

**PwC Shen Zi (2002) No. 2**

**TO THE SHAREHOLDERS OF  
JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED**

We have accepted the appointment to audit the balance sheets of the Company and its subsidiaries (the “Group”) as at December 31, 2001 and the profit and loss accounts, profit appropriation statements and cash flow statements of the Company and the Group for the year then ended. The Company is responsible for these financial statements. Our responsibility is to express an audit opinion on these financial statements. Our audit was conducted in accordance with China Certified Public Accountants’ Independent Auditing Standards and consequently included such auditing procedures as were considered necessary and appropriate to the Group’s and the Company’s circumstances, including examination, on a test basis, of the Group’s and the Company’s transactions and accounting records.

In our opinion, the financial statements of the Group and Company set out on pages 89 to 131 present fairly, in all material respects, the financial position of the Company and the Group at December 31, 2001 and their results of operations and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises, promulgated by the Ministry of Finance of the People’s Republic of China. The accounting policies used in the preparation of the financial statements for the year are consistent with those used in the preceding year.

**PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.**

April 22, 2002

As at December 31, 2001

(In Rmb Yuan)

	December 31, 2001 Group	December 31, 2000 Group	December 31, 2001 Company	December 31, 2000 Company
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and bank (Note V-1)	36,917,002	228,964,237	25,161,349	198,701,433
Short-term investments	—	—	—	—
Notes receivable (Note V-2)	45,708,324	—	25,867,970	—
Dividend receivable (Note V-6)	1,860,000	—	21,600,295	—
Interest receivable	—	—	—	—
Accounts receivable (Note V-3)	735,406,409	2,690,775,845	726,747,085	2,677,365,771
Other receivables (Note V-4)	289,037,977	651,999,473	261,771,043	645,999,320
Advances to suppliers (Note V-5)	208,534,117	284,937,242	208,032,155	283,646,605
Subsidy receivable	—	—	—	—
Inventories (Note V-7)	1,179,815,974	1,771,250,391	1,169,364,322	1,764,495,559
Prepaid expenses (Note V-8)	62,724,200	60,360,971	62,453,195	60,172,252
Long-term bond investments maturing within one year	—	—	—	—
Other current assets	—	—	—	—
<b>Total current assets</b>	<b>2,560,004,003</b>	<b>5,688,288,159</b>	<b>2,500,997,414</b>	<b>5,630,380,940</b>
<b>LONG-TERM INVESTMENTS</b>				
Long-term equity investments (Note V-9)	301,283,112	243,774,101	439,521,264	356,928,111
Long-term bond investments	—	—	—	—
<b>Total long-term investments</b>	<b>301,283,112</b>	<b>243,774,101</b>	<b>439,521,264</b>	<b>356,928,111</b>
<i>Including: Consolidation difference</i>	—	—	—	—
<b>FIXED ASSETS</b>				
Fixed assets-cost	13,032,296,702	12,909,888,396	12,676,954,991	12,661,924,374
<i>Less: Accumulated depreciation</i>	<i>(3,981,761,970)</i>	<i>(3,322,621,020)</i>	<i>(3,863,825,506)</i>	<i>(3,280,196,145)</i>
Fixed assets-net book value (Note V-10)	9,050,534,732	9,587,267,376	8,813,129,485	9,381,728,229
<i>Less: Impairment of fixed assets</i>	—	—	—	—
Fixed assets-net book amount	9,050,534,732	9,587,267,376	8,813,129,485	9,381,728,229
Construction materials	6,835,620	—	6,835,620	—
Construction in progress (Note V-11)	1,177,442,908	484,453,443	1,177,442,908	484,453,443
Fixed assets pending disposal	—	—	—	—
<b>Total fixed assets</b>	<b>10,234,813,260</b>	<b>10,071,720,819</b>	<b>9,997,408,013</b>	<b>9,866,181,672</b>
<b>INTANGIBLE AND OTHER ASSETS</b>				
Intangible assets (Note V-12)	1,336,274,160	1,427,000,874	1,335,026,340	1,425,527,547
Long-term deferred expenses (Note V-13)	99,576,935	276,530,160	99,576,935	275,045,785
Other long-term assets	—	—	—	—
<b>Total intangible and other assets</b>	<b>1,435,851,095</b>	<b>1,703,531,034</b>	<b>1,434,603,275</b>	<b>1,700,573,332</b>
<b>DEFERRED TAXES</b>				
Deferred tax assets	—	3,394,265	—	3,394,265
<b>TOTAL ASSETS</b>	<b>14,531,951,470</b>	<b>17,710,708,378</b>	<b>14,372,529,966</b>	<b>17,557,458,320</b>

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

*Balance Sheets**As at December 31, 2001**(In Rmb Yuan)*

	December 31, 2001 Group	December 31, 2000 Group	December 31, 2001 Company	December 31, 2000 Company
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note V-14)	3,138,600,000	1,989,440,000	3,020,000,000	1,899,440,000
Notes payable	-	-	-	-
Accounts payable (Note V-15)	654,014,009	593,453,656	641,650,966	593,453,656
Advances from customers (Note V-15)	195,071,689	131,724,927	179,511,613	127,678,436
Salaries payable	-	-	-	-
Welfare payable	-	-	-	-
Dividend payable (Note V-16)	1,150,198	24,331,000	-	24,331,000
Taxes payable (Note V-17)	(62,643,930)	(170,208,316)	(63,579,546)	(170,437,525)
Other levies payable	-	-	-	-
Other payables (Note V-15)	292,800,131	762,344,517	324,132,765	760,633,139
Accrued expenses	-	-	-	-
Accrued liabilities	-	-	-	-
Long-term liabilities due within one year (Note V-18)	402,884,868	1,054,391,381	402,884,868	1,054,391,381
Other current liabilities	-	-	-	-
<b>Total current liabilities</b>	<b>4,621,876,965</b>	<b>4,385,477,165</b>	<b>4,504,600,666</b>	<b>4,289,490,087</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note V-19)	4,836,973,714	4,512,317,447	4,836,973,714	4,512,317,447
Debentures payable	-	-	-	-
Payables due after one year	-	-	-	-
Special project payables	-	-	-	-
Other long-term liabilities (Note V-20)	1,148,589,531	3,067,784,135	1,148,589,531	3,067,784,135
<b>Total long-term liabilities</b>	<b>5,985,563,245</b>	<b>7,580,101,582</b>	<b>5,985,563,245</b>	<b>7,580,101,582</b>
<b>DEFERRED TAXES</b>				
Deferred tax liabilities	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>10,607,440,210</b>	<b>11,965,578,747</b>	<b>10,490,163,911</b>	<b>11,869,591,669</b>
<b>MINORITY INTERESTS</b>	<b>42,766,634</b>	<b>57,884,407</b>	<b>-</b>	<b>-</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (Note V-21)	3,561,078,000	3,561,078,000	3,561,078,000	3,561,078,000
Capital surplus (Note V-22)	2,293,618,886	2,294,138,886	2,293,618,886	2,294,138,886
Statutory common reserve fund (Note V-23)	701,064,536	696,241,999	693,730,248	693,730,248
Including: Statutory common welfare fund	126,834,279	126,834,279	125,287,623	125,287,623
Accumulated losses (Note V-24)	(2,674,016,796)	(864,213,661)	(2,666,061,079)	(861,080,483)
Foreign exchange difference reserve	-	-	-	-
<b>Total shareholders' equity</b>	<b>3,881,744,626</b>	<b>5,687,245,224</b>	<b>3,882,366,055</b>	<b>5,687,866,651</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>14,531,951,470</b>	<b>17,710,708,378</b>	<b>14,372,529,966</b>	<b>17,557,458,320</b>

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

<i>Legal representative:</i>	<i>Person in charge of accounting function:</i>	<i>Chief accountant:</i>	<i>Person in charge of accounting department:</i>
<b>Xu Feng Li</b>	<b>Shi Jian Xun</b>	<b>Lan Yun Sheng</b>	<b>Zhang Li Yan</b>

For the year ended December 31, 2001  
(In Rmb Yuan)

	2001 Group	2000 Group	2001 Company	2000 Company
<b>1. Sales revenue (Note V-25)</b>	<b>11,914,082,480</b>	13,846,722,322	<b>11,825,250,060</b>	13,457,431,211
Less: Cost of sales (Note V-26)	(11,191,603,870)	(12,123,588,540)	(11,151,434,697)	(11,793,446,643)
Sales tax and other levies (Note V-27)	(439,901,437)	(450,475,011)	(439,901,437)	(449,527,457)
<b>2. GROSS PROFIT ON SALES</b>	<b>282,577,173</b>	1,272,658,771	<b>233,913,926</b>	1,214,457,111
Less: Other operating loss	(46,807,586)	(33,262,156)	(39,110,500)	(33,293,019)
Selling expenses	(62,197,882)	(35,254,345)	(58,372,043)	(35,156,742)
General and administrative expenses	(1,435,766,454)	(619,822,707)	(1,416,840,761)	(611,578,818)
Financial expenses, net (Note V-28)	(545,469,215)	(583,669,841)	(535,757,343)	(572,497,422)
<b>3. OPERATING PROFIT/(LOSS)</b>	<b>(1,807,663,964)</b>	649,722	<b>(1,816,166,721)</b>	(38,068,890)
Add: Investment income (Note V-29)	39,326,864	37,459,165	43,234,942	57,623,633
Subsidy income (Note V-30)	2,174,512	–	2,174,512	–
Non-operating income	22,958,532	6,575,558	22,950,667	6,572,202
Less: Non-operating expenses (Note V-31)	(54,197,030)	(907,699,300)	(53,779,731)	(907,280,816)
<b>4. TOTAL PROFIT/(LOSS)</b>	<b>(1,797,401,086)</b>	(863,014,855)	<b>(1,801,586,331)</b>	(881,153,871)
Less: Income tax (Note V-32)	(4,206,747)	1,405,231	(3,394,265)	2,387,718
Minority interests	(1,413,724)	(17,156,529)	–	–
<b>5. NET PROFIT/(LOSS)</b>	<b>(1,803,021,557)</b>	(878,766,153)	<b>(1,804,980,596)</b>	(878,766,153)

## Supplementary Information

	2001 Group	2000 Group	2001 Company	2000 Company
1. Income from sale of investments or disposal of departments or investees	–	–	–	–
2. Loss from natural catastrophe	–	–	–	–
3. Increase (decrease) in total profit resulting from change in accounting policies	–	–	–	–
4. Increase (decrease) in total profit resulting from change in accounting estimates	–	–	–	–
5. Loss from debt restructuring	–	–	–	–
6. Other	–	–	–	–

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

<i>Legal representative:</i>	<i>Person in charge of accounting function:</i>	<i>Chief accountant:</i>	<i>Person in charge of accounting department:</i>
<b>Xu Feng Li</b>	<b>Shi Jian Xun</b>	<b>Lan Yun Sheng</b>	<b>Zhang Li Yan</b>

## Profit Appropriation Statements

For the year ended December 31, 2001

(In Rmb Yuan)

	2001 Group	2000 Group	2001 Company	2000 Company
<b>1. NET LOSS</b>	<b>(1,803,021,557)</b>	(878,766,153)	<b>(1,804,980,596)</b>	(878,766,153)
<i>Add:</i> Undistributed profits/ (accumulated losses) at the beginning of the year	<b>(864,213,661)</b>	15,104,355	<b>(861,080,483)</b>	17,685,670
Transfer from other sources	-	-	-	-
<b>2. ACCUMULATED LOSSES</b>	<b>(2,667,235,218)</b>	(863,661,798)	<b>(2,666,061,079)</b>	(861,080,483)
<i>Less:</i> Transfer to statutory common reserve fund	<b>(4,822,537)</b>	(321,009)	-	-
Transfer to statutory common welfare	-	-	-	-
Transfer to staff and workers' bonus and welfare fund	<b>(1,959,041)</b>	(230,854)	-	-
<b>3. ACCUMULATED LOSSES</b>	<b>(2,674,016,796)</b>	(864,213,661)	<b>(2,666,061,079)</b>	(861,080,483)
<i>Less:</i> Dividend for preference stocks	-	-	-	-
Transfer to discretionary common reserve fund	-	-	-	-
Dividend for common stocks	-	-	-	-
Dividend for common stocks transferred to capital	-	-	-	-
<b>4. ACCUMULATED LOSSES AT     THE END OF THE YEAR</b>	<b><u>(2,674,016,796)</u></b>	<u>(864,213,661)</u>	<b><u>(2,666,061,079)</u></b>	<u>(861,080,483)</u>

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

<i>Legal representative:</i>	<i>Person in charge of accounting function:</i>	<i>Chief accountant:</i>	<i>Person in charge of accounting department:</i>
<b>Xu Feng Li</b>	<b>Shi Jian Xun</b>	<b>Lan Yun Sheng</b>	<b>Zhang Li Yan</b>

	Group	Company
<b>1. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	15,566,558,326	15,401,260,818
Refund of tax	2,174,512	2,174,512
Cash received relating to other operating activities	26,909,909	26,902,044
	<hr/>	<hr/>
<b>Sub-total of cash inflows</b>	<b>15,595,642,747</b>	<b>15,430,337,374</b>
	<hr/>	<hr/>
Cash paid for goods and services	(11,478,142,485)	(11,350,192,950)
Cash paid to and on behalf of employees	(448,940,719)	(421,716,445)
Payments of all types of taxes	(786,751,533)	(780,150,775)
Cash paid relating to other operating activities	(502,649,913)	(473,886,226)
	<hr/>	<hr/>
<b>Sub-total of cash outflows</b>	<b>(13,216,484,650)</b>	<b>(13,025,946,396)</b>
	<hr/>	<hr/>
<b>Net cash flows from operating activities</b>	<b>2,379,158,097</b>	<b>2,404,390,978</b>
	<hr/>	<hr/>
<b>2. Cash flows from investing activities</b>		
Cash received from sale of investments	-	-
Cash received from distribution of dividends or profits	-	3,412,528
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	-	-
Cash received relating to other investing activities	-	-
	<hr/>	<hr/>
<b>Sub-total of cash inflows</b>	<b>-</b>	<b>3,412,528</b>
	<hr/>	<hr/>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(884,773,755)	(871,901,275)
Cash paid to acquire investments	(300,000)	(2,300,000)
Cash paid relating to other investing activities	-	-
	<hr/>	<hr/>
<b>Sub-total of cash outflows</b>	<b>(885,073,755)</b>	<b>(874,201,275)</b>
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<b>Net cash flows from investing activities</b>	<b>(885,073,755)</b>	<b>(870,788,747)</b>
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## Cash Flow Statements

For the year ended December 31, 2001

(In Rmb Yuan)

	Group	Company
<b>3. Cash flows from financing activities</b>		
Proceeds from issuing shares	1,000,000	–
<i>Including: Cash received from minority shareholders</i>	1,000,000	–
Proceeds from borrowings	5,719,860,000	5,581,260,000
Proceeds relating to other financing activities	–	–
	<hr/>	<hr/>
<b>Sub-total of cash inflows</b>	<b>5,720,860,000</b>	<b>5,581,260,000</b>
	<hr/>	<hr/>
Cash repayments of borrowings	(6,816,744,850)	(6,706,744,850)
Cash payments for interest expenses or distribution of dividends or profits	(590,246,727)	(581,657,465)
<i>Including: Dividends paid to minority shareholders</i>	(1,462,512)	–
Cash payments relating to other financing activities	–	–
<i>Including: Cash paid to minority shareholders due to reduction of capital of subsidiaries</i>	–	–
	<hr/>	<hr/>
<b>Sub-total of cash outflows</b>	<b>(7,406,991,577)</b>	<b>(7,288,402,315)</b>
	<hr/>	<hr/>
<b>Net cash flows from financing activities</b>	<b>(1,686,131,577)</b>	<b>(1,707,142,315)</b>
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<b>4. Effect of foreign exchange rate changes on cash</b>	–	–
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<b>5. Net decrease in cash and cash equivalents</b>	<b>(192,047,235)</b>	<b>(173,540,084)</b>
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The accompanying notes form an integral part of these financial statements.

<i>Legal representative:</i>	<i>Person in charge of accounting function:</i>	<i>Chief accountant:</i>	<i>Person in charge of accounting department:</i>
<b>Xu Feng Li</b>	<b>Shi Jian Xun</b>	<b>Lan Yun Sheng</b>	<b>Zhang Li Yan</b>

**Supplementary Information**

	<b>Group</b>	<b>Company</b>
<b>1. Reconciliation of net loss to cash flows from operating activities</b>		
Net loss	(1,803,021,557)	(1,804,980,596)
<i>Add:</i> Minority interests	1,413,724	-
Provision for impairment of assets	770,783,059	771,270,561
Depreciation of fixed assets	673,030,087	649,485,948
Amortisation of intangible assets	90,726,714	90,501,207
Amortisation of long-term deferred expenses	205,694,786	216,086,554
Increase in prepaid expenses	(2,363,229)	(2,280,943)
Increase in accrued expenses	-	-
Loss on disposal of fixed assets, intangible assets and other long-term assets	-	-
Loss on scrapping of fixed assets	167,519	167,519
Financial expenses	588,784,215	581,657,465
Investment income	(39,326,864)	(43,234,942)
Deferred tax debit	3,394,265	3,394,265
Decrease in inventories	420,260,391	423,519,064
Decrease in operating receivables	1,752,810,965	1,808,593,177
Decrease in operating payables	(283,195,978)	(289,788,301)
	<hr/>	<hr/>
Net cash flows from operating activities	2,379,158,097	2,404,390,978
<b>2. Investing and financing activities that do not involve cash receipts and payments</b>		
Investments in the form of fixed assets ( <i>Note V-10</i> )	19,742,147	62,279,906
Convertible bonds maturing within one year	-	-
Finance lease of fixed assets	-	-
	<hr/>	<hr/>
<b>3. Net decrease in cash and cash equivalents</b>		
Cash at end of year	36,917,002	25,161,349
<i>Less:</i> Cash at beginning of year	(228,964,237)	(198,701,433)
Cash equivalents at end of year	-	-
<i>Less:</i> Cash equivalents at beginning of year	-	-
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Net decrease in cash and cash equivalents	(192,047,235)	(173,540,084)

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

<i>Legal representative:</i>	<i>Person in charge of accounting function:</i>	<i>Chief accountant:</i>	<i>Person in charge of accounting department:</i>
<b>Xu Feng Li</b>	<b>Shi Jian Xun</b>	<b>Lan Yun Sheng</b>	<b>Zhang Li Yan</b>



## I 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 upon the restructuring of Jilin Chemical Industrial Corporation. The principal activities of the Company are the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilizers, inorganic chemicals and other products and services.

In accordance with the restructuring agreement, the Company issued 2,396,300,000 state-owned shares with a par value of Rmb 1.00 each to Jilin Chemical Industrial Corporation in consideration for the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary of Jilin Chemical Industrial Corporation transferred to the Company. Jilin Chemical Industrial Corporation then changed its name to Jilin Chemical Group Corporation (“JCGC”) and became the Company’s immediate holding company.

As a state-owned enterprise, JCGC 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 regulations promulgated by the State Council of the PRC, JCGC and certain oil fields and oil distribution companies became wholly-owned subsidiaries of China National Petroleum Corporation (“CNPC”) since July 1, 1998. Therefore, CNPC becomes the ultimate holding company of the Company through the control over JCGC.

In 1999, CNPC and its subsidiaries underwent a corporate restructuring (the “Corporate Restructuring”). According to the Corporate Restructuring, JCGC transferred a total of 2,396,300,000 state-owned shares of the Company, together with certain assets and business undertakings to PetroChina Company Limited (“PetroChina”), a wholly-owned subsidiary of CNPC established on November 5, 1999. Accordingly, PetroChina becomes the Company’s immediate holding company.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Accounting policy

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises and related regulations, promulgated by the Ministry of Finance of the People’s Republic of China.

### 2 Accounting period

The Group’s accounting period starts on January 1 and ends on December 31.

### 3 Reporting currency

The Group uses the Renminbi (“Rmb”) as its reporting currency.

### 4 Basis of accounting

The Group’s financial statements are prepared on the accrual basis and under the historical cost convention unless otherwise stated.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5 Foreign currency transactions

Transactions denominated in foreign currencies are translated into Rmb at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Rmb at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are taken to the profit and loss account. Foreign exchange gains or losses relating to funds borrowed to finance the construction of fixed assets before they reach usable condition have been capitalized in the "construction in progress" account. Foreign exchange differences arising during the pre-operating period are recorded as "long-term deferred expenses".

### 6 Cash and cash equivalents

For the purposes of the cash flow statements, cash refers to all cash on hand and deposits held at call with banks. Cash equivalents refer to short-term, highly-liquid investments (due within 3 months from the purchase date) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 7 Accounts receivable and provision for bad debts

The Group provides an allowance for bad debts based on a detailed review of the collectibility of the accounts receivable balance.

Bad debts are recognised and accounts receivable are written off against the provision for bad debts where there is evidence indicating that the accounts receivable are uncollectible. The evidence includes bankruptcy, liquidation, negative equity, and significant cash flow problems of debtors, etc.

### 8 Inventories

Inventories, which comprise raw materials, work in progress, finished goods, low value consumables and packing materials, are stated at cost. The cost of raw materials used and the sale of finished goods are accounted for on the weighted average basis. The cost of low value consumables and packing materials are amortised to production overhead expenditures upon usage. Finished goods and work in progress comprise material costs, direct labour and an appropriate allocation of all indirect production overhead expenditures.

Provision for inventory obsolescence is made based on the excess of original cost of inventories over their net realisable value when inventories are damaged, become wholly or partially obsolete, or their selling price is lower than their cost. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9 Long-term investments

Long-term investments represent investments in other enterprises that the Company intends to hold for more than 12 months.

The cost of long-term investments is stated at the actual amount paid (or book value of invested assets) including related taxes. Investments in equity of not less than 20%, or less than 20% but in which the Company is in a position to exercise significant influence are accounted for using the equity method. Investments in equity of less than 20%, or over 20% but in which the Company has no significant influence are stated at cost.

When equity method is adopted for long-term equity investments, the difference between the original investment cost and the share of the invested company's net assets is recognised as "equity investment difference". Equity investment difference is amortised over the investment period as stipulated in the contract. If there is no stipulated period, debit balance of the equity investment difference is amortised over no more than 10 years and credit balance of the equity investment difference is amortised over no less than 10 years.

Provision for diminution in value of long-term investments is made when the recoverable amount of the investments is lower than their carrying amount due to continuing decrease in their market price or deterioration in the invested companies' operations and these conditions are not expected to be recovered in the foreseeable future.

### 10 Fixed assets and depreciation

Fixed assets comprise buildings, plant, machinery and other equipment having a useful life of more than one year and directly relating to production, and other miscellaneous equipment the cost of which is more than Rmb 2,000 and having a useful life of more than two years.

Fixed assets purchased or constructed by the Group are recorded at cost, or at the appraised amount as approved by the state assets administration authorities pursuant to the Group's restructuring.

Depreciation of fixed assets is calculated on the straight-line basis over the following useful lives, after taking into account their residual value, which is 3% of cost:

Buildings	10 to 45 years
Plant and machinery	10 to 28 years
Equipment	8 to 28 years
Motor vehicles	12 years

Fixed assets are stated at the lower of the carrying amount or recoverable amount. An impairment provision, representing the excess of the carrying amount over the recoverable amount, is made when the economic benefits that the fixed assets can bring to the Group are negatively impacted. An impairment provision of the whole carrying amount is made when the fixed assets could not bring any economic benefits to the Group.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 11 Construction in progress

Construction in progress represents capital assets under construction and is stated at cost. Cost comprises original cost of equipment, construction cost, installation cost, other direct costs including borrowing costs on specific loans financing the capital assets. Construction in progress is transferred to fixed assets when they have reached their expected usable condition.

An impairment provision, based on the excess of the carrying amount over the recoverable amount, is made when the construction in progress has been discontinued for a long period of time and is not expected to restart in the foreseeable future, or the construction project has become functionally or technologically obsolete, and an uncertainty exists as to whether the project can bring future economic benefits to the Group.

### 12 Borrowing costs

Borrowing costs are interest incurred, amortisation of discounts or premiums, ancillary costs incurred, and exchange differences in connection with specific borrowings pertaining to the acquisition or construction of fixed assets. Borrowing costs are capitalized if they meet the following criteria of capitalisation of borrowing costs:

1. capital expenditures have been incurred;
2. borrowing costs have been incurred;
3. activities that are necessary to prepare the asset for its intended use have been commenced.

Capitalisation of borrowing costs ceases when the construction in progress has reached their expected usable condition. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

The amount of interest costs capitalised is determined based on the cumulative expenditures incurred for the acquisition or construction of a fixed asset and the weighted average capitalization rate, and is limited to the actual amount of interest incurred during the period. Exchange differences and ancillary costs arising from borrowings are capitalized to the extent that these borrowings are utilized for the acquisition or construction of fixed assets.

All other borrowing costs are taken to the profit and loss account as incurred.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 13 Intangible assets and amortization

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

Land use rights are stated at cost, or at the appraised amount as approved by the state assets administration authorities pursuant to the Group's restructuring. Land use rights are amortized using the straight-line method over a period of 50 years.

The cost of land use rights purchased or obtained by way of payment of a land use fee are stated at the actual amount paid and are recorded as intangible assets. The carrying value of land use rights will be transferred to construction in progress when the land is developed for self-use projects.

Technical know-how represents the purchased cost of technical 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 and are distinguishable. They are amortised 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.

An impairment provision, representing the excess of the carrying amount over the recoverable amount, is made when the economic benefits that the intangible assets can bring to the Group are negatively impacted. An impairment provision of the whole carrying amount is made when the intangible assets could not bring any economic benefits to the Group.

### 14 Long-term deferred expenses

Long-term deferred expenses refer to those expenses which have been paid and should be amortized over one year and mainly include major overhaul expenditures for fixed assets.

Overhaul expenditures represent actual cost incurred for machinery maintenance within a scheduled period, and are amortised evenly over the maintenance cycles. Other long term deferred expenses are amortized on straight-line basis over the beneficial period.

The unamortized balance of deferred expenses is expensed when the project can no longer bring any future economic benefits to the Group.

## II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 15 Revenue recognition

Sales are recognized when the significant risk and rewards of ownership of products are transferred to the buyer; the Group retains neither continuing managerial involvement nor effective control over the products; the economic benefits arising from the transaction can flow into the Group; and the related cost and revenue can be reliably measured.

Cash discount is recorded as a current financial expense when incurred. Sales discount is netted off against sales when incurred.

Service income is recognised when service is rendered and completed in the same accounting period. For services started in one and completed in the following year, revenue is recognized using the percentage of completion method at the balance sheet date, if the outcome of the services can be estimated reliably.

Interest income and rental income are recognised when the economic benefits arising from the transaction can flow into the Group and revenue can be reliably measured.

### 16 Corporate and local income taxes

Corporate and local income taxes are accounted for using the liability method under the deferred tax method. Deferred tax is provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes using currently enacted tax rates.

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 utilized. Other temporary differences are regarded as permanent differences.

### 17 Change in accounting policy

In accordance with the Ministry of Finance's circular [2000] No. 25 "Notice for Distribution of the Accounting Systems for Business Enterprises" and the circular [2001] No. 7 "Notice for Distribution of the Eight Accounting Standards", the Group adopted the Accounting Systems for Business Enterprises to replace the Accounting Systems for Joint Stock Limited Enterprises commencing January 1, 2001. The change in accounting policies in connection with the adoption of the Accounting Systems for Business Enterprises did not have any significant accounting impact on the Group.

## **II SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

### **18 Basis of consolidation**

Consolidated financial statements are prepared in accordance with the circular [1995] No. 11 “Provisional Regulations on Consolidated Financial Statements” issued by the Ministry of Finance of the People’s Republic of China.

Consolidated financial statements are prepared based on the financial statements of the Company and its subsidiaries within the consolidation scope at December 31, 2001. In accordance with the circular [1996] No. 2 “Comments on the Consolidation Scope for the Purposes of Consolidated Financial Statements”, subsidiaries and jointly controlled entities whose revenue is below 10% of that of the Company, total assets below 10% of those of the Company and total profit below 10% of that of the Company are not consolidated.

Subsidiaries are entities over which the Company, directly or indirectly, owns 50% or more of the voting rights and exercises significant influence and from the operation of which the Company can derive benefit.

Jointly controlled entities represent ventures which are mutually controlled by the Company and other enterprises.

All material transactions and balances between the Company and its consolidated subsidiaries have been eliminated in consolidated financial statements.

Minority interests in the consolidated financial statements refer to the portion of the subsidiaries’ equity that the Group does not own.

### III TAXATION

The principal types of taxes applicable to the Group are as follows:

- (i) Value added tax (“VAT”) – the Group’s sales revenue is subject to VAT at the rate of 17%. VAT payable is the net difference between periodic output VAT and deductible input VAT.
- (ii) Business tax (“BT”) – the Group’s gross service income is subject to BT at the rate of 5%.
- (iii) Consumption tax (“CT”) – the Group’s sales of gasoline and diesel oil are subject to CT at Rmb277.6 per ton and Rmb117.6 per ton, respectively.
- (iv) Income tax – the Group is subject to income tax at 33% of its taxable income.
- (v) City construction and maintenance tax (“CCMT”) – the Group is subject to CCMT at 7% of the sum of VAT, BT and CT paid.
- (vi) Education tax (“ET”) – the Group is subject to ET at 3% of the sum of VAT, BT and CT paid.

Jilin Winsway Chemical Industrial Store and Transport Limited (“Winsway”), a subsidiary of the Company, is a sino-foreign equity joint venture and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first profitable year of operation, which is 1996, followed by a 50% reduction in the income tax rate from the third to fifth years in accordance with the Income Tax Law for Foreign Investment and Foreign Enterprises. In accordance with the circular (1999) No. 172 issued by State Administration of Taxation, foreign investment enterprises located in the mid-west area are eligible to a reduced tax rate of 15% after the expiry of the tax holiday. Accordingly, Winsway is subject to income tax at 15% for the three years from 2001.

Jilin City Songmei Acetic Co., Ltd. (“Songmei”), another subsidiary of the Company, is a sino-foreign cooperative joint venture and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first profitable year of operations followed by a 50% reduction in the income tax rate from the third and fifth years in accordance with the Income Tax Law for Foreign Investment and Foreign Enterprises. Songmei is exempted from income tax for 2000 and 2001, being the first two profitable years.

Jilin Jihua Jianxiu Company Limited (“Jianxiu”), a subsidiary of the Company established in 2001, is subject to income tax at 33% of its taxable income for the year.

Jilian (Jilin) Petrochemicals Limited (“Jilian”), is a sino-foreign jointly controlled entity and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first profitable year of operations, which is 1995, followed by a 50% reduction in the income tax rate from the third to fifth years in accordance with the Income Tax Law for Foreign Investment and Foreign Enterprises. Jilian is awarded the status of “advanced technology enterprise”, it enjoys a 50% reduction in the income tax rate for the sixth year. Jilian enjoys income tax exemption in 1995 and 1996, and enjoys a reduced tax rate of 15% from 1997 to 2000. In accordance with the circular (1999) No. 172 issued by State Administration of Taxation, Jilian is eligible for a tax rate of 15% for three years from 2001.



**III TAXATION (continued)**

Jilin Province BASF JCIC NPG Co., Ltd. (“BASF”), a sino-foreign jointly controlled entity and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first profitable year of operations followed by a 50% reduction in the income tax rate from the third to fifth years. BASF commenced operation in 1998, and has incurred losses for 1998, 1999, 2000 and 2001, accordingly no provision for income tax is required.

Jilin Lianli Industrial Company Limited (“LianLi”), an associated company established in 2001, is subject to a tax rate of 33% of its taxable income for the year.

**IV MAJOR SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES**

Name of enterprise	Registered/ paid-in capital	Business scope	Investment amount	Percentage of equity held	Remark
<b>Subsidiaries</b>					
Winsway	51,454,000	Provision of transportation services for petrochemical materials and products	36,154,000	70%	Consolidated entity
Songmei	72,000,000	Manufacturing of acetic acid	47,660,421	66%	Consolidated entity
Jianxiu	45,200,000	Machinery repair and installation	44,537,759	99%	Consolidated entity
Jilin Xinghua Nitrochloro-benzene Company Limited (“Xinghua”)	25,668,000	Manufacturing nitrochloro-benzene	19,250,000	75%	Unconsolidated entity
<b>Jointly controlled entities</b>					
Jilian	416,971,720	Manufacturing of petrochemical products	271,031,590	65%	Unconsolidated entity
BASF	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	Unconsolidated entity

**IV MAJOR SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (continued)**

- (i) Xinghua has ceased production in 2000 as it incurred substantial losses and had a negative net equity. In accordance with circular (1995) No. 11 promulgated by Ministry of Finance, the financial statements of Xinghua are not consolidated, and the long-term investment in Xinghua was written off.
- (ii) The Company has a 65% equity interest in Jilian. According to Jilian's articles of association, Jilian is jointly controlled by the Company and the other joint venture partner. Therefore, Jilian is a jointly controlled entity of the Company. In addition, according to BASF's articles of association, BASF is also a jointly controlled entity of the Company. As the amounts of revenue, total profit and total assets as at December 31, 2001 of Jilian and BASF are less than 10% of the respective amounts of those of the Company, the financial statements of Jilian and BASF are not consolidated and are accounted for using the equity method of accounting in accordance with the circular (1996) No. 2 "Comments on the Consolidation Scope for the Purposes of Consolidated Financial Statements".

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1 Cash and bank**

	<b>December 31, 2001</b>	December 31, 2000
Cash on hand	<b>113,294</b>	69,611
Cash in bank	<b>36,803,708</b>	228,894,626
	<b>36,917,002</b>	228,964,237

There was no foreign currency held at year end.

**2 Notes receivable**

Notes receivable represent bank acceptances generated from sales transactions. At December 31, 2001, no notes receivable were pledged (December 31, 2000: nil).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3 Accounts receivable

	<b>December 31, 2001</b>	December 31, 2000
Accounts receivable	<b>1,575,784,831</b>	2,931,553,239
Less: Provision for bad debts	<b>(840,378,422)</b>	(240,777,394)
	<b><u>735,406,409</u></b>	<u>2,690,775,845</u>

## (a) Ageing analysis:

	December 31, 2001			December 31, 2000		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	227,153,128	14	(18,889,965)	2,321,597,831	79	(15,833,299)
1-2 years	795,515,437	51	(316,960,015)	342,704,904	12	(35,254,383)
2-3 years	295,704,949	19	(247,117,125)	105,083,462	4	(52,541,730)
More than 3 years	257,411,317	16	(257,411,317)	162,167,042	5	(137,147,982)
	<b><u>1,575,784,831</u></b>	<b><u>100</u></b>	<b><u>(840,378,422)</u></b>	<u>2,931,553,239</u>	<u>100</u>	<u>(240,777,394)</u>

Additional provision for bad debts was made during the year due to the lengthening of accounts receivable ageing and the financial problems of certain debtors. There was no significant write-off of accounts receivable in 2001 (2000: nil).

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At December 31, 2001, the five largest debtors of the Group are as follows:

Name of enterprise	Amount	% of accounts receivable
JCGC Propylene Company	186,939,762	12
PetroChina Group Companies	184,290,549	12
JCGC Jilin City Chang Song Chemical Company	137,415,421	9
JCGC Song Bei Company	102,930,384	6
JCGC Song Jiang Chemical Company	76,487,614	5
	<b><u>688,063,730</u></b>	<u>44</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 4 Other receivables

	December 31, 2001	December 31, 2000
Other receivables	312,503,095	675,456,586
Less: Provision for bad debts	<u>(23,465,118)</u>	<u>(23,457,113)</u>
	<u>289,037,977</u>	<u>651,999,473</u>

## (a) Ageing analysis:

	December 31, 2001			December 31, 2000		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	185,351,422	59	(8,005)	652,195,731	96	(2,763,832)
1-2 years	104,064,258	33	(2,763,832)	5,135,148	1	(2,567,574)
2-3 years	4,961,708	2	(2,567,574)	6,421,769	1	(6,421,769)
More than 3 years	18,125,707	6	(18,125,707)	11,703,938	2	(11,703,938)
	<u>312,503,095</u>	<u>100</u>	<u>(23,465,118)</u>	<u>675,456,586</u>	<u>100</u>	<u>(23,457,113)</u>

There was no significant write-off of other receivables in 2001 (2000: nil).

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2001, the five largest debtors of the Group are as follows:

Name of enterprise	Amount	% of other receivables
JCGC	58,523,690	19
Jilian	50,611,278	16
PetroChina Group Companies	40,234,452	13
Jilin Merchandise Group	18,467,365	6
Shenzhen Beidou Chemical Instruments Company	<u>4,161,511</u>	<u>1</u>
	<u>171,998,296</u>	<u>55</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 5 Advances to suppliers

## (a) Ageing analysis:

	December 31, 2001		December 31, 2000	
	Balance	%	Balance	%
Ageing:				
Within 1 year	155,834,230	75	211,940,725	74
1-2 years	36,187,814	17	25,814,621	9
2-3 years	5,438,475	3	15,040,555	6
More than 3 years	11,073,598	5	32,141,341	11
	<u>208,534,117</u>	<u>100</u>	<u>284,937,242</u>	<u>100</u>

Advances to suppliers over one year old mainly include advance payments to acquire plant and machinery.

- (b) There are no balances included in advances to suppliers which are due from shareholders who hold more than 5% (including 5%) of the shares of the Company.

## 6 Dividend receivable

	December 31, 2001	December 31, 2000
Jilian	<u>1,860,000</u>	<u>—</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****7 Inventories**

	January 1, 2001			December 31, 2001
Cost:				
Raw materials	656,763,307			505,940,453
Work in progress	231,888,339			170,244,009
Finished goods	544,869,231			259,322,093
Spare parts	393,223,311			475,036,816
Low value consumables and packing materials	9,963,282			5,903,708
	<u>1,836,707,470</u>			<u>1,416,447,079</u>
		<b>Additions</b>	<b>Reversals</b>	
Provision for diminution in value of inventories:				
Raw materials	(35,691,091)	–	–	(35,691,091)
Work in progress	(8,264,100)	(16,175,610)	–	(24,439,710)
Finished goods	(19,418,197)	(2,853,035)	437,794	(21,833,438)
Spare parts	(2,083,691)	(152,583,175)	–	(154,666,866)
Low value consumables and packing materials	–	–	–	–
	<u>(65,457,079)</u>	<u>(171,611,820)</u>	<u>437,794</u>	<u>(236,631,105)</u>
	<u>1,771,250,391</u>			<u>1,179,815,974</u>

Due to changes in market demand, net realisable value of certain inventories was lower than their net book value. Accordingly, additional provision was made by the Group to write down the net book value of those inventories to their net realisable value.

**8 Prepaid expenses**

	January 1, 2001	Additions	Amortisation	December 31, 2001
Catalyst	52,477,507	49,875,720	(45,963,485)	56,389,742
Property insurance	4,008,387	39,684,828	(42,252,020)	1,441,195
Other	3,875,077	33,777,836	(32,759,650)	4,893,263
	<u>60,360,971</u>	<u>123,338,384</u>	<u>(120,975,155)</u>	<u>62,724,200</u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****9 Long-term investments**

	January 1, 2001	Additions	Decrease	December 31, 2001
Jointly controlled entities	243,774,101	40,771,554	(2,046,312)	282,499,343
Associated companies	—	20,042,147	(1,258,378)	18,783,769
	<u>243,774,101</u>	<u>60,813,701</u>	<u>(3,304,690)</u>	<u>301,283,112</u>

There is no significant restriction on the realization or investment income of these long-term investments.

## (a) Breakdown of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		January 1, 2001 %	December 31, 2001 %	January 1, 2001	Additions	December 31, 2001
<b>Jointly controlled entities</b>						
Jilian	March 15, 1994 to December 20, 2043	65	65	271,031,590	—	271,031,590
BASF	November 18, 1995 to March 30, 2005	40	40	60,066,150	—	60,066,150
<b>Associated companies</b>						
Lianli	March 22, 2001 to March 22, 2006	—	47	—	20,042,147	20,042,147
				<u>331,097,740</u>	<u>20,042,147</u>	<u>351,139,887</u>

Reasons for the non-consolidation of the jointly controlled entities are included in Note IV.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****9 Long-term investments (continued)**

(b) The movements of investments accounted for using the equity method are as follows:

	January 1, 2001	Additional investment	Share of net profit/(loss)	Dividend received	December 31, 2001
<b>Jointly controlled entities</b>					
Jilian	198,265,753	–	40,771,554	(1,860,000)	<b>237,177,307</b>
BASF	45,508,348	–	(186,312)	–	<b>45,322,036</b>
<b>Associated companies</b>					
Lianli	–	20,042,147	(1,258,378)	–	<b>18,783,769</b>
	<u>243,774,101</u>	<u>20,042,147</u>	<u>39,326,864</u>	<u>(1,860,000)</u>	<u><b>301,283,112</b></u>

**10 Fixed assets and accumulated depreciation**

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
<b>Cost</b>					
January 1, 2001	1,523,525,774	8,994,974,957	2,213,796,418	177,591,247	12,909,888,396
Additions	24,712,643	112,695,031	17,687,898	1,111,537	156,207,109
Disposals	(3,867,196)	(24,376,439)	(4,935,388)	(619,780)	(33,798,803)
<b>December 31, 2001</b>	<u><b>1,544,371,221</b></u>	<u><b>9,083,293,549</b></u>	<u><b>2,226,548,928</b></u>	<u><b>178,083,004</b></u>	<u><b>13,032,296,702</b></u>
<b>Accumulated depreciation</b>					
January 1, 2001	(343,326,217)	(1,771,110,195)	(1,125,268,807)	(82,915,801)	(3,322,621,020)
Depreciation	(122,672,931)	(278,126,418)	(255,792,027)	(16,438,711)	(673,030,087)
Disposals	1,588,738	10,018,200	2,027,578	254,621	13,889,137
<b>December 31, 2001</b>	<u><b>(464,410,410)</b></u>	<u><b>(2,039,218,413)</b></u>	<u><b>(1,379,033,256)</b></u>	<u><b>(99,099,891)</b></u>	<u><b>(3,981,761,970)</b></u>
<b>Net book value</b>					
<b>December 31, 2001</b>	<u><b>1,079,960,811</b></u>	<u><b>7,044,075,136</b></u>	<u><b>847,515,672</b></u>	<u><b>78,983,113</b></u>	<u><b>9,050,534,732</b></u>
December 31, 2000	<u>1,180,199,557</u>	<u>7,223,864,762</u>	<u>1,088,527,611</u>	<u>94,675,446</u>	<u>9,587,267,376</u>



**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****10 Fixed assets and accumulated depreciation (continued)**

In February 2001, the Company paid cash of Rmb 2 million and transferred fixed assets with net book value of Rmb 42.54 million to a subsidiary, Jianxiu, as capital contribution to this subsidiary. In December 2001, the Company paid cash of Rmb 0.30 million and transferred fixed assets with net book value of Rmb 19.74 million to an associated company, Lianli, as capital contribution to Lianli (See Note VII).

**11 Construction in progress**

Name of project	Budget	January 1, 2001	Additions	Transfer to fixed assets	December 31, 2001	Source of funds	% of completion
Synthetic ammonia facilities	1,612,640,000	430,435,608	576,618,243	(4,450,277)	<b>1,002,603,574</b>	Borrowings/ self-finance	62%
Catalyst facilities	213,740,000	3,074,700	120,300,468	-	<b>123,375,168</b>	Borrowings/ self-finance	58%
Ethylene facilities	53,350,000	60,033	18,252,358	-	<b>18,312,391</b>	Working capital	34%
Other (b)	252,880,000	50,883,102	115,578,231	(133,309,558)	<b>33,151,775</b>		
	<u>2,132,610,000</u>	<u>484,453,443</u>	<u>830,749,300</u>	<u>(137,759,835)</u>	<u><b>1,177,442,908</b></u>		

Including: Interest capitalised

38,817,278	34,739,876	(1,687,149)	<b>71,870,005</b>
<u>484,453,443</u>			<u><b>1,177,442,908</b></u>

- (a) The capitalization rate for interest capitalized as construction in progress in 2001 is 5.5% (2000: 5.5%).
- (b) Other projects represent construction in progress with individual cost of less than Rmb15 million.
- (c) At December 31, 2001, there was no significant impairment for construction in progress (December 31, 2000: nil).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12 Intangible assets

	Land use rights	Technical know-how	Total
<b>Cost</b>			
January 1, 2001	1,087,358,104	631,772,471	1,719,130,575
Additions	—	—	—
<b>December 31, 2001</b>	<b><u>1,087,358,104</u></b>	<b><u>631,772,471</u></b>	<b><u>1,719,130,575</u></b>
<b>Accumulated amortization</b>			
January 1, 2001	136,877,961	155,251,740	292,129,701
Amortization	20,739,304	69,987,410	90,726,714
<b>December 31, 2001</b>	<b><u>157,617,265</u></b>	<b><u>225,239,150</u></b>	<b><u>382,856,415</u></b>
<b>Net book value</b>			
<b>December 31, 2001</b>	<b><u>929,740,839</u></b>	<b><u>406,533,321</u></b>	<b><u>1,336,274,160</u></b>
January 1, 2001	<u>950,480,143</u>	<u>476,520,731</u>	<u>1,427,000,874</u>
Remaining years of amortization	<u>43</u>	<u>6</u>	

Pursuant to an approval document dated November 23, 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 October 1, 1994.

The additions of intangible assets after the incorporation of the Company are all acquired from third parties.

At December 31, 2001, there was no significant impairment of intangible assets (2000: nil).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 13 Long-term deferred expenses

	Cost	Accumulated Amortization	January 1, 2001	Additions	Amortization	December 31, 2001	Remaining years of amortization
Overhaul expenditures	332,844,419	271,747,357	229,777,320	164,571	(168,844,829)	61,097,062	1
Catalyst	91,474,239	55,000,177	42,545,622	28,147,783	(34,219,343)	36,474,062	1-3
Other	14,370,430	12,364,619	4,207,218	429,207	(2,630,614)	2,005,811	1-2
	<u>438,689,088</u>	<u>339,112,153</u>	<u>276,530,160</u>	<u>28,741,561</u>	<u>(205,694,786)</u>	<u>99,576,935</u>	

## 14 Short-term loans

	December 31, 2001	December 31, 2000
Guaranteed loans – RMB	118,600,000	90,000,000
Unsecured loans – RMB	3,020,000,000	1,899,440,000
	<u>3,138,600,000</u>	<u>1,989,440,000</u>

At December 31, 2001, Rmb20 million of the loans are guaranteed by Jilin Merchandise Group, all other loans are guaranteed by Jilian.

The unsecured loans are part of the Rmb5 billion borrowing facilities provided by China Petroleum Finance Company Limited (“CP Finance”) in March 2001. On March 18, 2002, CP Finance agreed to extend the Rmb 5,000 million borrowing facilities granted to the Company to December 31, 2003.

## 15 Accounts payable, advances from customers and other payables

There were no balances included in accounts payable, advances from customers and other payables which are due to shareholders who hold more than 5% (including 5%) of the shares of the Company at the year end.

There were no balances included in accounts payable and other payables of which the ageing exceeded 3 years at the year end.

There were no balances included in advances from customers of which the ageing exceeded 1 year at the year end.

Other payables at the year end mainly include payables relating to construction projects and advance payments made by third parties on behalf of the Group.

December 31, 2001

(All amounts are stated in Rmb Yuan unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 16 Dividend payable

	December 31, 2001	December 31, 2000
PetroChina Group Companies	–	24,331,000
Goldliq B.V.	<b>1,150,198</b>	–
	<b>1,150,198</b>	<b>24,331,000</b>

## 17 Taxes payable

	December 31, 2001	December 31, 2000
Value added tax	<b>(73,582,515)</b>	(117,858,346)
Business tax	<b>2,166,801</b>	(1,210,222)
City construction and maintenance tax	<b>(3,430,426)</b>	(32,914,761)
Consumption tax	<b>11,201,197</b>	162,171
Income tax	<b>(438,451)</b>	(2,387,656)
Property tax	<b>604,572</b>	(3,734,332)
Land use tax	–	(1,729,126)
Other	<b>834,892</b>	(10,536,044)
	<b>(62,643,930)</b>	<b>(170,208,316)</b>

## 18 Long-term liabilities due within one year

	December 31, 2001	December 31, 2000
Long-term borrowings due within one year:		
Guaranteed loans – RMB	–	96,190,000
Unsecured loans – RMB	<b>75,400,000</b>	719,560,000
– USD	<b>109,931,868</b>	238,641,381
	<b>185,331,868</b>	1,054,391,381
Other long-term liabilities due within one year	<b>217,553,000</b>	–
	<b>402,884,868</b>	<b>1,054,391,381</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 19 Long-term loans

	December 31, 2001	December 31, 2000
Guaranteed loans	190,000	—
Unsecured loans	4,836,783,714	4,512,317,447
	<u>4,836,973,714</u>	<u>4,512,317,447</u>

Details of long-term loans at December 31, 2001 are as follows:

Name of enterprise	December 31, 2001	Foreign currency Currency	Foreign currency amount	Exchange rate	Interest rate%	Due date	Condition
Commercial and Industrial	17,650,000	RMB			6.03	July 1, 2003	Unsecured
Bank of China	9,500,000	RMB			6.03	December 29, 2004	Unsecured
	9,700,000	RMB			5.94	November 16, 2002	Unsecured
	9,900,000	RMB			5.94	December 16, 2002	Unsecured
	9,800,000	RMB			5.94	October 16, 2002	Unsecured
Agricultural Bank of China	190,000	RMB			5.94	January 31, 2003	Guaranteed by JCGC
Environment Protection Bureau, Jilin	400,000	RMB			5.04	January 1, 2002	Unsecured
CP Finance	45,600,000	RMB			5.67	December 20, 2002	Unsecured
	45,600,000	RMB			5.67	December 20, 2003	Unsecured
	45,600,000	RMB			5.67	December 20, 2004	Unsecured
	46,000,000	RMB			5.67	December 20, 2005	Unsecured
	405,800,000	RMB			5.59	November 15, 2003	Unsecured
	74,900,000	RMB			5.59	December 20, 2003	Unsecured
	80,000,000	RMB			5.59	December 20, 2003	Unsecured
	100,000,000	RMB			5.67	October 30, 2003	Unsecured
	90,000,000	RMB			5.59	March 15, 2004	Unsecured
	1,000,000,000	RMB			5.59	December 18, 2003	Unsecured
	1,000,000,000	RMB			5.83	March 8, 2007	Unsecured
	200,000,000	RMB			5.59	June 26, 2004	Unsecured
	185,900,000	RMB			5.59	July 10, 2004	Unsecured
	200,000,000	RMB			5.59	July 26, 2004	Unsecured
	89,000,000	RMB			5.59	October 25, 2004	Unsecured
	188,000,000	RMB			5.59	September 20, 2004	Unsecured
Construction Bank of China	215,558,732	USD	26,044,000	8.2766	8.66	September 20, 2009	Unsecured
	156,545,261	USD	18,913,709	8.2766	8.42	August 1, 2010	Unsecured
	60,373,658	USD	7,294,500	8.2766	Floating rate	December 30, 2004	Unsecured
Development Bank of China	141,529,860	USD	17,100,000	8.2766	5.50	December 27, 2006	Unsecured
	594,758,071	USD	71,860,000	8.2766	5.50	April 1, 2012	Unsecured
	5,022,305,582						
Current portion of long-term loans	(185,331,868)						
	<u>4,836,973,714</u>						

The weighted average floating interest rate for 2001 is 7.67% (2000: 8.66%).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****20 Other long-term liabilities**

Other long-term liabilities include unsecured long-term loans from EçGC and CP Finance.

	<b>December 31, 2001</b>	December 31, 2000	<b>Interest rate</b>
Payables to JCGC			
– Ethylene Project loans	<b>1,366,142,531</b>	1,767,784,135	5.2%-8.4%
– Other	–	300,000,000	9.0%
Payables to CP Finance	–	1,000,000,000	4.5%
	<b>1,366,142,531</b>	3,067,784,135	
Other long-term liabilities due within one year	<b>(217,553,000)</b>	–	
	<b>1,148,589,531</b>	3,067,784,135	

The following Ethylene Project loans include loans denominated in US Dollar, Deutsche Mark and Japanese Yen. These loans will mature on September 30, 2007.

	<b>December 31, 2001</b>		December 31, 2000	
	<b>Original currency</b>	<b>RMB equivalent</b>	Original currency	RMB equivalent
US Dollar	<b>120,558,121</b>	<b>997,811,344</b>	154,904,308	1,282,313,366
Japanese Yen	<b>4,274,558,064</b>	<b>269,320,421</b>	5,062,678,235	366,649,283
Deutsche Mark	<b>26,457,848</b>	<b>99,010,766</b>	30,194,523	118,821,486
	<b>1,366,142,531</b>			<b>1,767,784,135</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 21 Share capital

	<b>December 31, 2001 Shares in thousand</b>	December 31, 2000 Shares in thousand
Non-listed shares:		
– State-owned shares	<b>2,396,300</b>	2,396,300
Listed shares:		
– H shares and ADS	<b>964,778</b>	964,778
– A shares	<b>200,000</b>	200,000
	<b>1,164,778</b>	1,164,778
Total	<b>3,561,078</b>	3,561,078
Total share capital (Rmb)	<b>3,561,078,000</b>	3,561,078,000

- (a) The Company issued 893,027,000 H shares, with a par value of Rmb1.00 each, in overseas stock exchanges on May 23, 1995, of which 89,302,700 shares are H shares and 8,037,243 shares are American Depositary Shares (“ADS”) (1 ADS = 100 H shares). The issue prices for the H shares and ADS are HK\$1.589 per share and US\$20.75 per ADS, respectively.
- (b) The Company issued 71,751,000 H shares to overseas underwriters in the form of 717,510 ADS on June 17, 1995. The par value of the H shares is Rmb1.00 and the issue price was US\$20.75 per ADS. These ADS were issued pursuant to the exercise of the over-allotment option by the underwriters in accordance with the underwriting agreement dated May 23, 1995.
- (c) Pursuant to the approval of China Securities Regulatory Committee Zhengjianfazi [1996] No. 234, the Company issued 50,000,000 A shares with a par value of Rmb1.00 each, of which 30,000,000 shares were issued to the public at Rmb3.5 per share and the remaining 20,000,000 shares were issued to the Company’s employees at the same price. The 30,000,000 A shares issued to the public were traded in the Shenzhen Stock Exchange on October 15, 1996 and the 20,000,000 A shares issued to the employees were traded in the ShenZhen Stock Exchange on April 15, 1997.
- (d) Pursuant to a document issued by China Securities Regulatory Committee on December 13, 1999, approval was granted to the Company to issue an additional 150,000,000 A shares with a par value of Rmb1.00 each of which 22,500,000 shares were issued to investment funds and the remaining 127,500,000 shares were issued to the Company’s A shareholders at a ratio of 1:2.55 shares for each share held by such shareholders. The Company issued these shares in January 2000 at a price of Rmb3.3 per share. The gross proceeds from the issue totaled Rmb 495 million, after deducting issue expenses, the net proceeds amounted to Rmb 485.2 million. The Company’s total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****22 Capital surplus**

	January 1, 2001	Additions	Decrease	December 31, 2001
Share premium	2,281,092,338	–	–	2,281,092,338
Reserve for non-cash donations received	8,408,898	–	–	8,408,898
Reserve for equity investments	4,106,100	–	–	4,106,100
Other	531,550	–	(520,000)	11,550
	<u>2,294,138,886</u>	<u>–</u>	<u>(520,000)</u>	<u>2,293,618,886</u>

According to the relevant rules of China Securities Regulatory Committee, interest income generated from the subscription monies during the allotment period in 1996 should be recorded as 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. Of the interest income generated during the allotment period from the issue of A shares in 1996, Rmb 0.01 million was generated from the subscription monies of successful applicants. The remaining balance was generated from the subscription monies of unsuccessful applicants which will be released to the profit and loss account over 5 years starting from 1997.

**23 Statutory common reserve fund**

	Statutory common reserve fund	Statutory common welfare fund	Discretionary common reserve fund	Total
January 1, 2001	154,954,000	126,834,279	414,453,720	696,241,999
Additions	4,822,537	–	–	4,822,537
<b>December 31, 2001</b>	<u>159,776,537</u>	<u>126,834,279</u>	<u>414,453,720</u>	<u>701,064,536</u>



## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 24 Accumulated losses

Accumulated losses at the beginning of the year	(864,213,661)
Add: Net loss for the year	(1,803,021,557)
Less: Appropriation for statutory common reserve fund	(4,822,537)
Appropriation for staff and workers' bonus and welfare fund	<u>(1,959,041)</u>
Accumulated losses at the end of the year	<u><u>(2,674,016,796)</u></u>

In accordance with the PRC Company Law and the Articles of Association of the Company, the Company is required to appropriate the net profit after taxation in the following order:

- i) to offset accumulated losses
- ii) to transfer 10% of net profit after taxation for the year to statutory common reserve fund;
- iii) to transfer 5% to 10% of net profit after taxation for the year to the statutory common welfare fund;
- iv) to transfer to discretionary common reserve fund based on the approval of the Annual General Meeting;
- v) to distribute common stock dividend.

The Company did not appropriate any statutory common reserve fund and statutory common welfare fund in 2000 and 2001 as it had incurred a loss in the both years. The statutory common reserve fund and staff and workers' bonus and welfare fund as reflected in the consolidated financial statements were accrued by its subsidiaries as follows:

	2001	2000
Statutory common reserve fund		
– Winsway	215,305	321,009
– Songmei	<u>4,607,232</u>	<u>–</u>
	<u><u>4,822,537</u></u>	<u><u>321,009</u></u>
Staff and workers' bonus and welfare fund		
– Winsway	218,887	230,854
– Songmei	<u>1,740,154</u>	<u>–</u>
	<u><u>1,959,041</u></u>	<u><u>230,854</u></u>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****25 Sales revenue**

The Group's principal activities consist of the processing of coal and crude oil into petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilizers and inorganic chemicals for sales. The Group's products are all sold in the PRC.

	<b>2001</b>	2000
Petroleum products	<b>5,557,019,750</b>	5,853,756,204
Petrochemical and organic chemical products	<b>5,421,705,846</b>	5,837,915,033
Chemical fertilizers and inorganic chemicals	<b>107,049,841</b>	458,212,380
Synthetic rubber products	<b>781,690,143</b>	878,455,259
Other products and services	<b>46,616,900</b>	818,383,446
	<hr/> <b>11,914,082,480</b> <hr/>	<hr/> 13,846,722,322 <hr/>

The five largest customers of the Group for the year ended December 31, 2001 are as follows:

<b>Name of enterprise</b>	<b>Amount</b>	<b>% of sales revenue</b>
PetroChina	6,358,786,293	53
JCGC	657,215,414	6
Jilian	350,591,143	3
Nanjing Jinhengyu Trading Company	244,643,782	2
Jilin Fuel Co., Ltd.	120,637,149	1
	<hr/> 7,731,873,781 <hr/>	<hr/> 65 <hr/>

**26 Cost of sales**

	<b>2001</b>	2000
Petroleum products	<b>4,934,014,078</b>	4,834,004,344
Petrochemical and organic chemical products	<b>5,368,524,419</b>	5,383,366,302
Chemical fertilizers and inorganic chemicals	<b>184,086,841</b>	423,630,256
Synthetic rubber products	<b>670,464,190</b>	702,764,207
Other products and services	<b>34,514,342</b>	779,823,431
	<hr/> <b>11,191,603,870</b> <hr/>	<hr/> 12,123,588,540 <hr/>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****27 Sales tax and other levies**

Sales tax and other levies mainly include consumption tax, city construction and maintenance tax, and education tax.

**28 Financial expenses, net**

	2001	2000
Interest expense	598,881,797	642,077,062
Less: Interest income	(3,951,377)	(2,447,039)
Exchange loss	17,582,340	82,612
Less: Exchange gain	(67,043,545)	(56,042,794)
	<u>545,469,215</u>	<u>583,669,841</u>

**29 Investment income**

	2001	2000
Income from bond investments	-	32,479
Share of profit of jointly controlled entities and associated companies	39,326,864	37,426,686
	<u>39,326,864</u>	<u>37,459,165</u>

**30 Subsidy income**

Subsidy income mainly represents the subsidy provided by the Trade and Economic Committee of Jilin Province for newly developed products.

**31 Non-operating expenses**

	2001	2000
Loss on disposal of fixed assets	167,519	597,148,000
Staff severance cost	-	297,639,000
Loss on temporary shutdown	26,416,296	-
Flood fund	13,901,477	-
Other	13,711,738	12,912,300
	<u>54,197,030</u>	<u>907,699,300</u>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 32 Income tax

	2001	2000
Income tax:		
– Company	–	–
– subsidiaries	812,482	982,487
Deferred tax	3,394,265	(2,387,718)
	<u>4,206,747</u>	<u>(1,405,231)</u>

## VI NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 1 Accounts receivable

	December 31, 2001	December 31, 2000
Accounts receivable	1,567,121,950	2,918,090,253
Less: Provision for bad debts	(840,374,865)	(240,724,482)
	<u>726,747,085</u>	<u>2,677,365,771</u>

## (a) Ageing analysis:

	December 31, 2001			December 31, 2000		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Within 1 year	220,080,134	14	(18,889,965)	2,318,135,119	79	(15,833,299)
1-2 years	793,925,550	51	(316,956,458)	342,543,817	12	(35,254,383)
2-3 years	295,704,949	19	(247,117,125)	105,083,462	4	(52,541,730)
More than 3 years	257,411,317	16	(257,411,317)	152,327,855	5	(137,095,070)
	<u>1,567,121,950</u>	<u>100</u>	<u>(840,374,865)</u>	<u>2,918,090,253</u>	<u>100</u>	<u>(240,724,482)</u>

Additional provision for bad debts was made during the year due to the lengthening of accounts receivable ageing and the financial problems of certain debtors. There was no significant write-off of accounts receivable in 2001 (2000: nil).

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.

## VI NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

## 1 Accounts receivable (continued)

(c) At December 31, 2001, the five largest debtors of the Company are as follows:

Name of enterprise	Amount	% of accounts receivable
JCGC Propylene Company	186,939,762	12
PetroChina	169,996,410	11
JCGC Jilin Chang Song Chemical Company	137,415,421	9
JCGC Song Bei Company	102,930,384	6
JCGC Song Jiang Chemical Company	76,487,614	5
	<u>673,769,591</u>	<u>43</u>

## 2 Other receivables

	December 31, 2001	December 31, 2000
Other receivables	<b>285,236,161</b>	669,456,433
Less: Provision for bad debts	<b>(23,465,118)</b>	(23,457,113)
	<u><b>261,771,043</b></u>	<u>645,999,320</u>

(a) Ageing analysis:

	December 31, 2001			December 31, 2000		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Within 1 year	164,173,120	58	(8,005)	646,195,578	96	(2,763,832)
1-2 years	97,975,626	34	(2,763,832)	5,135,148	1	(2,567,574)
2-3 years	4,961,708	2	(2,567,574)	6,421,769	1	(6,421,769)
More than 3 years	18,125,707	6	(18,125,707)	11,703,938	2	(11,703,938)
	<u>285,236,161</u>	<u>100</u>	<u>(23,465,118)</u>	<u>669,456,433</u>	<u>100</u>	<u>(23,457,113)</u>

There was no significant write-off of other receivables in 2001 (2000: nil).

(b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.

**VI NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (continued)****2 Other receivables (continued)**

(c) At December 31, 2001, the five largest debtors of the Company are as follows:

Name of enterprise	Amount	% of other receivables
JCGC	83,914,190	29
Jilian	50,611,278	18
PetroChina	40,234,452	14
Jilin Merchandise Group	18,467,365	7
Shenzhen Beidou Chemical Instrument Company	4,161,511	1
	<u>197,388,796</u>	<u>69</u>

**3 Long-term investments**

	January 1, 2001	Additions	Decrease	December 31, 2001
Subsidiaries (note 1)	113,154,010	48,445,837	(23,361,695)	<b>138,238,152</b>
Joint ventures (note 2)	243,774,101	40,771,554	(2,046,312)	<b>282,499,343</b>
Jointly controlled entities (note 2)	–	20,042,147	(1,258,378)	<b>18,783,769</b>
	<u>356,928,111</u>	<u>109,259,538</u>	<u>(26,666,385)</u>	<u><b>439,521,264</b></u>

**(1) Subsidiaries**

(a) Breakdown of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		January 1, 2001 %	December 31, 2001 %	January 1, 2001	Addition	December 31, 2001
Winsway	August 7, 1995 to August 6, 2005	70	<b>70</b>	36,154,000	–	<b>36,154,000</b>
Songmei	December 26, 1997 to December 25, 2017	66	<b>66</b>	47,660,421	–	<b>47,660,421</b>
Jianxiu	February 12, 2001 to February 12, 2003	–	<b>99</b>	–	44,537,759	<b>44,537,759</b>
Xinghua	February 21, 1991 to February 20, 2011	75	<b>75</b>	19,250,000	–	<b>19,250,000</b>
				<u>103,064,421</u>	<u>44,537,759</u>	<u><b>147,602,180</b></u>

## VI NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (continued)

## 3 Long-term investments (continued)

## (1) Subsidiaries (continued)

(b) The movement of investment on subsidiaries using the equity method of accounting is as follows:

	January 1, 2001	Additional investment	Share of net profit	Dividend received	December 31, 2001
Winsway	42,782,204	-	2,922,003	(6,338,341)	<b>39,365,866</b>
Songmei	70,371,806	-	945,299	(17,023,354)	<b>54,293,751</b>
Jianxiu	-	44,537,759	40,776	-	<b>44,578,535</b>
Xinghua	-	-	-	-	-
	<u>113,154,010</u>	<u>44,537,759</u>	<u>3,908,078</u>	<u>(23,361,695)</u>	<u><b>138,238,152</b></u>

The status of Xinghua is explained in Note IV.

(2) See Note V 9 for investments in jointly controlled entities and associated companies.

## 4 Sales revenue

	2001	2000
Petroleum products	<b>5,557,019,750</b>	5,853,756,204
Petrochemical and organic chemical products	<b>5,332,873,426</b>	5,448,623,922
Chemical fertilizers and inorganic chemicals	<b>107,049,841</b>	458,212,380
Synthetic rubber products	<b>781,690,143</b>	878,455,259
Other products and services	<b>46,616,900</b>	818,383,446
Total	<u><b>11,825,250,060</b></u>	<u>13,457,431,211</u>

## 5 Cost of sales

	2001	2000
Petroleum products	<b>4,934,014,078</b>	4,834,004,344
Petrochemical and organic chemical products	<b>5,328,355,246</b>	5,053,224,405
Chemical fertilizers and inorganic chemicals	<b>184,086,841</b>	423,630,256
Synthetic rubber products	<b>670,464,190</b>	702,764,207
Other products and services	<b>34,514,342</b>	779,823,431
Total	<u><b>11,151,434,697</b></u>	<u>11,793,446,643</u>

**VI NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (continued)****6 Investment income**

	<b>2001</b>	2000
Income from bond investments	—	32,479
Share of profit of jointly controlled entities and associated companies	<b>39,326,864</b>	37,426,686
Share of profit of subsidiaries	<b>3,908,078</b>	20,164,468
	<b>43,234,942</b>	57,623,633

**VII RELATED COMPANIES AND RELATED PARTY TRANSACTIONS****(a) Related companies in which control exists**

Name	Place of registration	Principal activities	Relationship with the Company	Nature of the enterprise	Legal representative
CNPC	PRC	Exploration, development, production, transportation and sale of natural resources	Ultimate holding company	State-owned enterprise	Ma Fucai
PetroChina	PRC	Exploration, manufacture and sale of petroleum and natural gas; pipeline transportation, manufacture and sale of petrochemical products	Immediate holding company	Joint stock limited company	Ma Fucai
JCGC	PRC	Manufacture and sale of chemical products	Fellow subsidiary	State-owned enterprise	Chang Xiaopei
Xinghua	PRC	Manufacture and sale of nitrochlorobenzene	Subsidiary	Sino-foreign equity joint venture	Hong Wei
Winsway	PRC	Railway transportation services	Subsidiary	Sino-foreign equity joint venture	Bi Daqing
Songmei	PRC	Manufacture of acetic acid	Subsidiary	Sino-foreign equity joint venture	Hou Yanming
Jianxiu	PRC	Repair and construction	Subsidiary	Sino-foreign equity joint venture	Qu Jing



**VII RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (continued)****(b) Registered capital and its movements of the related companies in which control exists:**

Name	January 1, 2001	Additions	Decrease	December 31, 2001
	RMB'0000	RMB'0000	RMB'0000	RMB'0000
CNPC	11,490,000	—	—	11,490,000
PetroChina	17,582,418	—	—	17,582,418
JCGC	245,700	—	—	245,700
Xinghua	2,567	—	—	2,567
Winsway	5,145	—	—	5,145
Songmei	7,200	—	—	7,200
Jianxiu	—	4,520	—	4,520

**(c) Registered capital and its movement of the related company which controls the Company:**

Name	January 1, 2001		Additions		Decrease		December 31, 2001	
	RMB'0000	%	RMB'0000	%	RMB'0000	%	RMB'0000	%
PetroChina	239,630	67	—	—	—	—	239,630	67

**(d) Movement of the shares or equity of subsidiaries:**

	Shares or equity held at January 1, 2001		Additions		Decrease		Shares or equity held at December 31, 2001	
	2001	%		%		%	2001	%
Winsway	36,015,400	70	—	—	—	—	36,015,400	70
Songmei	47,660,421	66	—	—	—	—	47,660,421	66
Jianxiu	—	—	44,537,759	99	—	—	44,537,759	99
Xinghua	25,668,000	75	—	—	—	—	25,668,000	75

**VII RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (continued)****(e) Related companies in which no control exists:**

Name	Nature of the enterprises	Date of registration	Place of registration	Registered capital RMB'0000	Currency	Equity percentage held at December 31, 2001	Principal activities
<b>Jointly controlled entities</b>							
- Jilian	Sino-foreign joint venture	1994.3.15	Jilin	41,697	RMB	65%	Petrochemical products
- BASF	Sino-foreign joint venture	1995.11.18	Jilin	15,000	RMB	40%	Petrochemical products
<b>Associated companies</b>							
- Lianli	State-owned	2001.3.22	Jilin	4,221	RMB	47%	Wholesale or retail of petrochemical products

Besides the jointly controlled entities and associated companies, JCGC and its related parties are the Group's fellow subsidiaries of CNPC.

**(f) Significant related party transactions**

	2001	2000
<b>JCGC Group Companies</b>		
Sale of finished goods	657,215,414	119,395,999
Processing fees	24,353,246	28,876,879
Construction of fixed assets	113,213,811	145,659,600
Purchase of raw materials and spare parts	148,957,265	24,064,979
Fee for support services	127,443,676	202,783,562
<b>PetroChina Group Companies</b>		
Sale of finished goods	6,358,786,293	7,247,668,534
Purchase of raw materials and spare parts	7,490,017,095	8,559,492,153
<b>CNPC Group Companies</b>		
Interest expense	388,251,000	215,728,567

The transaction prices between the Group and related parties are based on market prices.

## VII RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (continued)

## (g) Related party balances

	<b>December 31, 2001</b>	December 31, 2000
Accounts receivable from		
– CNPC Group Companies	<b>780,000</b>	22,770,207
– PetroChina Group Companies	<b>184,290,549</b>	1,298,781,079
– JCGC Group Companies	<b>376,414,732</b>	358,963,102
– BASF	<b>455,002</b>	14,521,440
Other receivables from		
– PetroChina Group Companies	<b>40,234,452</b>	425,641,540
– JCGC Group Companies	<b>58,523,690</b>	–
– Jilian	<b>50,611,278</b>	77,706,716
Advances to suppliers to		
– JCGC Group Companies	<b>104,521,354</b>	–
Accounts payable to		
– PetroChina Group Companies	<b>(3,302,453)</b>	–
– JCGC Group Companies	<b>(54,108,024)</b>	–
Advances from customers from		
– JCGC Group Companies	<b>(1,143,965)</b>	–
Other payables to		
– JCGC Group Companies	<b>(30,613,978)</b>	–
Short-term loans from		
– CP Finance	<b>(3,020,000,000)</b>	(1,350,000,000)
Long-term loans due within 1 year		
– JCGC Group Companies	–	(700,000,000)
Long-term loans from		
– CP Finance	<b>(3,750,800,000)</b>	(3,394,650,359)
Other long-term liabilities from		
– JCGC Group Companies	<b>(1,366,142,531)</b>	(2,067,784,135)
– CP Finance	–	(1,000,000,000)

**VIII COMMITMENTS**

At the balance sheet date, capital expenditures contracted for but not recognized in the financial statements are as follows:

	<b>December 31, 2001</b>	December 31, 2000
Property, plant and equipment	<b><u>418,056,000</u></b>	<u>137,596,000</u>

**IX COMPARATIVE FIGURES**

The comparative figures of the financial statements for the year ended December 31, 2000 were audited by Ernst & Young Hua Ming CPAs. Certain prior year figures have been reclassified to conform to the requirements of the Accounting Systems for Business Enterprises and “Disclosure Regulations for Listed Companies No. 15 “General Regulations for Financial Reports” effective from January 1, 2001.