746,951,633	**1,767,784,135**	4,746,951,633
Other loans	**300,000,000**	97,568,540	**300,000,000**	97,461,114
Long term loans due to PetroChina	**1,000,000,000**	–	**1,000,000,000**	–
Total	**3,067,784,135**	4,844,520,173	**3,067,784,135**	4,844,412,747

The Ethylene Project loans include Renminbi, United States Dollars, Deutschemarks and Japanese as follows:

	2000		1999	
	Original Currency	**RMB**	Original Currency	RMB
Renminbi	**–**	**–**	4,746,951,633	4,746,951,633
United State Dollars	**154,904,308**	**1,282,313,366**	–	–
Japaese	**5,062,678,235**	**366,649,283**	–	–
Deutschemarks	**30,194,523**	1,767,784,135	–	–
Total		**1,767,784,135**	4,746,951,633	4,746,951,633

The Ethylene Project loans are interest bearing at a range from 5.2% to 8.4%. Pursuant to the "Fixed Exchange Rate Repayment Agreement" entered into between the Company and JCGC on 30 September 1998, all the outstanding foreign currency loans in connection with the Ethylene Project will 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.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

16. Other long term liabilities *(Continued)*

According to the agreement signed between the Company and JCGC in year 2000, foreign currency loans which were reclassified as Renminbi loans were reconverted to foreign currency loans again. Any foreign exchange difference between 1 October 1998 and 31 December 2000 was borne by JCGC while the foreign exchange difference, starting from 1 January 2000, is borne by the Group.

The other loan is not pledged and is interest bearing at 9% per annum and its maturity is 1 June, 2003. The Long term loan due to PetroChina Group is not pledged, interest bearing at 4.0% per annum and its maturity is September 2007.

JCGC and PetroChina confirmed that they will not demand repayment of aforesaid loans before 31 December 2002.

17. Share capital

	2000	1999
	RMB	*RMB*
Registered, issued and fully paid:		
2,396,300,000 Domestic Shares of RMB1.00 each	**2,396,300,000**	2,396,300,000
964,778,000 H Shares of RMB1.00 each	**964,778,000**	964,778,000
200,000,000 A Shares of RMB1.00 each	**200,000,000**	50,000,000
	3,561,078,000	3,411,078,000

(a) The Company issued 893,027,000 H shares, with the par value of RMB1.00 each share, in overseas stock market on 23 May 1995 among which the H shares accounts for 89,302,700 shares and ADR (American Deposit Receipts) accounts for 8,037,243 shares (1ADR=100 H Shares). The issuing prices of H share and ADR are HKD1.589 and USD20.75 respectively.

(b) The Company issued 71,751,000 H shares in form of 717,510 ADR on 17 June 1995. The par value per each H share was RMB1.00 and the issuing price per each ADR was US$20.75. All the shares were underwritten by overseas underwriters. Meanwhile, the option to allocate the excessive shares was executed according to the underwriting agreements signed with the underwriters on 23 May 1995 when the Company issued the new shares. The funds raised from this issuing was utilized to finance the capital expenditure and working capital of the Group.

IV. **NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS** *(Continued)*

17. **Share capital** *(Continued)*

(c) Pursuant to Zhengjianfazi [1996] No. 234, the Company issued 50,000,000 A shares with the par value of RMB1.00, among which 30,000,000 shares with the issuing price of RMB3.50 per share were to be subscribed by the public and the remaining 20,000,000 shares of the same price were to be subscribed by the internal staff of the Company. The 30,000,000 A shares to the public were traded in Shenzhen Stock Exchange on 15 October 1996 and the 20,000,000 A shares to the internal staff were traded in market on 15 April 1997.

(d) Pursuant to an document issued by China Securities Regulatory Commission on 13 th December 1999,the Company was entitled to issued an additional 150,000,000 A shares of par value of RMB 1.00 each of which a total of 22,500,000 shares were proposed to be issued to securities investment funds while the remaining 127,500,000 shares were proposed to be issued to the Companyís A shareholders at a ratio of 1:2.55 shares for each shares held by such shareholders. The Company carried out the aforesaid issuance of A shares at the final issue price of RMB 3.3 per share in January 2000. The gross proceeds from the issuance of A shares amounted to RMB 495,000,000, yielding net proceeds of RMB485,518,000,000 after deducting the related issue expenses. As such the total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

18. **Capital reserve**

Group and Company

	2000	1999
	RMB	RMB
Balance at beginning of year	**1,950,731,988**	1,951,251,988
Less: Amortisation of interest income from share proceeds	**(520,000)**	(520,000)
Share premium	**335,518,000**	–
Change as a result of write back of deferred staff cost	**8,408,898**	–
Balance at end of year	**2,294,138,886**	1,950,731,988

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

18. Capital reserve *(Continued)*

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 capital reserve. Interest income relating to the unsuccessful applicants is to be released to the profit and loss account over a period of 5 years, starting from 1997. Of the interest income generated during the allotment period from the issue of A shares in 1996, RMB11,550 was sourced from the application monies of the successful applicants. The remaining balance was sourced from the application monies of the unsuccessful applicants which will be released to the profit and loss account within 5 years starting from 1997.

Upon approval in 13 December 1999 of China Securities Regulatory Commission, the Company issued an additional 150,000,000 A shares with the par value of 1.00 RMB per share. The final issuing price was RMB 3.3 per share. Net proceeds of the issue was RMB 485,518,000 after deducting relevant expenses, resulting in an increase in share premium of 335,518,000 for the year.

Change as a result of write back of prior years' amortisation of deferred staff cost previously included in other long term assets.

Please refer to Notes [II.13] of these in the financial statements in respect of the details of the adjustments.

19. Surplus reserves

	Group		**Company**	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Balance at beginning of year	**695,920,990**	595,190,782	**693,730,248**	593,309,216
Transfer during the year				
– Statutory common reserve	**321,009**	15,171,837	**–**	14,862,661
– Statutory public welfare fund	**–**	14,862,661	**–**	14,862,661
– Discretionary common reserve	**–**	70,695,710		70,695,710
Balance at end of year	**696,241,999**	695,920,990	**693,730,248**	693,730,248

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

19. Surplus reserves *(Continued)*

In accordance with the Company Law of the People's Republic of China (the "Company Law") and the Articles of the Company, the Company is required to appropriate 10% of the Company's net profit after taxation to Statutory common reserve until the Statutory common reserve accounts for 50% of the registered capital of the Company under the applicable laws of PRC accounting standards. When the Company satisfies certain requirements stipulated in the Company Law and in the Articles of the Company, the Statutory common reserve can be converted into the share capital of the Company provided that the remaining balance after such conversion is not less than 25% of the registered capital.

According to the Company Law, the Company is required to transfer 5% or 10% of its net profit after taxation to the non-distributable Statutory public welfare fund (The Statutory public welfare fund is non-distributable other than upon liquidation). The Statutory public welfare fund can only be used for the construction of staff welfare facilities while the ownership of which is attributed to the Company.

Upon utilisation of the Statutory public welfare fund, the lower of the cost of the assets and the balance of the Statutory public welfare fund is required to be transferred to the common reserve. The reserve is non-distributable other than upon liquidation.

Upon the disposal of the relevant assets, the amount that originally transferred from the Statutory public welfare fund to the common reserve should be reversed.

Pursuant to the relevant regulations imposed 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. The statutory common reserve and statutory public welfare fund are to be appropriated before distribution of dividends.

For the year 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% of the Company's net profit in the accounts prepared under the PRC accounting standards of RMB148,626,612 respectively. At the same year, the Company's subsidiary, Winsway, has made an appropriation to the Statutory common reserve and Staff bonus and welfare fund, of which RMB309,176 and RMB221,540 were attributable to the Company, respectively.

For the year 2000, the Company has made for Statutory common reserve. Statutory public welfare fund and Discretionary common reserve as a net loss is incurred. At the same year, the Companyís subsidiary, Winsway, has made an appropriation to the Statutory common and staff bonus and welfare fund, of which RMB 320,012 and RMB 230,854 were attributable to the Company, respectively.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

20. Retained profits

Group

	2000	1999
	RMB	*RMB*
Retained profits disclosed in annual report in 1999	**31,190,355**	19,126,271
Adjustment to opening accumulated profits of 2000	**(16,086,000)**	(20,217,000)
Opening retained profits/(loss) after adjustment	**15,104,355**	(1,090,729)
Add: Consolidated net (loss)/profits in 2000	**(878,766,153)**	148,626,612
Adjustment to 1999's consolidated net profits in 2000	**–**	4,131,000
Consolidated net (loss)/profits in 2000 after adjustment	**(878,766,153)**	152,757,612
Less: Distribution in this year	**(551,863)**	(136,562,528)
Accumulated (loss)/profits at the end of the year	**(864,213,661)**	15,104,355

Company

	2000	1999
	RMB	*RMB*
Retained profits disclosed in annual report in 1999	**33,771,670**	21,176,870
Adjustment to opening retained profits in 2000*	**(16,086,000)**	(20,217,000)
Opening retained profits after adjustment	**17,685,670**	959,870
Add: Consolidated net (loss)/profits disclosed in annual report in 1999	**(878,766,153)**	148,626,612
Adjustment to 1999's consolidated net profits in 2000	**–**	4,131,000
Consolidated net (loss)/profits in 2000 after adjustment	**(878,766,153)**	152,757,612
Less: Distribution in this year	**–**	(136,031,812)
Accumulated (loss)/profits at the end of the year	**(861,080,483)**	17,685,670

* Notes to adjustment on retained profits at the beginning of the year		
Provision for devaluation of Fixed Assets	**(16,086,000)**	(20,217,000)

Please refer to the financial statement note (II. 18) in respect of details of the adjustments.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

21. Income from principal operations

The Group does not engage in other industries and therefore no industrial segment information is presented. The Group's principal activities consist of the processing of coal and crude oil into petroleum products, petrochemical and organic chemicals products, synthetic rubber products, dyestuff and dye intermediates, chemical fertilisers and inorganic chemicals for sale. The Group's products are substantially sold in the PRC domestic markets. Income from principal operations represents the invoiced value of goods sold to customers, net of VAT.

	2000	1999
	RMB	*RMB*
Petroleum products		
External sales	**5,853,756,204**	3,821,815,708
Intersegment sales	**2,205,100,657**	1,675,290,112
Total	**8,058,856,861**	5,497,105,820
Petrochemicals and organic chemicals products		
External sales	**5,304,405,607**	4,406,787,020
Intersegment sales	**3,441,156,328**	1,911,291,368
Total	**8,745,561,935**	6,318,078,388
Dyestuff and dye intermediates		
External sales	**533,509,426**	554,444,902
Intersegment sales	**4,713,777**	–
Total	**538,223,203**	554,444,902
Chemical fertilisers products		
External sales	**458,212,380**	626,899,130
Intersegment sales	**–**	503,002
Total	**458,212,380**	627,402,132
Syntheic rubber products		
External sales	**878,455,259**	687,270,042
Intersegment sales	**–**	411,803
Total	**878,455,259**	687,681,845
Other products and services		
External sales	**818,384,219**	882,821,679
Intersegment sales	**2,737,716,574**	1,251,265,766
Total	**3,556,100,793**	2,134,087,445
Total consolidated sales	**22,235,410,431**	15,818,800,532
Less: Intersegment sales	**(8,388,688,109)**	(4,838,762,051)
Net external sales	**13,846,722,322**	10,980,038,481

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

22. Financial expenses

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Interest expenses	**642,077,062**	603,002,527	**630,748,060**	602,945,448
Interest income	**(2,447,039)**	(3,034,662)	**(2,266,327)**	(2,799,090)
Exchange gain, net	**(55,960,182)**	(322,592)	**(55,984,311)**	(322,332)
	583,669,841	599,645,273	**572,497,422**	599,824,026

23. Investment Profit/(loss)

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Income from bond investments	**32,479**	6,480	**32,479**	6,480
Share of Profit/(loss) of joint venture	**37,426,686**	(5,023,671)	**37,426,686**	(5,023,671)
Share of Profit/(loss) of subsidiaries	**–**	–	**20,164,468**	(493,316)
	37,459,165	(5,017,191)	**57,623,633**	(5,510,507)

24. Subsidy income

Group and Company

	2000	1999
	RMB	*RMB*
Government grants		
– tax refund for new products	**–**	4,603,000
	–	4,603,000

In accordance with the Circular (Jicaigong Zhizi [1999] No 741) issued by the Finance Bureau of Jilin Province relating to the tax refund on newly developed products, the Company is entitled to refund of part of the VAT paid for certain newly developed products. The refund is used for research and development purpose.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

25. Non-operating income

Non-operating income mainly represents penalty charges on debts overdue recovered from customers.

26. Non-operating expenses

Non-operating expenses mainly represent net loss on disposal of fixed assets, donations, damages, compensation and penalty charges. Also included is write-off of fixed assets which can no longer generate economic benefit, with net book value amounting to RMB597,148,000. The board of directors estimated that about 7,000 relevant staff is to be laid off as a result of the write off. Severance payment of RMB 297,639,000 was also included in non-operating expenses.

27. Taxation

	Group		Company	
	2000	1999	**2000**	1999
	RMB	*RMB*	***RMB***	*RMB*
Provision for PRC income tax				
– The Group/Company	**982,487**	75,649,033	–	74,535,489
– Associated companies	–	145,564	–	145,564
Deferred taxation	**(2,387,718)**	1,023,000	**(2,387,718)**	1,023,000
	(1,405,231)	76,817,597	**(2,387,718)**	75,704,053

Commencing 1 January 1994, pursuant to the Provisional Rules on Enterprise Income Tax, income tax was charged at 33% on the assessable profits of the Company. Whereas the Company's income tax liability generally calculated at the rate of 33% according to the Provisional Rules on Enterprise Income Tax and on the basis as noted below in respect of certain production units.

One of the Company's subsidiaries, JNCB, a Sino-foreign co-operative joint venture, was eligible to full exemption from joint venture income tax for the first two years starting from its first profitable year of operations, which was 1994, followed by a 50% reduction from the third to fifth years in accordance with the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Although JNCB had taxable profits in 1994, it did not enjoy any tax benefits as it took up the option of paying tax in that year and delayed the first tax exemption year to 1995. From 1996 to 1999, it was not subject to PRC income tax as it incurred tax losses. In 2000, the company has ceased production as it incurred substantial losses and had a net liability, no provision of income tax is required.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

27. Taxation *(Continued)*

The other subsidiary of the Company, Winsway, a Sino-foreign equity joint venture, was eligible to full exemption from joint venture income tax for the first two years starting from its first profitable year of operations, which was 1995, followed by a 50% reduction from the third to fifth years in accordance with the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Although Winsway had taxable profits in 1995, it did not enjoy any tax benefits as it took up the option of paying tax in that year and delayed the first tax exemption year to 1996. Accordingly, no provision for income tax was required for 1996 and 1997. In 1998, 1999 and 2000, Winsway incurred profits and was subject to PRC income tax rate of 15%.

The other subsidiary of the Company, Songmei, being a Sino-foreign co-operative joint venture, was eligible to full exemption from joint venture income tax for the first two years starting from its first profitable year of operations followed by a 50% reduction from the third to fifth years in accordance with the Income Tax Law for Foreign Investment and Foreign Enterprises.

The sino-foreign joint venture company, Jilian, was eligible for a full exemption from joint venture income tax for the first two years starting from its first profitable year of operations, which was 1995, followed by a 50% reduction from the third to sixth years. Since Jilian was awarded the status of "advanced technology enterprises", it enjoyed a 50% reduction for the sixth year. In 1995, as it enjoyed its first income tax exemption year, therefore it was not subject to the income tax. From 1996 to 1999, no provision for income tax was required as it has tax losses. In 2000, Jilian do not make provision for income tax as its taxable profits for the year cannot cover taxable losses in previous years.

As BASF was still in the pre-operating stage in 1996, 1997 and 2000, there was no profit or loss. In 1998, 1999 and 2000. No provision for income tax was required as it incurred tax losses.

Another joint venture company, Jite. The joint venture arrangement of Jite expired as at 18 June 2000. The Company has officially withdrawn its investment in Jite at 31 August 2000. No provision for income tax is required as Jite had not derived any assessable profits for the year.

IV. NOTES TO THE MAJOR ITEMS IN FINANCIAL STATEMENTS *(Continued)*

28. Dividends

	2000	1999
	RMB	RMB
Dividends payable	**24,331,000**	–
Proposed final dividend	**–**	35,610,780

Pursuant to the Public Offer Prospectus (details in Note VIII) on the issuance of 150 million A shares in January 2000, the shareholders of the newly issued A shares and the shareholders of the existing A shares are both entitled to the distributions of dividend for the year 1999. Accordingly, a final dividend of RMB0.01 per share for the year 1999, totalling RMB35,610,780 was proposed to be payable to all the shareholders of the Company, pursuant to a resolution passed at the directors' meeting held on 11 April 2000.

No final dividend is proposed as the company incurred losses for the year.

V. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS

A. Related companies which control exists

Name	**Place of registration**	**Principal activities**	**Registered capitalital** *RMB*	**Relations with the company**	**Nature of the enterprise**	**legal representative**
Petroleum Corporation	Beijing, PRC	Exploration and development of petroleum company and natural gas; engaging in business of petrochemical products	114,900000,000	Ultimate holding	Stated-owned enterprise	MaFucai

V. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS *(Continued)*

A. Related companies which control exists *(Continued)*

Name	Place of registration	Principal activities	Registered capitalital *RMB*	Relations with the company	Nature of the enterprise	legal representative
PetroChina Company Limited	Beijing City, PRC	Exploration, manufacturing and sales of petroleum and natural gas; refining of crude oil; manufacturing and sales of petrochemical and chemical products and pipe conveyance of petroleum and natural gas	175,824,176,000	Immediate holding company	Joint stock limited company	MaFucai
Jilin Chemical Group Corporation	Jilin City, PRC	Manufacturing of chemical products	2,457,000,000	Fellow subsidiary	State-owned enterprise	ZhuZhongmen
Jilin Xin Hua Nitrochloro-benzene Company Limited	Jilin City, PRC	Manufacturing of dyestuffs	25,668,000	Subsidiary	Sino-foreign co-operative joint venture	Hongwei
Jilin Winsway Chemical Industrial Store and Transport Limited	Jilin City, PRC	Provison of transportation services for chemical products	51,454,000	Subsidiary	Sino-foreign equity joint venture	Bi Daqing
Jilin City Songmei Acetic Acid Co.,Ltd.	Jilin City, PRC	Manufacturing of acetic acid	72,000,000	Subsidiary	Sino-oreign co-operative joint venture	HouYanmen

V. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS *(Continued)*

A. Related companies which control exists *(Continued)*

China National Petroleum Corporation ("CNPC") is the ultimate holding company of the Company (see note I). The registered capital of CNPC amounts to RMB114.9 billion. The principal activities of CNPC consist of exploration and development of petroleum and natural gas as well as engaging in the business of petrochemical products.

PetroChina Company Limited ("PetroChina") is the immediate holding company of the Company. The registered capital of PetroChina amounts to RMB175,824,176,000. The principal activities of PetroChina consists of exploration, manufacturing and sales of petroleum and natural gas; refining of crude oil, manufacturing and sales of petrochemical and chemical products and pipe conveyance of petroleum and natural gas. PetroChina owned 67.28% equity interest of the Company as at 31 December 1999.

Jilin Chemical Group Corporation ("JCGC") is a fellow subsidiary of the Company. The registered capital of JCGC amounts to RMB2.457 billion. The principal activities of JCGC consist of manufacturing and sales of chemical products.

B. Other related companies which control does not exist

Name	Place of registration	Principal activities	Relationship with the Company
Jilian (Jilin) Petrochemicals Limited	Jilin City, China	Manufacturing of petrochemicals	Associated company
Jilin Province BASF JCIC NPG Co., Ltd.	Jilin City, China	Manufacturing of NPG	Associated company
Jilin Jite FRP Company Limited	Jilin City, China	Manufacturing of FRP	Associated company

V. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS *(Continued)*

C. Related party transactions

The following is a summary of the significant transactions carried out during the two years ended 31 December 1999 in the ordinary course of business among the Group, CNPC Group Companies (including PetroChina Group Companies but excluding JCGC Group Companies) and JCGC Group Companies:

	2000	1999
	RMB	*RMB*
CNPC Group Companies		
Purchases of crude oil	**7,930,123,174**	4,850,127,235
Purchases of naphtha	**428,748,140**	444,984,744
Purchases of benzene	**85,723,848**	13,463,533
Purchases of methyl alcohol	**47,667,330**	30,760,684
Purchases of other raw materials	**67,229,661**	–
Sales of gasoline	**1,855,183,042**	1,269,809,120
Sales of diesel oil	**2,436,329,230**	1,482,209,096
Sales of liquid ammonia	**67,701,739**	2,943,768
Sales of residual oil	**21,184,846**	45,495,292
Sales of xylene	**37,138,601**	76,923,000
Sales of acetic acid	**14,182,850**	27,141,748
Sales of butylene-1	**74,581,284**	16,542,000
Sales of ethylene	**1,659,822,000**	–
Sales of butadiene	**84,376,810**	–
Sales of propylene	**301,592,441**	–
Sales of styrene	**532,906,990**	–
Sales of fuel oil-7	**30,222,340**	–
Sales of electricity	**34,555,233**	–
Sales of others	**76,981,128**	–
JCGC Group Companies		
Sales of finished goods	**119,395,999**	2,128,913,966
Sub-contracting fees	**28,876,879**	8,016,700
Construction of fixed assets	**145,659,600**	16,841,755
Purchases of raw materials and parts	**24,064,979**	247,506,237
Fees for welfare and support services	**202,783,562**	103,495,312
Interest expenses	**215,728,567**	297,286,920

The purchase of crude oil from the subsidiaries of CNPC is based on the State regulated price and negotiated discounted price. The sales of gasoline and diesel oil to CNPC and its subsidiaries is based on the ex-factory price set by CNPC. The sales of other products and the pruchase of other raw materials to and from CNPC and its subsidiaries are based on the market prices or contract prices.

V. **RELATED COMPANIES AND RELATED PARTY TRANSACTIONS** *(Continued)*

C. **Related party transactions** *(Continued)*

The payment to JCGC for the welfare and support services is based on the statutory contract price in the service agreements reached by the Group and JCGC, market price or cost. Other transactions with JCGC are entered into either on normal commercial terms or on terms that are fair and reasonable so far as the shareholders of the Company are concerned. Also, the loss arising from the disposal of staff quarters to employees at the preferential prices lower than the construction cost under the housing reform policy carried out by JCGC in 1998 amounts to RMB84.09 million. In 2000, CNPC agreed to undertake the above loss of RMB84.09 million by offsetting the debt against JCIC Group companies.

Pursuant to the corporate restructuring of CNPC on 5 November 1999 (see note 10), 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 has been currently applying to the Hong Kong Stock Exchange for the waiver form strict compliance with the disclosure requirements regarding the additional connected transactions carried out with PetroChina Group Companies. 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 shown in 1999 has already been included in the related party transactions with CNPC Group Companies and their related companies as listed above):

	2000	1999
	RMB	*RMB*
PetroChina Group Companies		
Purchases of crude oil	**7,930,123,174**	808,354,539
Purchases of naphtha	**428,748,140**	74,164,624
Purchases of benzene	**85,723,848**	2,243,922
Purchases of methyl alcohol	**47,667,330**	5,514,292
Purchases of other R.M	**67,229,661**	–
Sales of gasoline	**1,855,183,042**	211,634,853
Sales of diesel oil	**2,436,329,230**	247,034,849
Sales of liquid ammonia	**67,701,739**	490,625
Sales of residual oil	**21,184,846**	7,582,070
Sales of xylene	**37,138,601**	12,821,338
Sales of acetic acid	**14,182,850**	4,523,625
Sales of butylene-1	**74,581,284**	2,757,000
Sales of ethylene	**1,659,822,000**	–
Sales of butadiene	**84,376,810**	–
Sales of propylene	3**01,592,441**	–
Sales of styrene	**532,906,990**	–
Sales of fuel oil-7	**30,222,340**	–
Sales of electricity	**34,555,233**	–
Sales of others	**76,981,128**	–

V. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS *(Continued)*

D. Related party transactions

The details of balances due from/(to) CNPC Group Companies, PetroChina Group Companies, JCIC Group Companies and reflected in the consolidated balance sheet are as follows:

	2000	1999
	RMB	*RMB*
Trade debtors	**1,680,514,338**	353,820,421
Prepayments	**–**	187,445,160
Other receivables	**503,348,256**	–
Trade creditors	**–**	(135,642,848)
Advance from customers	**–**	(10,580,624)
Other creditors	**–**	(206,612,842)
Short term loan	**(1,350,000,000)**	(625,070,000)
Long term loan repayable within 1 Year	**(700,000,000)**	–
Long term loan	**(3,394,650,359)**	–
Other long term liabilities	**(3,067,783,899)**	(4,844,520,173)
	6,328,571,664	(5,281,160,906)

VI. CAPITAL COMMITMENTS

Commitments for capital expenditure as at 31 December 2000 are as follows:

	RMB
In respect of plant and machinery	
Contracted, but not provided for	137,597,000
Authorised, but not contracted for	–
	137,597,000

VII. SUBSEQUENT EVENT

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.

VII. SUBSEQUENT EVENT *(Continued)*

(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.

VIII. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH 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 main differences are:

(i) Under IAS, the deferred VAT receivable is stated at its net present value calculated over the estimated period of recovery using the average long term borrowing cost of the Group. Such accounting treatment is not permissible under PRC accounting standards.

(ii) Under IAS, the depreciation expenses should include the effect of the revaluation of the Group's fixed assets conducted by an independent valuer outside the PRC, according to the requirement of the Listing Rules of Hong Kong Stock Exchange, on 28 February 1995. Under PRC accounting standards, this revaluation, which did not constitute part of the official approval of the restructuring, was not recognised. Accordingly, depreciation charges and fixed assets written off calculated under PRC accounting standards are lower than those under IAS.

(iii) Under existing PRC accounting statements, fixed assets that are written off can not 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 is 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 as the tax effect to IAS is considered immaterial.

VIII. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

(iv) Under IAS, 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, under IAS, the cost of the underlying fixed assets is greater than that as determined under PRC accounting standard, and thus resulted in additional depreciation charges.

(v) 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. Such treatment is not adopted under PRC accounting standards.

(vi) 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 capital reserve. Interest income relating to the unsuccessful applicants is to be released to the profit and loss account over a period of 5 years, starting from 1997. Details are shown in note IV (18). Under IAS, such income was recorded in the profit and loss account of 1996.

(vii) In 1998, 1999 and 2000, a subsidiary of the Company which is a Sino-foreign joint venture made an appropriation from retained profit to a staff 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.

(viii) Under IAS, tax adjustments are made in respect of the deferred tax effects for items (ii) (iv) (v) (ix) above. 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. Accordingly, a net amount of RMB57,105,000 representing the net decrease in net deferred tax liabiliites, comprising net deferred tax liabilities brought forward from 1999 and those created under item (ix) below, was credited to the consolidated profit and loss account for the year for IAS purposes. The deferred tax effect on item (iii) was not recognised due to its immateriality. There is no tax effect for items (vi) and (vii).

(ix) The Company has taken up the loss of JCGC arising from the disposal of staff quarters to employees at preferential prices. The loss was the subsidy on the difference between the housing construction cost and the preferential prices given to the employees. Under IAS and PRC accounting Standards, this loss was capitalised amortised on a strateght-line basis to the profit and loss account over 20 years, which approximates the estimated remaining average service life of the relevant employees, starting from January 1998. In year 2000, CNPC has agreed to take up the above loss. Under IAS, such loss is still classified as deferred assets and continued to be amortised on a straight line basis to the profit and loss account over 20 years. However, under PRC accounting standards, the begining balance of the unamortised loss is offset against the payable, whereas the amortised amount of the capitalised loss in previous years should be offset in the retained earnings. Please refer to note II(18) in respect of the adjustment.

VIII. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

The effects of the above differences on net profit are as follows:

	Notes	**2000** *RMB*	1999 *RMB*
Net (loss)/profit under PRC accounting standards		**(878,766,153)**	152,757,612
Adjustments:			
Write back on deferred VAT receivable	*(i)*	**–**	1,078,350
Increase in depreciation charges due to the revaluation of fixed assets on 28 February 1995	*(ii)*	**(1,452,000)**	(1,452,000)
Fixed assets written off	*(ii) & (iii)*	**(4,626,378)**	–
Additional depreciation on fixed assets due to differences in exchange gains capitalised	*(iv)*	**(7,310,468)**	(7,311,324)
Loan interests capitalised in construction in progress	*(v)*	**4,013,356**	4,387,502
Interest income from share proceeds	*(vi)*	**(520,000)**	(520,000)
Appropriations to reserves	*(vii)*	**(230,000)**	(221,540)
Tax adjustments	*(viii)*	**57,105,387**	80,637
Amortisation of deferred staff expenses	*(ix)*	**(4,203,449)**	–
Net profit under IAS		**(835,989,705)**	148,799,703

VIII. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IAS AND PRC ACCOUNTING STANDARDS *(Continued)*

The significant effects on shareholders' equity of the differences between IAS and PRC accounting standards are shown below:

	2000	1999
	RMB	*RMB*
Shareholders' equity under PRC accounting standards	**5,687,245,224**	6,072,835,333
Adjustments:		
Discount on deferred VAT receivable	**–**	–
Surplus from the revaluation of fixed assets on 28 February 1995	**29,033,000**	29,033,000
Increase in depreciation charges due to the revaluation of fixed assets	**(8,469,179)**	(7,017,000)
Deferred tax effect on the surplus from the revaluation of fixed assets	**(9,580,892)**	(9,580,892)
Fixed assets written off	**(4,626,378)**	–
Exchange gains in respect of foreign currency loans borrowed for fixed assets	**112,471,289**	112,471,289
Loan interests capitalised in construction in progress	**17,917,853**	13,904,502
Additional depreciation on fixed assets due to differences in exchange gains capitalised	**(27,762,482)**	(20,450,754)
Deferred staff expenses	**47,891,000**	–
Dividends declared after the balance sheet date	**–**	35,611,287
Tax adjustments	**29,775,947**	(27,331,172)
Shareholders' equity under IAS	**5,873,895,381**	6,199,475,593

IX. ANALYSIS OF CHANGES IN FINANCIAL DATA (FLUCTUATION OF MORE THAN 30% IN CONSOLIDATED FINANCIAL STATEMENTS AND IN AMOUNT EQUALOR MORE THAN 5% OR ABOVE

1. Increase in trade receivabes by 132% was mainly due to 26% increase in turnover in current year and increase in sales to related companies by RMB4,383 million.

2. Increase in other payables by 100%, (approximately RMB500 million) was mainly due to increase in interest payable, of RMB200 million and expected severence payment to workers lay off as a result of write off of fixed assts of RMB300 million.

3. Increase in long term borrowings by 266%, (approximately RMB3.28 billion) was mainly due to increased borrowings of RMB3.4 billion from CNPC Group Finance Company.

4. Increase in provision for inventories by 540%, (approximately RMB5.5 million) was attributable to decrease in selling prices of chemical fertilisers and dyestuffs at the end of year.

5. Other operating expenses represent write off of fixed assets, of approximately RMB600 million, and related severance payment of RMB300 million.

6. There is no subsidy income as the government did not grant subsidy to the Company for chemical fertilisers and dyestuffs.