Report of Independent Auditors

To the Shareholders of
Jilin Chemical Industrial Company Limited
(established in the People's Republic of China with limited liability)

We have audited the accompanying balance sheets of Jilin Chemical Industrial Company Limited (the "Company") and its subsidiaries (the "Group") as of December 31, 2001 and the consolidated profit and loss account and cash flow statement of the Group for the year then ended. These financial statements set out on pages 47 to 87 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Group as of December 31, 2000, were audited by Ernst & Young, Certified Public Accountants, whose report dated March 29, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the financial position of the Company and the Group as of December 31, 2001 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, April 22, 2002

Consolidated Profit and Loss Account

For the year ended December 31, 2001
(Amounts in thousands except for per share data)

	Notes	2001 RMB	2000 RMB
Turnover	3, 33	**12,518,532**	13,396,247
Cost of sales		**(12,541,889)**	(12,164,161)
Gross (loss)/profit		**(23,357)**	1,232,086
Distribution costs		**(62,198)**	(35,254)
Administrative expenses		**(1,216,263)**	(596,189)
Employee separation costs and shut down of manufacturing assets	6	**–**	(936,533)
Other (expense)/income		**(6,662)**	1,297
Operating loss		**(1,308,480)**	(334,593)
Interest expense	7	**(598,882)**	(641,124)
Interest income		**3,431**	4,987
Exchange loss		**(17,582)**	(83)
Exchange gain		**67,043**	56,043
Share of profit of jointly controlled entities		**40,595**	37,427
Share of loss of an associated company		**(1,259)**	–
Loss before taxation	4	**(1,815,134)**	(877,343)
Taxation	9	**(821)**	58,510
Loss before minority interests		**(1,815,955)**	(818,833)
Minority interests		**(1,414)**	(17,157)
Loss attributable to shareholders	10	**(1,817,369)**	(835,990)
Basic and diluted loss per share	11	**(Rmb0.51)**	(Rmb0.24)
Dividend	12	**–**	35,611

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

Consolidated Balance Sheet

As of December 31, 2001
(Amounts in thousands)

	Notes	2001 RMB	2000 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	**10,426,277**	11,417,297
Interests in jointly controlled entities	15	**282,499**	243,774
Investment in an associated company	16	**18,784**	–
Intangible assets	17	**468,691**	547,998
		11,196,251	12,209,069
CURRENT ASSETS			
Inventories	18	**1,179,816**	1,820,714
Value added tax recoverable	19	**73,583**	117,858
Accounts receivable	20	**781,115**	2,719,079
Prepaid expenses and other current assets	21	**562,156**	878,159
Cash and cash equivalents	22	**36,917**	228,964
		2,633,587	5,764,774
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	23	**1,153,977**	1,418,132
Short-term borrowings	24	**3,541,485**	3,043,831
		4,695,462	4,461,963
NET CURRENT (LIABILITIES)/ASSETS		**(2,061,875)**	1,302,811
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,134,376**	13,511,880
FINANCED BY:			
Share capital	25	**3,561,078**	3,561,078
Reserves	26	**2,103,526**	3,050,156
Accumulated losses		**(2,558,558)**	(737,339)
Shareholders' equity		**3,106,046**	5,873,895
Minority interests		**42,767**	57,884
NON-CURRENT LIABILITIES			
Long-term borrowings	24	**5,985,563**	7,580,101
		9,134,376	13,511,880

Shi Jian Xun
Director

Lan Yun Sheng
Director

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

Balance Sheet

As of December 31, 2001
(Amounts in thousands)

	Notes	2001 RMB	2000 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	**10,188,873**	11,208,800
Subsidiaries	14	**145,074**	113,921
Interests in jointly controlled entities	15	**282,499**	243,774
Investment in an associated company	16	**18,784**	–
Intangible assets	17	**468,691**	547,998
		11,103,921	12,114,493
CURRENT ASSETS			
Inventories	18	**1,169,364**	1,813,959
Value added tax recoverable	19	**73,051**	117,514
Accounts receivable	20	**726,524**	2,705,669
Prepaid expenses and other current assets	21	**509,343**	847,880
Cash and cash equivalents	22	**25,161**	198,701
		2,503,443	5,683,723
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	23	**1,122,628**	1,412,538
Short-term borrowings	24	**3,422,885**	2,953,831
		4,545,513	4,366,369
NET CURRENT (LIABILITIES)/ASSETS		**(2,042,070)**	1,317,354
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,061,851**	13,431,847
FINANCED BY:			
Share capital	25	**3,561,078**	3,561,078
Reserves	26	**2,096,192**	3,047,645
Accumulated losses		**(2,580,982)**	(756,977)
Shareholders' equity		**3,076,288**	5,851,746
NON-CURRENT LIABILITIES			
Long-term borrowings	24	**5,985,563**	7,580,101
		9,061,851	13,431,847

Shi Jian Xun
Director

Lan Yun Sheng
Director

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

Consolidated Cash Flow Statement

For the year ended December 31, 2001
(Amounts in thousands)

	Notes	**2001** **RMB**	2000 RMB
CASH FLOWS FROM OPERATING ACTIVITIES	28	**1,772,458**	(545,537)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		**(866,858)**	(1,222,725)
Investment in an associated company		**(300)**	–
Purchase of intangible assets		**–**	(174,260)
NET CASH USED FOR INVESTING ACTIVITIES		**(867,158)**	(1,396,985)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		**5,719,860**	4,474,984
Repayments of borrowings		**(6,816,744)**	(3,021,853)
Proceeds from issue of shares		**–**	485,518
Proceeds from disposal of government bond		**–**	90
Dividends paid to minority interests		**(1,463)**	(2,739)
Dividends paid to the Company's shareholders		**–**	(11,300)
Capital contribution from minority interests		**1,000**	–
NET CASH (USED FOR)/PROVIDED BY FINANCING ACTIVITIES		**(1,097,347)**	1,924,700
Decrease in cash and cash equivalents		**(192,047)**	(17,822)
Cash and cash equivalents at beginning of year		**228,964**	246,786
Cash and cash equivalents at end of year	22	**36,917**	228,964

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

Consolidated Statement to Changes in Shareholders' Equity

For the year ended December 31, 2001
(Amounts in thousands)

	Share capital (Note 25) *RMB*	Retained earnings/ (Accumulated losses) *RMB*	Reserves (Note 26) *RMB*	Total *RMB*
Balance at January 1, 2000	3,411,078	201,207	2,587,191	6,199,476
Issue of A shares	150,000	–	335,518	485,518
Net loss for the year	–	(835,990)	–	(835,990)
Transfer to retained earnings on realisation of revaluation reserve	–	4,072	(4,072)	–
Transfer from retained earnings to reserves	–	(71,017)	71,017	–
Transfer to capital reserve as a result of write back of housing subsidy payable to JCGC, net of tax *(Note 26 (e))*	–	–	60,502	60,502
Dividend *(Note 12)*	–	(35,611)	–	(35,611)
Balance at December 31, 2000	3,561,078	(737,339)	3,050,156	5,873,895
Adjustment of land use rights at January1, 2001 *(Note 2(a))*	–	–	(950,480)	(950,480)
Net loss for the year	–	(1,817,369)	–	(1,817,369)
Transfer to retained earnings on realisation of revaluation reserve	–	973	(973)	–
Transfer from retained earnings to reserves	–	(4,823)	4,823	–
Balance at December 31, 2001	**3,561,078**	**(2,588,558)**	**2,103,526**	**3,106,046**

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

1. CORPORATE INFORMATION

Jilin Chemical Industrial Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on December 13, 1994 as a joint stock limited company to hold the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary ("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 aforesaid restructuring ("Restructuring"), the Contributed Net Assets of the Predecessor as at September 30, 1994 were taken over by the Company from the Predecessor at a valuation which reflected their then current fair values on October 1, 1994 in consideration for which 2,396,300,000 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 then ultimate holding company.

Effective from July 1, 1998, pursuant to a directive issued by the PRC State Council on May 12, 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 all of the state-owned 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 November 5, 1999. Accordingly, PetroChina replaced JCGC to become the immediate holding company of the Company.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards ("IAS"). These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

With effect from January 1, 2001, the Company has applied IAS 17 "Leases", as clarified by IAS 40 "Investment Property", to accounting for land use rights. The Company has therefore reclassified land use rights as operating leases and is now reflecting the carrying value of land use rights at Rmb nil. Opening reserves have been adjusted by Rmb950 million in this regard.

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

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

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries in which the Company directly or indirectly owns more than 50 percent voting interest or otherwise has the power to exercise control over their operations. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The results of operations of subsidiaries are included in the consolidated profit and loss account, and the share attributable to minority interests is excluded from the consolidated net profit. Intercompany balances and transactions have been eliminated.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

A listing of the Group's principal subsidiaries is set out in Note 14.

(c) Investments in associated companies

Associated companies are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method. Such equity interests are carried in the consolidated balance sheet at amounts that reflect the Group's share of the net assets of the associated companies and include goodwill on acquisition, if any. Equity accounting involves recognising in the consolidated profit and loss account the Group's share of the profit or loss for the year of the associated companies.

Investments in associated companies are accounted for using the equity method in the Company's financial statements.

Details of the Group's associated company are shown in Note 16.

(d) Interests in jointly controlled entities

A jointly controlled entity is a joint 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 activities of the venture.

The Group's and the Company's interests in the jointly controlled entities are accounted for using the equity method.

Details of the jointly controlled entities are shown in Note 15.

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

(e) Foreign currencies

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

(f) Financial instruments

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

The Group had no derivative financial instruments in any of the years presented.

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at revalued amounts. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the consolidated profit and loss account. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the consolidated profit and loss account) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Depreciation to write off the cost or valuation of each asset to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

Buildings	10-45 years
Plant and machinery	8-28 years

No depreciation is provided for construction in progress until they are completed and put in use.

Property, plant and equipment are reviewed for possible impairment by evaluating whether the carrying amount of an individual asset exceeds its recoverable amount which is the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the asset and from its ultimate disposal. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(g) Property, plant and equipment *(Continued)*

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining net profit. On disposal of revalued assets, amounts in revaluation reserve relating to these assets are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment, together with exchange differences arising from foreign currency borrowings to the extent that they are adjustments to interest costs, are capitalised during the period of time that is required to complete and prepare the property for its intended use. All other borrowing costs are expensed.

Costs for planned major maintenance activities are expensed as incurred except for costs of components that result in improvements and betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives, which is generally the period until the next scheduled major maintenance.

As set out in note 2(a), land use rights have been reclassified as operating leases. In prior years, land use rights were carried at valuation and amortised over 50 years.

(h) Technical know-how

The purchase cost of technical know-how relates to certain production facilities and 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 using the straight-line method over the estimated useful life of 10 years, starting from the date when the underlying facilities are completed and ready for their intended use.

Technical know-how is not revalued and its carrying amount of each intangible asset is reviewed annually and adjusted for impairment where it is considered necessary. An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Housing subsidy cost

Housing subsidy cost represents capitalised losses arising from the sale of quarters to employees at preferential prices under the housing reform policy as required by the PRC government. These losses were amortised using the straight-line method over the relevant employees' estimated expected average remaining service life of 20 years commencing January 1, 1998. In 2001, the estimated expected average remaining service life was revised to three to ten years as a result of the renewal of employment contracts with service periods ranging from three to ten years. The effect of the change is an increase in amortisation expense by Rmb5,115.

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

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Provision for impairment of trade receivables

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

(l) Cash and cash equivalents

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

(m) Deferred income tax

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

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised.

(n) Borrowings

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

(o) Revenue recognition

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

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

(p) Research and development expenses

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

(q) Government revenue grants and subsidies

Government revenue grants and subsidies are recognised as income upon approval by the relevant government authorities, at which stage the eventual collectibility is assured.

(r) Retirement benefit plans

The Group contributes to the employee retirement benefit plan organised by the provincial government under which it is required to make monthly contributions to the plan. The provincial government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to the plan are charged to expense as incurred.

(s) Provisions

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

(t) Related parties

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

(u) New accounting developments

The International Accounting Standards Committee has recently issued IAS 39 "Financial Instruments: Recognition and Measurement (Revised 2000)" and IAS 40 "Investment Property", effective for financial statements covering periods beginning on or after January 1, 2001, and IAS 41 "Agriculture", effective for financial statements covering periods beginning on or after January 1, 2003. The Group has implemented IAS 39 commencing January 1, 2001 and the adoption of this new standard did not have a material impact on the Group's financial statements. IAS 40 clarifies the accounting for land use rights. The effect of adoption of IAS 17, as clarified by IAS 40, to the Group has been set out in note 2(a) above. The Group does not engage in agricultural activity, therefore IAS 41 is not currently applicable to the Group.

(Amounts in thousands unless otherwise stated)

3. TURNOVER

Turnover represents revenues from the sale of petroleum, petrochemical and chemical products. Analysis of turnover by segment is shown in Note 33.

4. LOSS BEFORE TAXATION

	2001	2000
	RMB	*RMB*
Loss before taxation is arrived at after crediting and charging the following items:		
Crediting		
Government grants and subsidies	**(2,175)**	(1,297)
Charging		
Amortisation of housing subsidy cost (included in "administrative expenses")	**9,319**	4,204
Amortisation of intangible assets (included in "administrative expenses")	**69,988**	51,656
Auditors' remuneration	**2,700**	2,700
Cost of inventories (approximates cost of sales) recognised as expense	**12,541,889**	12,164,161
Depreciation on property, plant and equipment	**887,488**	811,168
Employee compensation costs (including directors' and supervisors' emoluments) *(Note 5)*	**449,560**	448,943
Employee separation costs and shut down of manufacturing asset *(Note 6)*	**–**	936,533
Loss on disposal of property, plant and equipment	**168**	8,410
Operating lease rentals on plant and machinery	**459**	2,184
Provision for impairment of receivables	**599,609**	60,938
Provision for diminution in value of inventories	**171,174**	18,100
Repair and maintenance	**251,382**	421,700
Research and development expenditure	**11,590**	11,245

5. EMPLOYEE COMPENSATION COSTS

	2001	2000
	RMB	*RMB*
Wages and salaries	**279,380**	278,997
Retirement benefit cost	**107,740**	97,103
Staff welfare	**62,440**	72,843
	449,560	448,943

The Group participates in the retirement benefit plan organised by the provincial government under which it is required to make monthly contributions to the plan at 25% of the employees' basic salary for the relevant periods. The Group currently has no additional costs for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

(Amounts in thousands unless otherwise stated)

6. EMPLOYEE SEPARATION COSTS AND SHUT DOWN OF MANUFACTURING ASSETS

During the year ended December 31, 2000 the Group recorded direct charges totalling Rmb936,533 directly related to management decisions to implement group-wide productivity improvement initiatives and write-down of certain less efficient manufacturing facilities.

These charges included the following:

	RMB
Employee separation costs *(a)*	297,639
Write-down of less efficient manufacturing facilities *(b)*	601,774
Write-off of inventories *(c)*	37,120
	936,533

(a) These costs were paid at the time of completion of separation procedures for approximately 7,000 employees.

(b) The charge represented the net book value of the related manufacturing facilities.

(c) The charge represented the inventories directly related to the above manufacturing facilities.

7. INTEREST EXPENSE

	2001 *RMB*	2000 *RMB*
Interest on		
Bank loans		
– wholly repayable within five years	**102,377**	350,539
– not wholly repayable within five years	**23,955**	39,856
Other loans		
– wholly repayable within five years	**454,547**	293,559
– not wholly repayable within five years	**52,743**	–
Less: Amounts capitalized	**(34,740)**	(42,830)
	598,882	641,124

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of constructing qualifying assets. Interest rates on such capitalised borrowings ranged from 5.50% to 6.03% (2000: 5.2% to 8.4%).

(Amounts in thousands unless otherwise stated)

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2001 RMB	2000 RMB
Fees	220	267
Salaries, allowances and other benefits	343	129
Contribution to retirement benefit scheme	12	5
	575	401

The emoluments of the directors and supervisors fall within the following band:

	2001 Number	2000 Number
Nil – Rmb1,080	16	16

Fee for directors and supervisors disclosed above included Rmb45 (2000: Rmb37) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2001 (2000: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2000 and December 31, 2001 were also directors or supervisors and their emoluments are reflected in the analysis presented above.

9. TAXATION

	2001 RMB	2000 RMB
PRC income tax	812	983
Deferred taxation *(Note 27)*	–	(59,493)
Share of tax of jointly controlled entities	9	–
	821	(58,510)

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is 33% (2000: 33%). Certain subsidiaries and jointly controlled entities are sino-foreign joint ventures and are entitled to certain tax concessions available to foreign investment production enterprises operating in the PRC. These tax concessions include a five-year tax holiday under which these enterprises are exempt from income tax for the first two years commencing from the first profitable year of operation followed by a 50% reduction in the income tax rate for three years thereafter.

(Amounts in thousands unless otherwise stated)

9. TAXATION *(Continued)*

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate in the PRC applicable to the Group as follows:

	2001	2000
	RMB	*RMB*
Loss before taxation	**(1,815,134)**	(877,343)
Tax calculated at a rate of 33%	**(598,994)**	(289,523)
Unrecognised deferred tax benefit arising from tax losses	**597,881**	252,629
Other	**1,934**	(21,616)
	821	(58,510)

Other primarily represents the deferred tax effect on the difference between the asset base under IAS and their tax base.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of Rmb1,842,978 (2000: Rmb902,985) for the year ended December 31, 2001.

11. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the year ended December 31, 2001 have been computed by dividing net loss for the year by the weighted average number of 3,561,078,000 (2000: 3,551,025,000) shares issued and outstanding for the year.

There are no dilutive potential ordinary shares.

12. DIVIDEND

At the Annual General Meeting on June 15, 2000, a dividend in respect of 1999 of Rmb0.01 per share amounting to a total dividend of Rmb35,611 was approved. This dividend payable is accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2000. No dividend was declared in respect of 2000 and 2001.

(Amounts in thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT

Group	Land use rights RMB	Buildings RMB	Plant and machinery RMB	Construction in progress RMB	Total RMB
Cost or valuation					
At December 31, 2000	1,087,358	1,537,650	12,023,658	488,466	15,137,132
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(1,087,358)	–	–	–	(1,087,358)
Additions	–	6,210	27,076	833,572	866,858
Transfers	–	18,503	119,257	(137,760)	–
Transfers to an associated company *(note (a))*	–	(3,867)	(29,641)	–	(33,508)
Disposals and write off	–	–	(291)	–	(291)
At December 31, 2001	**–**	**1,558,496**	**12,140,059**	**1,184,278**	**14,882,833**
Accumulated depreciation					
At December 31, 2000	136,878	345,912	3,237,045	–	3,719,835
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(136,878)	–	–	–	(136,878)
Charge for the year	–	123,348	764,140	–	887,488
Transfers to an associated company *(note (a))*	–	(1,589)	(12,177)	–	(13,766)
Disposals and write off	–	–	(123)	–	(123)
At December 31, 2001	**–**	**467,671**	**3,988,885**	**–**	**4,456,556**
Net book value					
At December 31, 2001	**–**	**1,090,825**	**8,151,174**	**1,184,278**	**10,426,277**
At December 31, 2000	950,480	1,191,738	8,786,613	488,466	11,417,297
Analysis of cost or valuation					
At 1995 valuation	–	667,516	1,642,888	–	2,310,404
At cost	–	890,980	10,497,171	1,184,278	12,572,429
	–	1,558,496	12,140,059	1,184,278	14,882,833
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	–	1,079,961	8,142,926	1,184,278	10,407,165

(a) In December 2001, the Company transferred fixed assets totalling Rmb19,742 to an associated company, Jilin Lianli Industrial Co., Ltd. ("Lianli"), as part of the capital contributions to Lianli (Note 16).

(Amounts in thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company	Land use rights *RMB*	Buildings *RMB*	Plant and machinery *RMB*	Construction in progress *RMB*	Total *RMB*
Cost or valuation					
At December 31, 2000	1,085,481	1,506,355	11,712,769	488,466	14,793,071
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(1,085,481)	–	–	–	(1,085,481)
Additions	–	–	20,412	833,572	853,984
Transfers	–	18,503	119,257	(137,760)	–
Transfers to an associated company and a subsidiary *(note (b))*	–	(48,931)	(79,082)	–	(128,013)
Disposals and write off	–	–	(291)	–	(291)
At December 31, 2001	**–**	**1,475,927**	**11,773,065**	**1,184,278**	**14,433,270**
Accumulated depreciation					
At December 31, 2000	136,475	336,848	3,110,948	–	3,584,271
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(136,475)	–	–	–	(136,475)
Charge for the year	–	121,941	740,516	–	862,457
Transfers to an associated company and a subsidiary *(note (b))*	–	(18,644)	(47,089)	–	(65,733)
Disposals and write off	–	–	(123)	–	(123)
At December 31, 2001	**–**	**440,145**	**3,804,252**	**–**	**4,244,397**
Net book value					
At December 31, 2001	**–**	**1,035,782**	**7,968,813**	**1,184,278**	**10,188,873**
At December 31, 2000	949,006	1,169,507	8,601,821	488,466	11,208,800
Analysis of cost or valuation					
At 1995 valuation	–	659,990	1,538,096	–	2,198,086
At cost	–	815,937	10,234,969	1,184,278	12,235,184
	–	1,475,927	11,773,065	1,184,278	14,433,270
Carrying value of the fixed assets had they been stated at cost less accumulated depreciation	–	1,024,918	7,960,565	1,184,278	10,169,761

(b) In addition to the transfers to Lianli as described above, in February 2001, the Company transferred fixed assets with net book value of Rmb42,538 to a subsidiary, Jilin Jihua Jianxiu Co., Ltd., as part of the capital contributions to this subsidiary (Note 14).

(Amounts in thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As part of the Restructuring described in note 1 and as required by the relevant PRC regulations, a valuation of all of the contributed fixed assets and land use rights was carried out as of September 30, 1994 by China Assets Appraisal Co., Ltd., a firm of independent valuers registered in the PRC. The valuation was performed in order to determine the fair value of such contributed fixed assets and land use rights and establish amounts for share capital and capital reserve. The valuation of fixed assets was based on market value where available or depreciated replacement cost where market value was not available. The valuation of land use rights was based on the standard land price determined by the Jilin Province Land Bureau. The value at which the above contributed fixed assets and land use rights were assumed by the Company was determined at Rmb2,834,034 and Rmb1,088,843, respectively.

In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged American Appraisal Hong Kong Limited, independent valuers in Hong Kong, to perform a valuation of all of the Group's fixed assets as of February 28, 1995. The valuation, which was based on the market value where available or depreciated replacement costs where market value was not available, resulted in an additional surplus of Rmb29,033. The surplus arising from the valuation was credited to the revaluation reserve.

The effect of the revaluation of Rmb29,033 was to increase the depreciation charge for fixed assets by approximately Rmb1,452 (2000: Rmb1,452) for the current year.

Revaluations of fixed assets are to be performed periodically by independent qualified professionals. However, as at December 31, 2001, the directors of the Company have reviewed the carrying value of the Group's property, plant and equipment as at December 31, 2001 and on the basis of the review exercise undertaken, are of the opinion that the fair value is not materially different from the carrying amount.

14. SUBSIDIARIES

	Company	
	2001	2000
	RMB	*RMB*
Unlisted investments, at cost	**113,461**	70,397
Less: Provision for impairment loss	**(19,251)**	(19,251)
	94,210	51,146
Amounts due from subsidiaries	**50,864**	62,775
	145,074	113,921

All subsidiaries are unlisted companies with limited liability established and operating in the PRC.

(Amounts in thousands unless otherwise stated)

14. SUBSIDIARIES *(Continued)*

Particulars of principal subsidiaries are set out as follows:

Company name	Paid-up capital *RMB*	Type of legal entity	Attributable equity interest *(%)*	Principal activities
Jilin Jihua Jianxiu Co., Limited	45,200	Limited liability company	99	Construction of piping and pressurised containers
Jilin Xinhua Nitrochloro-benezene Company Limited	25,668	Limited liability company	75	Manufacture and sales of nitrochloro-benzene
Jilin Winsway Chemical Industrial Store and Transport Limited	51,454	Sino-foreign equity joint venture	70	Provision of transportation services for chemical products
Jilin City Songmei Acetic Co., Ltd.	72,000	Sino-foreign co-operative joint venture	66	Manufacture of acetic acid

All interests in subsidiaries are held directly by the Company.

Except for Jilin Jihua Jianxiu Co., Limited, which was established on February 12, 2001, there were no changes in the interests held in other subsidiaries in 2000 and 2001.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group and Company	
	2001	2000
	RMB	*RMB*
Share of net assets	**282,499**	243,774

All jointly controlled entities are unlisted companies with limited liability established and operating in the PRC.

(Amounts in thousands unless otherwise stated)

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of jointly controlled entities are set out as follows:

Company name	**Paid-up capital** *RMB*	**Attributable equity interest** *(%)*	**Principal activities**
Jilian (Jilin) Petrochemicals Limited ("Jilian")	416,972	65	Manufacture of petrochemical products
Jilin Province BASF JCIC NPG Co., Ltd.	150,000	40	Manufacture of petrochemical products

The Company has a 65% equity interest in Jilian and has four of the seven votes of the board of directors of Jilian. The Company, however, does not have the ability to exercise control over Jilian's board as unanimous approval is required for significant board resolutions. Accordingly, Jilian is accounted for as a jointly controlled entity.

There were no changes in the interests held in these jointly controlled entities in 2000 and 2001.

A summary of the financial position and operating results of the jointly controlled entities is as follows:

			Group's share	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Non-current assets	**986,561**	1,068,973	**608,549**	657,585
Current assets	**396,473**	411,964	**247,449**	253,076
Current liabilities	**720,999**	853,618	**460,282**	540,678
Non-current liabilities	**128,036**	208,585	**76,842**	126,200
Turnover	**913,717**	186,009	**565,449**	95,815
Gross profit	**131,974**	86,841	**80,529**	32,012
Other (expense)/income	**(66,839)**	9,740	**(39,934)**	5,415
Profit before taxation	**65,135**	96,581	**40,595**	37,427
Taxation	**(14)**	–	**(9)**	–
Profit after taxation	**65,121**	96,581	**40,586**	37,427

(Amounts in thousands unless otherwise stated)

16. INVESTMENT IN AN ASSOCIATED COMPANY

	Group and Company	
	2001	2000
	RMB	*RMB*
Share of net assets	**18,784**	–

The associated company is an unlisted company with limited liability established and operating in the PRC.

Particulars of the associated company are set out as follows:

Company name	**Paid-up capital** *RMB*	**Attributable equity interest** *(%)*	**Principal activities**
Jilin Lianli Industrial Co., Ltd.	42,214	47	Wholesaling and retailing of chemical products

17. INTANGIBLE ASSETS

	Group and Company		
	Technical know-how *RMB*	**Housing subsidy cost** *RMB*	**Total** *RMB*
Cost			
At December 31, 2000 and 2001	631,772	84,089	715,861
Accumulated amortisation			
At December 31, 2000	155,251	12,612	167,863
Charge for the year	69,988	9,319	79,307
At December 31, 2001	225,239	21,931	247,170
Net book value			
At December 31, 2001	406,533	62,158	468,691
At December 31, 2000	476,521	71,477	547,998

(Amounts in thousands unless otherwise stated)

18. INVENTORIES

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Raw materials				
– at cost	**258,392**	662,768	**258,392**	662,768
– at net realisable value	**211,858**	21,453	**211,858**	21,453
Work in progress				
– at cost	**80,763**	201,646	**79,298**	198,526
– at net realisable value	**65,041**	24,703	**65,041**	24,703
Finished goods				
– at cost	**98,446**	479,512	**89,459**	477,186
– at net realisable value	**139,042**	58,044	**139,042**	56,735
Spare parts				
– at cost	**7,861**	271,161	**7,861**	271,161
– at net realisable value	**312,509**	91,464	**312,509**	91,464
Low value consumables and packing materials				
– at cost	**5,904**	9,963	**5,904**	9,963
– at net realisable value	**–**	–	**–**	–
	1,179,816	1,820,714	**1,169,364**	1,813,959

19. VALUE ADDED TAX RECOVERABLE

This represents the amount of value added tax ("VAT") paid by the Group and the Company in respect of purchases in excess of the amount of VAT payable on sales. This amount is available for offset against future VAT payable on the sales of the Group and the Company.

20. ACCOUNTS RECEIVABLE

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Due from third parties	**1,059,553**	1,264,821	**1,019,469**	1,251,358
Due from related parties				
– PetroChina Group Companies	**184,290**	1,298,781	**169,990**	1,298,781
– CNPC Group Companies	**780**	22,770	**780**	22,770
– JCGC Group Companies	**376,415**	358,963	**376,205**	358,963
– Jointly controlled entities	**455**	14,521	**455**	14,521
	1,621,493	2,959,856	**1,566,899**	2,946,393
Less: Provision for impairment loss	**(840,378)**	(240,777)	**(840,375)**	(240,724)
	781,115	2,719,079	**726,524**	2,705,669

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

(Amounts in thousands unless otherwise stated)

20. ACCOUNTS RECEIVABLE *(Continued)*

The ageing analysis of accounts receivable at December 31, 2001 is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Within 1 year	**272,862**	2,349,901	**219,857**	2,346,438
Between 1 to 2 years	**795,515**	342,705	**793,926**	342,544
Between 2 to 3 years	**295,705**	105,083	**295,705**	105,083
Over 3 years	**257,411**	162,167	**257,411**	152,328
	1,621,493	2,959,856	**1,566,899**	2,946,393

In 2001, the Group generally offers its customers credit terms of no more than 120 days, except for certain selected customers.

21. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Other receivables	**164,994**	142,484	**112,954**	136,593
Amounts due from related parties				
– PetroChina Group Companies	**40,234**	344,998	**40,234**	344,998
– JCGC Group Companies	**163,045**	–	**163,045**	–
– Jointly controlled entities	**50,611**	77,707	**50,611**	77,707
Advances to suppliers	**104,013**	276,066	**103,511**	251,867
Prepaid expenses	**62,724**	60,361	**62,453**	60,172
	585,621	901,616	**532,808**	871,337
Less: Provision for impairment loss	**(23,465)**	(23,457)	**(23,465)**	(23,457)
	562,156	878,159	**509,343**	847,880

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Cash at bank and on hand	**36,917**	228,964	**25,161**	198,701

The weighted average effective interest rate on bank deposits was 0.99% (2000: 0.99%) for the year ended December 31, 2001.

(Amounts in thousands unless otherwise stated)

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Trade payables	**596,604**	534,761	**588,363**	543,048
Advances from customers	**193,928**	131,297	**178,368**	118,963
Salaries and welfare payable	**13,741**	1,640	**11,237**	1,340
Dividends payable to minority interests	**1,150**	–	**–**	–
Other payables	**259,387**	726,103	**256,313**	724,856
Amounts due to related parties				
– PetroChina Group Companies	**–**	24,331	**–**	24,331
– CNPC Group Companies	**3,302**	–	**3,302**	–
– JCGC Group Companies	**85,865**	–	**85,045**	–
	1,153,977	1,418,132	**1,122,628**	1,412,538

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

The ageing analysis of trade payables at December 31, 2001 is as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Within 1 year	**455,456**	408,242	**447,215**	416,529
Between 1 to 2 years	**71,500**	65,164	**71,500**	65,164
Between 2 to 3 years	**41,515**	33,417	**41,515**	33,417
Over 3 years	**28,133**	27,938	**28,133**	27,938
	596,604	534,761	**588,363**	543,048

(Amounts in thousands unless otherwise stated)

24. BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Bank loans – unsecured *(note (i))*	**118,600**	639,440	**–**	549,440
Loans from a fellow subsidiary *(note (ii))*	**3,020,000**	1,350,000	**3,020,000**	1,350,000
	3,138,600	1,989,440	**3,020,000**	1,899,440
Current portion of long-term borrowings	**402,885**	1,054,391	**402,885**	1,054,391
	3,541,485	3,043,831	**3,422,885**	2,953,831

(i) At December 31, 2001, unsecured bank loans include loans totalling Rmb98,600 (2000: Rmb90,000) guaranteed by Jilian and loans totalling Rmb20,000 (2000: nil) guaranteed by a customer of the Group. The loans bear interest at a rate of 6.435% (2000: 6.435%) per annum.

(ii) The outstanding loans are part of the borrowing facilities provided by China Petroleum Finance Company Limited ("CP Finance"), a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China, totalling Rmb5 billion. The loans are unsecured and bear interest at a rate of 5.505% (2000: 5.265%) per annum. On March 18, 2002, CP Finance extended the borrowing facilities to December 31, 2003.

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

(b) Long-term borrowings

	Interest rate and final maturity	Group and Company 2001 RMB	2000 RMB
Renminbi–denominated loans			
Industrial and Commercial Bank of China	Majority variable interest rates ranging from 5.94% to 6.03% per annum as of December 31, 2001, with maturities through 2004	**56,550**	75,710
Bank of Communications	Fixed interest rate at 5.94% in 2001	**–**	500,000
Agricultural Bank of China	Fixed interest rate at 5.94% per annum as of December 31, 2001, with maturities through 2003	**190**	96,190
Environment Protection Bureau	Fixed interest rate at 5.04% in 2001 as of December 31, 2001, and floating interest rate set by government in the following year, with maturities through 2003	**400**	1,600
CP Finance	Majority variable interest rates ranging from 5.59% to 5.83% per annum as of December 31, 2001, with maturities through 2007	**3,796,400**	3,394,650
CP Finance	Fixed interest rate at 4.50% in 2001	**–**	1,000,000
JCGC Group Companies	Interest free as of December 31, 2000, with maturities through 2001	**–**	1,000,000

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

(b) Long-term borrowings *(Continued)*

	Interest rate and final maturity	Group and Company 2001 *RMB*	2000 *RMB*
US dollar – denominated loans			
Construction Bank of China	Majority variable interest rates ranging from 8.38% to 8.66% per annum as of December 31, 2001, with maturities through 2010	**432,474**	481,186
China Development Bank	Fixed interest rate at 5.50% in 2001 as of December 31, 2001, and floating interest rate set by government in the following years, with maturities through 2012	**736,292**	317,373
JCGC Group Companies	Majority variable interest rates ranging from 4.10% to 8.30% per annum as of December 31, 2001, with maturities through 2007	**997,811**	1,282,313
Japanese Yen – denominated loans			
JCGC Group Companies	Majority variable interest rates ranging from 4.10% to 8.30% per annum as of December 31, 2001, with maturities through 2007	**269,320**	366,649
Deutsche Mark – denominated loans			
JCGC Group Companies	Majority variable interest rates ranging from 4.10% to 8.30% per annum as of December 31, 2001, with maturities through 2007	**99,011**	118,821
Total long-term borrowings		**6,388,448**	8,634,492
Less: Current portion of long-term borrowings		**(402,885)**	(1,054,391)
		5,985,563	7,580,101

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

(b) Long-term borrowings *(Continued)*

At December 31, 2001, the Group's long-term borrowings included loans totalling Rmb190 (2000: Rmb96,190) guaranteed by JCGC.

At December 31, 2001, long-term borrowings of Rmb1,366,142 (2000: Rmb1,767,783) from JCGC Group Companies were borrowed from certain banks through JCGC Group Companies.

The exposure of the borrowings of the Group to interest rate changes and the periods in which the borrowings reprice are as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
6 months or less	**508,411**	780,243	**494,411**	780,243
6 – 12 months	**7,679,141**	7,632,257	**7,574,541**	7,542,257
1-5 years	**1,047,522**	1,657,581	**1,047,522**	1,657,581
Over 5 years	**291,974**	553,851	**291,974**	553,851
	9,527,048	10,623,932	**9,408,448**	10,533,932

The weighted average effective interest rates at the balance sheet date are as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Total borrowings				
– at fixed rates	**4,937,221**	6,582,928	**4,818,621**	6,492,928
– at variable rates	**4,589,827**	4,041,004	**4,589,827**	4,041,004
	9,527,048	10,623,932	**9,408,448**	10,533,932
Weighted average effective interest rates:				
– bank loans	6.58%	7.16%	6.58%	7.16%
– loans from related parties	5.65%	5.93%	5.65%	5.93%
– other	5.04%	4.86%	5.04%	4.86%

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

The carrying amounts and fair values of long-term borrowings are as follows:

	Group and Company			
	Carrying values		Fair values	
	2001	2000	**2001**	2000
	RMB	*RMB*	***RMB***	*RMB*
Bank loans	**1,225,506**	1,470,459	**1,218,591**	1,484,633
Loans from related parties	**5,162,542**	7,162,433	**5,203,582**	7,206,407
Other	**400**	1,600	**390**	1,564
	6,388,448	8,634,492	**6,422,563**	8,692,604

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date. Such discount rates ranged from 1.15% to 6.49% as of December 31, 2001 depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair value.

Maturities of long-term borrowings at the balance sheet date are as follows:

	Group and Company	
	2001	2000
	RMB	*RMB*
Bank loans		
– within one year	**139,332**	353,991
– between one to two years	**173,050**	29,400
– between two to five years	**435,430**	527,150
– after five years	**477,694**	559,918
	1,225,506	1,470,459

	Group and Company	
	2001	2000
	RMB	*RMB*
Loans from related parties		
– within one year	**263,153**	700,000
– between one to two years	**1,729,573**	283,742
– between two to five years	**2,028,139**	4,769,001
– after five years	**1,141,677**	1,409,690
	5,162,542	7,162,433

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

	Group and Company	
	2001	2000
	RMB	*RMB*
Other loans		
– within one year	**400**	400
– between one to two years	**–**	1,200
	400	1,600

25. SHARE CAPITAL

	Company	
	2001	2000
	RMB	*RMB*
Registered, issued and fully paid:		
– 2,396,300,000 state-owned shares of Rmb1.00 each	**2,396,300**	2,396,300
– 964,778,000 H shares and ADS of Rmb1.00 each	**964,778**	964,778
– 200,000,000 A shares of Rmb1.00 each	**200,000**	200,000
	3,561,078	3,561,078

On January 27, 2000, the Company issued 150,000,000 A shares at a price of Rmb3.3 per share. The proceeds, net of issuing expenses, totalled Rmb485 million.

The state-owned shares, H shares, A shares and ADS rank para passu in all respects.

(Amounts in thousands unless otherwise stated)

26. RESERVES

	Capital reserve *RMB*	Revaluation reserve *RMB*	Statutory common reserve fund *RMB* *(note (a))*	Statutory common welfare fund *RMB* *(note (b))*	Discretionary common reserve fund *RMB* *(note (c))*	Total *RMB*
Group						
Balance at January 1, 2000	1,945,574	16,392	154,633	140,997	329,595	2,587,191
Issue of 150,000,000 A shares	335,518	–	–	–	–	335,518
Transfer to retained earnings on realisation of revaluation reserve	–	(4,072)	–	–	–	(4,072)
Transfer from retained earnings to reserves	–	–	321	–	70,696	71,017
Write back of payable to JCGC in respect of housing subsidy, net of tax *(note (e))*	60,502	–	–	–	–	60,502
Balance at December 31, 2000	2,341,594	12,320	154,954	140,997	400,291	3,050,156
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(950,480)	–	–	–	–	(950,480)
Transfer to retained earnings on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Transfer from retained earnings to reserves *(note (d))*	–	–	4,823	–	–	4,823
Balance at December 31, 2001	**1,391,114**	**11,347**	**159,777**	**140,997**	**400,291**	**2,103,526**
Company						
Balance at January 1, 2000	1,945,574	16,392	152,443	140,997	329,595	2,585,001
Issue of 150,000,000 A shares	335,518	–	–	–	–	335,518
Transfer to retained earnings on realisation of revaluation reserve	–	(4,072)	–	–	–	(4,072)
Transfer from retained earnings to reserves	–	–	–	–	70,696	70,696
Write back of payable to JCGC in respect of housing subsidy, net of tax *(note (e))*	60,502	–	–	–	–	60,502
Balance at December 31, 2000	2,341,594	12,320	152,443	140,997	400,291	3,047,645
Adjustment of land use rights at January 1, 2001 *(note 2(a))*	(950,480)	–	–	–	–	(950,480)
Transfer to retained earnings on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2001	**1,391,114**	**11,347**	**152,443**	**140,997**	**400,291**	**2,096,192**

26. RESERVES *(Continued)*

(a) Pursuant to PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividend to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

Since the Company incurred a net loss for the current year, no appropriation to the statutory common reserve was made in 2001 (2000: nil).

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

Since the Company incurred net loss for the current year, no appropriation to the statutory public welfare fund was made in 2001 (2000: nil).

(c) Transfer to the discretionary common reserve fund is subject to approval by the shareholders at general meeting. Its usage is similar to that of the statutory common reserve fund.

No transfer to the discretionary reserve fund has been proposed by the Board of Directors.

(d) In 2001, the Company's subsidiaries, Jilin Winsway Chemical Industrial Store and Transportation Ltd. and Jilin City Songmei Acetic Co., Ltd., Sino-foreign joint ventures, each made an appropriation to the statutory common reserve fund of which Rmb216 (2000: Rmb321) and Rmb4,607 (2000: nil) respectively, was attributable to the Group.

(e) In 2000, capital reserve of Rmb60,502 represents the write back of housing subsidy which was payable to JCGC (net of deferred tax of Rmb23,587). The write back was a result of the reorganisation of CNPC and PetroChina under which PetroChina agreed to bear the cost of the housing subsidy.

(f) The Company's distributable reserve at December 31, 2001 under the PRC accounting regulations is nil (2000: nil).

(Amounts in thousands unless otherwise stated)

27. DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 33% (2000: 33%).

The movements in the deferred taxation account are as follows:

	Group and Company	
	2001	2000
	RMB	*RMB*
At beginning of year	–	35,906
Transfer to profit and loss account *(Note 9)*	–	(59,493)
Transfer from capital reserve *(Note 26 (e))*	–	23,587
At end of year	–	–

Deferred tax balances are attributable to the following items:

	Group and Company	
	2001	2000
	RMB	*RMB*
Deferred tax liabilities:		
Non-current:		
Revaluation on fixed assets	**4,780**	5,259
Exchange gain in respect of loans borrowed for fixed assets	**25,542**	27,954
Loan interest capitalised in construction in progress	–	5,913
Deferred tax effect on housing subsidy	**20,513**	22,200
Total deferred tax liabilities	**50,835**	61,326
Deferred tax assets:		
Current:		
Unrealised gain on inventories	–	3,394
Non-current:		
Tax losses	**50,835**	57,932
Total deferred tax assets	**50,835**	61,326
Net deferred tax balance	–	–

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through future taxable income is probable. The Group has unrecognised tax losses of Rmb2,577,304 (2000: Rmb765,542) to carry forward against future taxable income. In accordance with PRC tax law, tax loss can be carried forward against future taxable income for a period of five years, accordingly the above tax losses will expire in 2005 and 2006 respectively.

(Amounts in thousands unless otherwise stated)

28. CASH FLOWS FROM OPERATING ACTIVITIES

	2001 *RMB*	2000 *RMB*
Loss before taxation	**(1,815,134)**	(877,343)
Adjustments for:		
Depreciation and amortisation	**966,795**	867,028
Provision for impairment of receivables	**599,609**	60,938
Provision for diminution in value of inventories	**171,174**	55,220
Loss on disposal of property, plant and equipment	**168**	610,184
Share of profit of jointly controlled entities	**(40,595)**	(37,427)
Share of loss of an associated company	**1,259**	–
Interest income	**(3,431)**	(4,987)
Interest expense	**598,882**	641,124
Changes in working capital:		
Accounts and other receivables	**1,698,633**	(363,212)
Inventories	**469,724**	(300,751)
Payables and accrued liabilities	**(264,825)**	(444,187)
CASH GENERATED FROM OPERATIONS	**2,382,259**	206,587
Interest received	**3,431**	4,987
Interest paid	**(609,028)**	(682,880)
Income taxes paid	**(4,204)**	(74,231)
NET CASH PROVIDED BY/(USED FOR) OPERATING ACTIVITIES	**1,772,458**	(545,537)

The majority of the change in accounts and other receivables in 2001 relates to a related parties payment.

29. FINANCIAL INSTRUMENTS

The Group's operations expose it to various financial risks, including credit risk, foreign exchange risk and interest rate risk. While the Group has not used derivative financial instruments for hedging or trading purposes, it focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance. The Group's senior management has written policies covering specific financial risks indicated above.

(a) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of accounts receivable included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. Cash is placed with state-owned banks and financial institutions.

29. FINANCIAL INSTRUMENTS *(Continued)*

(b) Foreign exchange risk

The Group operates in the PRC and has no significant exposure to any specific foreign currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to borrowings denominated in foreign currencies (see Note 24).

(c) Interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates. The Group sometimes borrows at variable rates and these represent the Group's maximum exposure to interest rate risk in relation to its financial liabilities.

(d) Liquidity risk

The Group depends upon cash flows from operations, bank loans and equity financing to satisfy its liquidity and capital needs. Management reviews the Group's working capital and liquidity portion on a regular basis to ensure it has sufficient resources to meet its working capital needs. In addition, management also aims at maintaining flexibility in funding by keeping committed credit lines available.

(e) Fair values

The carrying amounts of the following financial assets and financial liabilities, after provisions made, approximate to their fair value: cash, trade receivables and payables, other receivables and payables, short-term borrowings and floating rate long-term borrowings.

30. CAPITAL COMMITMENTS

	2001	2000
	RMB	*RMB*
Contracted but not provided for in respect of plant and equipment	**418,056**	137,596

(Amounts in thousands unless otherwise stated)

31. MAJOR CUSTOMERS

The Group's major customers are as follows:

	2001		2000	
	Revenue *RMB*	**% to total revenue** **%**	Revenue *RMB*	% to total revenue %
PetroChina Group Companies	**6,358,786**	**51**	7,247,669	55
JCGC Group Companies	**657,211**	**5**	119,396	1
	7,015,997	**56**	7,367,065	56

32. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of PetroChina which is part of a larger group of companies under CNPC. The Group has extensive transactions with members of the CNPC group. In addition to the related party information shown elsewhere in the financial statements, the following is a summary of the significant transactions entered into in the normal course of business between the Group and entities controlled by CNPC during the year:

	Notes	**2001** *RMB*	2000 *RMB*
PetroChina Group Companies			
Purchase of crude oil	*(a)*	**6,738,177**	7,930,123
Purchase of materials	*(a)*	**751,840**	629,369
Sale of gasoline	*(b)*	**1,820,000**	1,855,183
Sale of diesel oil	*(b)*	**2,543,500**	2,436,329
Sale of petrochemical goods	*(b)*	**1,995,286**	2,956,157
JCGC Group Companies			
Sale of goods	*(c)*	**657,215**	119,396
Sub-contracting fees	*(d)*	**24,353**	28,877
Construction of fixed assets	*(e)*	**113,214**	145,660
Purchase of materials and spare parts	*(f)*	**148,957**	24,065
Fees for welfare and support services	*(g)*	**127,444**	202,784
CNPC Group Companies			
Interest expense	*(h)*	**388,251**	215,728

32. RELATED PARTY TRANSACTIONS *(Continued)*

(a) Represents purchase of crude oil, naphtha, benzene, etc. on normal commercial terms at market prices.

(b) Represents sale of diesel oil, gasoline, ethylene, etc. on normal commercial terms at market prices.

(c) Represents sale of refinery products, chemical products, etc. on normal commercial terms at market prices.

(d) Represents processing fee for semi-finished products on normal commercial terms at market prices.

(e) Represents construction fee of fixed assets of the Group at regulated prices, market prices or cost as provided in the service agreement between the Group and JCGC Group Companies.

(f) Represents purchase of spare parts, low value consumables etc. on normal commercial terms at market prices.

(g) Fees for welfare and support services are based on state regulated prices, market prices or cost as provided in the service agreement between the Group and JCGC Group Companies.

(h) Represents interest expense for borrowings from CP Finance.

The Company's Board of Directors has approved 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) where there was no comparison available, on terms that were 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 favorable than terms available to third parties;

32. RELATED PARTY TRANSACTIONS *(Continued)*

(iv) the transactions entered into by the Group with PetroChina Group Companies, JCGC Group Companies and 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 December 31, 2001

Related party transactions	Annual cap as percentage to turnover
Purchase of crude oil	65%
Sale of gasoline	30%
Sale of diesel oil	22%
Purchase of materials	17%
Sale of petrochemical products, synthetic rubber products, dyestuff and dye intermediates	32%

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

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

33. SEGMENT INFORMATION

(a) Primary reporting format – business segments

The Group is principally engaged in the following four business segments in the PRC: petroleum products, petrochemical and organic chemical products, chemical fertilizers and inorganic chemicals, and synthetic rubber products.

(i) The petroleum products segment is engaged in the production of gasoline, diesel oil, solvent oil and other by-products such as lubricants. While certain of the intermediate petrochemicals produced by the Group are used as raw materials in the production of other petrochemicals, a substantial portion is sold to outside customers.

(ii) The petrochemical and organic chemical products segment primarily produces ethanol, acetic acid and acetic anhydride.

(iii) The chemical fertilizers and inorganic chemicals segment principally produces ammonium nitrate, urea, ammonium chloride, sulphuric acid and slag.

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

(Amounts in thousands unless otherwise stated)

33. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

In addition to these four major business segments, the other segment includes utilities, maintenance and other related services.

The accounting policies of the operating segments are the same as those described in Note 2 – "Summary of principal accounting policies".

Operating segment information for the years ended December 31, 2000 and 2001 is presented below.

Year ended December 31, 2001	Petroleum products *RMB*	Petrochemical and organic chemical products *RMB*	Chemical fertilizers and inorganic chemicals *RMB*	Synthetic rubber products *RMB*	Other products and services *RMB*	Total *RMB*
Profit and loss						
Sales (including intersegment)	6,141,415	6,894,381	107,090	781,690	2,184,195	16,108,771
Less: Intersegment sales	(933,462)	(1,507,901)	–	–	(1,148,876)	(3,590,239)
Total sales to external customers	5,207,953	5,386,480	107,090	781,690	1,035,319	12,518,532
Segment results	(361,866)	(719,848)	(124,881)	(21,722)	(80,163)	(1,308,480)
Finance costs – net						(545,990)
Share of profit of jointly controlled entities	–	40,595	–	–	–	40,595
Share of loss of an associated company	–	–	–	–	(1,259)	(1,259)
Loss before taxation						(1,815,134)
Taxation						(821)
Minority interests						(1,414)
Net loss						(1,817,369)
Depreciation and amortisation	297,174	423,829	3,907	164,451	77,434	966,795
Assets and liabilities						
Segment assets	2,969,199	7,653,882	1,290,935	283,364	1,331,175	13,528,555
Interests in jointly controlled entities	–	282,499	–	–	–	282,499
Investment in an associated company	–	–	–	–	18,784	18,784
Total segment assets	2,969,199	7,936,381	1,290,935	283,364	1,349,959	13,829,838
Segment liabilities	1,448,555	6,890,972	1,310,229	274,715	756,554	10,681,025
Segment capital expenditure	27,931	185,989	582,576	8,878	61,484	866,858

(Amounts in thousands unless otherwise stated)

33. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

Year ended December 31, 2000	Petroleum products	Petrochemical and organic chemical products	Chemical fertilizers and inorganic chemicals	Synthetic rubber products	Other products and services	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Profit and loss						
Sales (including intersegment)	7,615,502	9,276,665	458,212	878,455	3,556,101	21,784,935
Less: Intersegment sales	(2,205,101)	(3,445,870)	–	–	(2,737,717)	(8,388,688)
Total sales to external customers	5,410,401	5,830,795	458,212	878,455	818,384	13,396,247
Segment results	77,453	(221,049)	(57,125)	(99,454)	(34,418)	(334,593)
Finance costs – net						(580,177)
Share of profit of jointly controlled entities	–	37,427	–	–	–	37,427
Loss before taxation						(877,343)
Taxation						58,510
Minority interests						(17,157)
Net loss						(835,990)
Depreciation and amortisation	244,227	376,955	43,971	120,176	81,699	867,028
Employee separation costs and shut down of manufacturing assets	–	615,447	321,086	–	–	936,533
Assets and liabilities						
Segment assets	4,718,135	7,868,959	1,042,317	1,085,824	3,014,834	17,730,069
Interests in jointly controlled entities	–	243,774	–	–	–	243,774
Total segment assets	4,718,135	8,112,733	1,042,317	1,085,824	3,014,834	17,973,843
Segment liabilities	2,191,441	6,002,386	1,068,376	736,134	2,043,727	12,042,064
Segment capital expenditure	109,260	586,212	409,594	32,574	128,214	1,265,854

33. SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – geographical segments

All assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns.

34. ULTIMATE HOLDING COMPANY

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

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on April 22, 2002 and will be submitted to the shareholders for approval at the annual general meeting to be held on June 17, 2002.