

IMPORTANT NOTICE

The board of directors (the “Board”) of Jilin Chemical Industrial Company Limited (the “Company”) jointly and severally accept full responsibility for the authenticity, accuracy, and completeness of the information contained in this interim report and believe that there are no material omissions, misrepresentations or misleading statements contained in this interim report. The interim results are unaudited.

Xu Fengli, Lan Yunsheng and Ni Muhua, directors of the Company, and Rupert Li and Wang Baifeng, independent directors of the Company, did not attend the board meeting held on 22nd August, 2002. Xu Fengli and Lan Yunsheng authorized Yu Li, a director of the Company, Ni Muhua authorized Shi Jianxun, a director of the Company, and Rupert Li and Wang Baifeng authorized Lu Yanfeng, an independent director of the Company, to attend and vote on their behalf at the meeting.

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Company Profile

Chinese name	:	吉林化學工業股份有限公司
English name	:	Jilin Chemical Industrial Company Limited
Chinese abbreviation	:	吉林化工
English initials	:	JCIC
Registered address	:	No.9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
Postal code	:	132021
Website	:	http://www.jcic.com.cn
E-mail	:	jcic@jcic.com.cn
Legal representative	:	Yu Li
Company secretary	:	Zhang Liyan
Contact address	:	No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
Telephone number	:	(86432) 3903651 3903652
Facsimile number	:	(86432) 3028126
E-mail	:	zly@jcic.com.cn
Newspaper designated by the Company for information disclosure	:	PRC : <<China Securities>> <<Securities Times>> Hong Kong : <<Wen Wei Pao>> <<The Standard>>
Internet website designated by China Securities Regulatory Commission ("CSRC") for the Company to disclosure its corporate information	:	http://www.cninfo.com.cn
Address for inspection of the Company's interim report	:	PRC : The Secretary's Office to the board of directors No.9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC Hong Kong : Fortune China Public Relations Ltd. 2nd Floor, Xinhua News Agency Building 5 Sharp Street West, Wanchai, Hong Kong
Stock Exchange Listings	:	A shares : Shenzhen Stock Exchange Abbreviation : ST Jihua Stock Code : 000618 H shares : Hong Kong Stock Exchange Abbreviation : Jilin Chemical Stock Code : 0368 ADR : New York Stock Exchange Stock Code : JCC Ratio : 1ADR = 100 H shares

FINANCIAL SUMMARY

PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS

	For the six months ended 30th June,	
	2002 RMB	2001 RMB
Net loss	(352,531,041)	(641,897,074)
Net loss after non-operating loss	(237,227,445)	(642,417,074)
Loss per share	RMB(0.10)	RMB(0.18)
Return on net assets	(10.0 per cent.)	(12.7 per cent.)
Net cash flow from operating activities per share	RMB0.15	RMB0.12

	As at	
	30th June, 2002 RMB	31st December, 2001 RMB
Shareholder's equity (excluding minority interests)	3,529,070,746	3,881,744,626
Net assets per share	RMB0.99	RMB1.09
Adjusted net assets per share	RMB0.94	RMB1.04

Note: Non-operating loss of RMB115,303,596 under PRC GAAP refers to income of approximately RMB2,623,190 from the disposal of fixed assets, loss of RMB110,040,000 from the write-off of fixed assets, loss of RMB5,780,656 from unscheduled plant shutdown, and other losses of RMB 2,106,130.

PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS ("IAS")

	For the six months ended 30th June,	
	2002 RMB	2001 RMB
Net loss (in Renminbi thousand)	(350,068)	(660,741)
Loss per share	RMB(0.10)	RMB(0.19)
Return on net assets	(12.7 per cent.)	(15.5 per cent.)

	As at	
	30th June, 2002 RMB	31st December, 2001 RMB
Shareholder's equity (in Renminbi thousand)	2,755,978	3,106,046
Net assets per share	RMB0.77	RMB0.87

DIFFERENCES UNDER IAS AND PRC GAAP

Under IAS, net loss and net assets as at 30th June, 2002 were RMB350,068,000 and RMB2,755,978,000, respectively. Under PRC accounting standards, net loss and net assets were RMB352,531,041 and RMB3,529,070,746, respectively. Details are set out in the note 13 to the financial statements prepared under IAS.

Changes in Share Capital and Substantial Shareholders

CHANGES IN SHARE CAPITAL STRUCTURE

During the six months ended 30th June, 2002, there was no change in the Company's share capital structure.

TOTAL NUMBER OF SHAREHOLDERS

As at 30th June, 2002, the Company had a total of 93,432 shareholders.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, the ten major shareholders of the Company were as follows:

Name of shareholders	Class	Number of shares held (share)	Percentage of holding (per cent.)
1. PetroChina Company Limited ("PetroChina")	State-owned legal shares	2,396,300,000	67.2914
2. HKSCC Nominees Limited	H shares	800,900,699	22.49
3. Hong Kong & Shanghai Banking Corporation (Nominees) Limited	H shares	135,075,300	3.7931
4. CAI JIANHUA	A shares	4,516,608	0.1268
5. LIU YONGXIANG	A shares	4,029,651	0.1132
6. LIU WURONG	A shares	1,403,328	0.0394
7. GUO XIUJIAN	A shares	1,014,340	0.0284
8. ZHANG LI	A shares	1,000,000	0.0281
9. ZHONG YOU ASSET MANAGEMENT BUREAU	A shares	1,000,000	0.0281
10. CHONG YUEN HUNG	H shares	976,000	0.0274

Notes:

- (1) The Company is not aware of any relationship between the ten largest shareholders of the Company.
- (2) As at 30th June, 2002, PetroChina held 2,396,300,000 domestic invested shares of the Company in the form of state-owned legal person shares representing approximately 67.29 per cent. of the Company's total share capital. Shares held by PetroChina in the Company were not pledged or charged or held in trust during the six months ended 30th June, 2002.
- (3) HKSCC Nominees Limited acted as nominee for participants none of whose shareholding, as at 30th June, 2002, accounted for 10 per cent or more of the total number of shares issued by the Company.

Directors, Supervisors, Senior Management

SHARES HELD BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors, supervisors and senior management of the Company had the following personal interest in the Company as at 30th June, 2002:

Name	Position	Number of shares as at 1st January, 2002	Number of shares as at 30th June, 2002	Cause of changes
Yu Li	Chairman of the Board	0	0	0
Xu Fengli	Deputy chairman	0	0	0
Shi Jianxun	Director	3550	3550	No
Zhang Xingfu	Director	0	0	0
Lan Yunsheng	Director	0	0	0
Ni Muhua	Director	3550	3550	No
Jiang Jixiang	Director	0	0	0
Xu Yuanxiang	Director	0	0	0
Rupert Li	Independent director	0	0	0
Wang Baifeng	Independent director	0	0	0
Lu Yanfeng	Independent director	0	0	0
Zou Haifeng	Chairman of the board of supervisors	3550	3550	No
Yang Jigang	Supervisor	0	0	0
Yan Weidong	Supervisor	0	0	0
Li Shumin	Supervisor	0	0	0
Wang Huaiqing	Supervisor	0	0	0
Li Chongjie	Deputy manager	0	0	0
Zhang Liyan	Company secretary	0	0	0

None of the directors, supervisors and senior management (including their spouse and children under 18 years of age) has been granted or has exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company.

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT

On 17th January, 2002, Jiao Haikun resigned from his positions as chairman and director of the Company. On 22nd April, 2002, Venantius Tan, Wang Junfeng, and Zhao Yongjin resigned from their position as independent directors of the Company. The Company did not reappoint Ni Muhua and Jiang Jixiang as the Company's deputy managers. At the annual general meeting of the Company held on 17th June, 2002, Yu Li was elected as a director of the Company and Rupert Li, Wang Baifeng, and Lu Yanfeng were elected as independent directors of the Company. Yu Li was elected as chairman of the board of directors at the board meeting held on the same day.

OPERATIONS DURING THE REPORTING PERIOD

The Company's principal business consists of the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber, chemical fertilizers and inorganic chemical products.

During the first half of 2002, the Company continued to experience difficulties in its operation and production due to a decrease in product prices and the maintenance shutdown work which is carried out once in every two years. Revenue of the Company decreased as compared with the same period of 2001. However, through a series of practical measures to strengthen management and cost control, the loss recorded by the Company decreased significantly as compared with the same period 2001.

Under IAS, turnover of the Company and its subsidiaries (together, the "Group") during the six months ended 30th June, 2002 was RMB4,525,618,000 representing a decrease of 24.38 per cent. as compared with the first six months of 2001. The Group recorded a loss of RMB350,068,000 representing a decrease of 47.02 per cent. as compared with the same period 2001. Under PRC accounting standards, the Group's income from principal operations for the six months ended 30th June, 2002 was RMB4,270,058,000, representing a decrease of 28.84 per cent. as compared with the same period 2001. Due to price decrease in the Company's products and the write-off of fixed assets, the Group recorded a loss of RMB352,531,000 for the first half of 2002, representing a decrease of 45.08 per cent. as compared with the same period 2001.

During the first half of 2002, as a result of maintenance shutdown which takes place once in every two years, the processing volume of crude oil decreased by 310,000 tonnes and compared with the same period in 2001 consequently, sales volume of petroleum products of the Company decreased by 23.68 per cent.. The prices of the Group's major products also decreased as a result of weak market demand.

Taking into account the completion of the 1,400,000t/a catalytic cracking technical modification program, the Company wrote off its original 90,000t/a catalytic cracking unit and supplementary facilities. The net loss related to the disposal of fixed assets was approximately RMB110,040,000, which was accounted for in the profit and loss statement for the first six months ended 30th June, 2002, thereby increasing the loss during the period.

During the six months ended 30th June, 2002, under PRC accounting standards, turnover for petroleum products, which represented more than 10 per cent. of the Company's turnover from its principal activities, was RMB1,646 million, accounting for 38.54 per cent. of the Group's total turnover from its principal business. Cost of goods sold of petroleum products was RMB1,455 million. Turnover for petrochemical products was RMB2,193 million, accounting for 51.36 per cent. of the Group's total turnover from its principal business. Cost of goods sold of petrochemical product was RMB1,962 million.

The Company's principal business is carried out in the PRC and the Company is not involved in any industry other than the petrochemical industry. During the reporting period, there is no change in the Company's principal business or any other business which would have a significant effect on the Company's interim results.

RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITIONS

I. Under PRC accounting standard

RMB

Items	For the six months as at 30th June,		Increase/ Decrease (per cent.)	Cause of changes
	2002 (unaudited)	2001 (unaudited)		
Income from principal business	4,270,057,757	6,000,433,837	-28.84	Decrease in the product prices and sales volume
Profit from principal business	258,734,720	312,249,224	-17.14	Decrease in the product prices
Net loss	(352,531,041)	(641,897,074)	-45.08	Decrease in the product prices and write-off of fixed assets
Decrease in cash and cash equivalents	5,754,159	184,385,863	-96.88	Activation of funds and reduction in the impropriation of funds
	As at 30th June, 2002 (unaudited)	As at 31st December, 2001 (audited)		
Total assets	14,534,735,758	14,531,951,470	0.02	Increase in fixed assets
Shareholders' equity	3,529,070,746	3,881,744,626	-9.09	Loss in the reporting period

2. Under IAS

During the first half of 2002, the Group's turnover was approximately RMB4,526 million, representing a decrease of 24.38 per cent. as compared with the same period of 2001, mainly due to the price decrease in petrochemical products and the decrease in the sales volume as a result of maintenance shutdown.

1) Segment analysis

(1) Petroleum products

During the first six months ended 30th June, 2002, turnover for petroleum products was approximately RMB1,505.511 million, representing a decrease of 45.86 per cent. as compared with RMB2,780.5 million in the same period of 2001, accounting for 33.27 per cent. of the Company's turnover as compared with 46.5 per cent. in the first half of 2001. Decrease in turnover was mainly due to decreases in weighted average product prices and sales volume by 29.05 per cent. and 23.68 per cent., respectively, as compared with the same period of 2001.

(2) Petrochemical and organic chemical products

Turnover for petrochemical and organic chemical products was approximately RMB2,173.454 million, representing a decrease of 15.58 per cent. as compared with RMB2,574.695 million in the same period of 2001, accounting for 48.03 per cent. of the Company's turnover as compared with 43 per cent. in the first half of 2001. Decrease in turnover was mainly due to a decrease in the weighted average price by 16.29 per cent. as compared with the same period of 2001. Sales volume increased by 0.85 per cent. and partially offset the adverse impact of decrease in the product price.

(3) Synthetic Rubber

Turnover for Synthetic rubber products was approximately RMB345.84 million, representing a decrease of 14.99 per cent. as compared with RMB406.844 million in the same period of 2001, accounting for 7.64 percent of the Company's turnover as compared with 6.80 per cent. in the first half of 2001. Decrease in turnover was mainly due to a decrease in the weighted average price and sales volume by 8.62 per cent. and 6.98 per cent., respectively, as compared with the same period of 2001.

2) *Cost and expenses*

Cost of sales decreased by 25.31 per cent. to RMB4,259.866 million in the first half of 2002 from RMB5,703.528 million for the same period of 2001. The decrease in the cost of sales was mainly due to the decrease of crude oil cost. In the first half of 2002, the price of crude oil was RMB1,370 per ton, representing a decrease of 19.53 per cent. compared to the same period of 2001. Processing volume decreased by 14 per cent. as compared with the same period of 2001 resulting in the decrease of crude oil costs by 31.24 per cent..

Despite the decrease in cost of sales, the Group's gross profit decreased by 5.44 per cent. as compared with the same period of 2001. This was mainly due to the decrease of turnover and increase of maintenance expenses.

Selling expenses, administrative expenses and other expenses decreased by 53.34 per cent. to RMB304.862 million in the first half of 2002 from RMB653.395 million in the same period of 2001, mainly due to the reduction of provision for bad debt and inventory losses in the same period of 2001. The loss in the reporting period mainly includes the loss related to the disposal of fixed assets of RMB110,040,000.

Based on the above factors, the Group's operating loss decreased to RMB39.11 million in the first half of 2002 from RMB372.362 million in the same period of 2001.

Interest expense decreased by 19.97 per cent. to RMB272.064 million in the first half of 2002 from RMB340 million in the first half of 2001, mainly due to a refinancing of higher interest rate loans with lower interest rate loans and loan restructuring during the reporting period.

During the first half of 2002, the Group's net exchange loss was RMB34.919 million, as compared with net exchange income of RMB40.099 million in the same period of 2001. This was mainly due to changes in exchange rate of the Company's foreign currency loans during the reporting period.

The loss contributed by joint venture and associated companies before taxation was RMB4.915 million, as compared with income of RMB12.244 million for the first half of 2001. This was mainly due to losses made by the joint venture and associated companies during the reporting period. Jilian (Jilin) Petrochemical Company Limited incurred a loss of RMB1,106,000 in the first half 2002, as compared with profit of RMB21.45 million in the same period of 2001.

Taxation for the first half of 2002 was RMB0.352 million compared to RMB0.756 million in the same period of 2001. The change was primarily due to the decrease in tax payable contributed by our subsidiaries.

3) *Liquidity and capital resources*

The Group depends upon cash flows from operations, bank loans and equity financing to satisfy its ongoing liquidity and capital needs.

During the first half of 2002, net cash inflow from operating activities increased to RMB262.61 million from RMB105.457 million in the same period of 2001. The increase was primarily due to the decrease in account receivables during the reporting period.

Net cash outflow from investing activities increased to RMB502.254 million in the first half of 2002 from RMB122.835 in the same period of 2001, primarily due to increase in capital expenditures during the reporting period.

Net cash inflow from financing activities in the first half of 2002 was RMB235.117 million as compared with a net cash outflow from financing activities of RMB166.7 million in the same period of 2001, primarily due to the change in the amount of borrowings during the reporting period.

As at 30th June, 2002, the Group's current assets were RMB2,681.584 million, current liabilities were RMB5,242.558 million, and negative working capital was RMB2,560.974 million. The Group reviews its working capital and liquidity position on a regular basis and have always been able to satisfy its short term obligations through the refinancing of indebtedness and other measures. China Petroleum Finance Company Limited, a subsidiary of the Company's ultimate holding company, has provided the Company with a loan facility up to RMB5 billion which will expire on 31st December, 2003. This provides the Company with undrawn facilities of RMB2 billion. As a result, the Company believes that it has sufficient resources to meet its foreseeable working capital needs. As at 30th June, 2002, the Group's gearing ratio was 67.89 per cent., as compared with 65.84 per cent. for the same period of 2001. (Gearing ratio is the ratio between long term debt and the sum of Shareholders' equity and long term debt).

As at 30th June, 2002, the Group's liquidity ratio was 51.15 per cent., quick ratio was 24.81 per cent., inventory turnover was 333 per cent..

As at 30th June, 2002, borrowings were RMB9,762.748 million, representing an increase of RMB235.7 million as compared with 31st December, 2001, among which short-term borrowings were RMB3,934.771 million, an increase of RMB393.286 million as compared with 31st December, 2001, long-term borrowings were RMB5,827.977 million, a decrease of RMB157.586 million as compared with 31st December, 2001. These changes reflected the Group's adjustment on loan structure by borrowing short-term loans with lower interest rate to repay some long-term loans with higher interest rate.

The interest rate of the Group's borrowings range did not change significantly in the reporting period.

The Group does not have significant seasonal demands for capital.

4) *Exchange rate risk*

As at 30th June, 2002, the Group's short-term loans were all Renminbi-denominated loans. Foreign currency-denominated long-term loans were approximately RMB2,597.158 million, and related mainly to the ethylene project. Foreign currencies include US dollar, Japanese Yen and EURO. The Group's exchange rate risks also include exchange of foreign currencies to pay for imported materials and equipment. Dividends of H shares shall be paid in foreign currency. The Company believes that the fluctuations in foreign currency exchange rates will have a significant impact on the Company. During the six months ended 30th June, 2002, the Group's foreign exchange loss amounted to RMB34.919 million.

5) *Employees*

As at 30th June, 2002, the number of employees of the Company was 22,184. The employees' remuneration for the reporting period was RMB190 million. For details relating to the Group's remuneration for directors and supervisors, please refer to page 17 of 2001 annual report.

6) *Charges on assets*

The Group did not have charges over its principal assets as at 30th June, 2002.

7) *Contingent liability*

The Group did not have any contingent liability as at 30th June, 2002.

INVESTMENTS (PROJECTS NOT FUNDED THROUGH SHARE ISSUANCE)

During the six months ended 30th June, 2002, the Company completed the upgrading projects for its catalytic cracking and styrene units. The upgrading project for its 300,000t/a synthetic ammonia unit proceeded according to schedule and is expected to be completed in the second half of 2002. As at 30th June, 2002, the total investment in the projects was RMB319.9 million.

PROSPECTS FOR THE SECOND HALF OF 2002

The Board expects that in the second half of 2002, the import of certain types of petrochemical products will continue to increase as a result of a decrease in tariff and an increase in import quota. This will impact the price of domestic petrochemical products and the current situation where supply of certain products exceeds demand will remain. However, with the improved condition of the Company's production facilities following the completion of maintenance work and assuming demand for petrochemical products in domestic markets will increase, the Company expects that the operating condition in the second half of 2002 will be better than the first half. However, the Board expects the Company to record a loss for the third quarter of 2002.

In the second half of 2002, the Company will carry out the following measures to offset the adverse effects of the market.

1. Strengthen the internal management of the Company to enhance the overall management standard. The Company plans to increase the processing volume of crude oil and the utilization rate of its production facilities by taking full advantage of the improved condition of the facilities after their maintenance. The Company will continue its efforts on the upgrading of its production facilities through technological advancement and by reference to industry standards. The Company will also focus on the improvement of the quality of its products, including gasoline and diesel oil and the optimization of crude oil, naphtha, ethylene, propylene, butadiene and public utilities systems to maximise profitability.
2. Develop purchase by tender and through the internet to reduce purchase cost and other expenses.
3. Develop the market for the Company's products; improve before, during and after sale services, technological services, marketing strategy; and the reputation of the Company; adjust its marketing strategy on a timely basis to meet changing demands of the market; strengthen the collection of payments and clearance of debts; improve the disclosure and officers responsibility system and control expenses relating to sales.
4. Strengthen financial management and analysis of financial activities and strictly control expenses.
5. Speed up the implementation of certain projects related to the reduction of cost and energy consumption (including water, gas and electricity) to solve its bottle-neck problems.
6. Focus on structure adjustment and speed up technical modification innovation to improve overall competitiveness.

1. CORPORATE GOVERNANCE STRUCTURE

Pursuant to relevant regulations, the Company modified its articles of association of the Company. The board of directors established an Audit Committee, a Strategic Development Committee, a Nominee Committee and a Remuneration Committee and set up a series of systems, including the adoption of Procedural Rules of the board of directors and independent directors on 17th June, 2002.

2. PROPOSED INTERIM DISTRIBUTION AND TRANSFER FROM COMMON RESERVE TO SHARE CAPITAL

The Directors resolved not to declare any interim dividend and did not make any transfer from the common reserve to the Company's share capital for the six months ended 30th June, 2002.

3. PREVIOUS YEAR'S PROFIT DISTRIBUTION

No final dividend was declared and no transfer was made from the common reserve to the Company's share capital for 2001 pursuant to the 2001 annual general meeting of the Company.

4. The Company was not involved in any material litigation or arbitration during the reporting period.

5. During the reporting period, there were no mergers, acquisitions or restructuring involving the Company.

6. SIGNIFICANT CONNECTED TRANSACTIONS

The fees paid by the Company for welfare and supporting services rendered by Jilin Chemical Group Corporation ("JCGC") were based on the State prices, market prices or actual cost as provided for in the service agreement entered into between the Company and JCGC. The other connected transactions between the Company and JCGC were based on normal commercial terms or on terms that were fair and reasonable so far as the shareholders of the Company are concerned. The connected transactions between the Company and PetroChina were based on the terms approved by shareholders at an extraordinary shareholders meeting held on 30 December, 2001. Such connected transactions are necessary for the Company's business. Details of these connected transactions are set out in note VII to the financial statements prepared in accordance with PRC accounting standards.

7. During the reporting period, the Company did not enter into any trust arrangement, entrustment contract or lease in respect of the assets of any third party nor had any third party entered into any trust arrangement, entrustment contract or lease arrangement in respect of the assets of the Company.

8. AUDITORS

As approved at the annual general meeting held on 17th June, 2002, the Company has appointed PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Company Limited (registered accountants in the PRC) as the Company's international and domestic auditors, respectively, from the end of the 2001 annual general meeting to the end of the annual general meeting for 2002, and the Board is authorised to determine the remuneration of the auditors.

9. The Company did not enter into any material contracts during the reporting period.

10. The Company was not involved in any warranty during the six months ended 30th June, 2002. Jilin Chemical Group Corporation and PetroChina provided loan guarantees of RMB400,446,102 and RMB905,695,412, respectively. The relevant loans mainly related to the Company's technology upgrade programs.
11. The Company did not authorize any other party to manage its cash assets during the reporting period.
12. The Company and its shareholders with shareholding of 5 per cent. or more had not made any disclosure in respect of undertakings in the designated newspapers and on the website.

13. PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, there was no purchase, sale, redemption or cancellation of the Company's listed shares by the Company.

14. CODE OF BEST PRACTICE

To the knowledge of the board of directors, the Company had complied with the requirements of the Code of Best Practice as set out in Appendix 14 to the Listing Rules during the reporting period.

15. TRUST DEPOSITS AND TRUST LOANS

As at 30th June, 2002, the Company did not have any trust deposits and trust loans with any financial institutions and did not encounter any difficulty in making withdrawals.

16. HOUSING REFORMS

Since 1998, the Company has incurred a loss of RMB84.09 million due to the discount offered to its employees to purchase staff accommodations.

In accordance with IAS, the loss was capitalised. The staff cost associated with the Company's employee housing reform programs was amortized on a straight-line basis over a 20 year period, being the remaining expected average employment period of the relevant employee. Because of the renewal of contracts signed with employees, their employment period has been decreased to periods ranging from three to ten years. During the reporting period, the remaining average employment period has been changed to three to ten years accordingly in the accounting period.

Since 1st January 1998 to 31st June 2002, the total amount amortized was RMB26.591 million. The amount amortized in the first six months of 2002 was RMB4.66 million. As of 30th June 2002, the above remaining deferred staff cost was approximately RMB57.498 million. Other than the employees' housing reform program mentioned above, the Company did not implement any other employees' housing plan.

Financial Statements

The Directors hereby announce the unaudited interim results of the Company and the Group for the six months ended 30th June, 2002 based on the financial statements prepared in accordance with PRC accounting standards and IAS. The Company's Audit Committee and management have reviewed the accounting principles, accounting standards and treatment measures adopted by the Group, and have reviewed the relevant auditing affairs, internal supervision and financial reports, including the unaudited interim accounts for the six months ended 30th June, 2002.

UNAUDITED BALANCE SHEETS AS AT JUNE 30, 2002 (PREPARED UNDER PRC ACCOUNTING STANDARDS)

	In Rmb Yuan			
	June 30, 2002 Group (Unaudited)	December 31, 2001 Group (Audited)	June 30, 2002 Company (Unaudited)	December 31, 2001 Company (Audited)
ASSETS				
CURRENT ASSETS				
Cash and bank	31,162,843	36,917,002	23,819,438	25,161,349
Short-term investments				
Notes receivable	11,796,480	45,708,324	6,308,780	25,867,970
Dividend receivable	-	1,860,000	-	21,600,295
Interest receivable				
Accounts receivable	599,352,261	735,406,409	626,129,306	726,747,085
Other receivables	278,384,083	289,037,977	246,662,979	261,771,043
Advances to suppliers	265,054,647	208,534,117	264,287,980	208,032,155
Subsidy receivable				
Inventories	1,380,680,888	1,179,815,974	1,351,731,170	1,169,364,322
Prepaid expenses	12,547,419	62,724,200	11,841,403	62,453,195
Long-term bond investments maturing within one year				
Other current assets				
Total current assets	2,578,978,621	2,560,004,003	2,530,781,056	2,500,997,414
LONG-TERM INVESTMENTS				
Long-term equity investments	296,367,488	301,283,112	430,168,975	439,521,264
Long-term bond investments				
Total long-term investments	296,367,488	301,283,112	430,168,975	439,521,264
Including: Consolidation difference				
FIXED ASSETS				
Fixed assets-cost	12,896,582,429	13,032,296,702	12,529,956,713	12,676,954,991
Less: Accumulated depreciation	(4,226,612,231)	(3,981,761,970)	(4,098,467,841)	(3,863,825,506)
Fixed assets-net book value	8,669,970,198	9,050,534,732	8,431,488,872	8,813,129,485
Less: Impairment of fixed assets				
Fixed assets-net book amount	8,669,970,198	9,050,534,732	8,431,488,872	8,813,129,485
Construction materials	162,417	6,835,620	162,417	6,835,620
Construction in progress	1,537,536,583	1,177,442,908	1,537,536,583	1,177,442,908
Fixed assets pending disposal				
Total fixed assets	10,207,669,198	10,234,813,260	9,969,187,872	9,997,408,013
INTANGIBLE AND OTHER ASSETS				
Intangible assets	1,293,880,068	1,336,274,160	1,292,679,183	1,335,026,340
Long-term deferred expenses	157,840,383	99,576,935	157,805,544	99,576,935
Other long-term assets				
Total intangible and other assets	1,451,720,451	1,435,851,095	1,450,484,727	1,434,603,275
DEFERRED TAXES				
Deferred tax assets				
TOTAL ASSETS	14,534,735,758	14,531,951,470	14,380,622,630	14,372,529,966

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

UNAUDITED BALANCE SHEETS AS AT JUNE 30, 2002 (PREPARED UNDER PRC ACCOUNTING STANDARDS) (Cont'd)

	In Rmb Yuan			
	June 30, 2002 Group (Unaudited)	December 31, 2001 Group (Audited)	June 30, 2002 Company (Unaudited)	December 31, 2001 Company (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans	3,467,350,000	3,138,600,000	3,348,750,000	3,020,000,000
Notes payable				
Accounts payable	804,502,065	654,014,009	795,398,093	641,650,966
Advances from customers	130,772,509	195,071,689	125,234,921	179,511,613
Salaries payable				
Welfare payable				
Dividend payable	1,150,198	1,150,198	-	-
Taxes payable	(106,760,401)	(62,643,930)	(104,237,460)	(63,579,546)
Other levies payable				
Other payables	341,509,749	292,800,131	357,733,259	324,132,765
Accrued expenses	34,006,926	-	32,305,604	-
Accrued liabilities				
Long-term liabilities due within one year	467,420,980	402,884,868	467,420,980	402,884,868
Other current liabilities				
Total current liabilities	5,139,952,026	4,621,876,965	5,022,605,397	4,504,600,666
LONG-TERM LIABILITIES				
Long-term loans	4,794,870,416	4,836,973,714	4,794,870,416	4,836,973,714
Debentures payable				
Payables due after one year				
Special project payables				
Other long-term liabilities	1,033,106,358	1,148,589,531	1,033,106,358	1,148,589,531
Total long-term liabilities	5,827,976,774	5,985,563,245	5,827,976,774	5,985,563,245
DEFERRED TAXES				
Deferred tax liabilities				
TOTAL LIABILITIES	10,967,928,800	10,607,440,210	10,850,582,171	10,490,163,911
MINORITY INTERESTS	37,736,212	42,766,634	-	-
SHAREHOLDERS' EQUITY				
Share capital	3,561,078,000	3,561,078,000	3,561,078,000	3,561,078,000
Capital surplus	2,293,618,886	2,293,618,886	2,293,618,886	2,293,618,886
Statutory common reserve fund	701,442,717	701,064,536	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	(3,027,068,857)	(2,674,016,796)	(3,018,386,675)	(2,666,061,079)
Foreign exchange difference reserve				
Total shareholders' equity	3,529,070,746	3,881,744,626	3,530,040,459	3,882,366,055
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	14,534,735,758	14,531,951,470	14,380,622,630	14,372,529,966

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

UNAUDITED PROFIT AND LOSS ACCOUNTS FOR THE SIX MONTHS ENDED JUNE 30, 2002 (PREPARED UNDER PRC ACCOUNTING STANDARDS)

	In Rmb Yuan			
	2002 (1-6) Group (Unaudited)	2001 (1-6) Group (Unaudited)	2002 (1-6) Company (Unaudited)	2001 (1-6) Company (Unaudited)
1. Sales revenue	4,270,057,757	6,000,433,837	4,229,890,817	5,756,336,395
Less: Cost of sales	(3,848,482,144)	(5,475,708,076)	(3,823,707,081)	(5,274,342,955)
Sales tax and other levies	(162,840,893)	(212,476,537)	(162,840,893)	(212,476,537)
2. GROSS PROFIT ON SALES	258,734,720	312,249,224	243,342,843	269,516,903
Add: Other operating profit	11,398,269	1,044,894	15,758,290	25,544,936
Less: Selling expenses	(13,452,431)	(23,431,365)	(10,677,016)	(22,901,557)
General and administrative expenses	(176,934,371)	(630,849,697)	(168,890,091)	(624,367,491)
Financial expenses, net	(306,570,325)	(280,308,179)	(303,058,952)	(275,732,737)
3. OPERATING LOSS	(226,824,138)	(621,295,123)	(223,524,926)	(627,939,946)
Add: Investment income/(loss)	(4,915,624)	12,244,100	(7,792,288)	15,600,917
Subsidy income				
Non-operating income	2,649,230	8,232,834	2,649,230	8,229,549
Less: Non-operating expenses	(123,968,075)	(39,200,497)	(123,657,612)	(39,181,451)
4. TOTAL LOSS	(353,058,607)	(640,018,686)	(352,325,596)	(643,290,931)
Less: Income tax	(351,996)	(756,482)	-	-
Minority interests	879,562	(1,121,906)	-	-
5. NET LOSS	(352,531,041)	(641,897,074)	(352,325,596)	(643,290,931)

Supplementary Information

	2002 (1-6)		2001 (1-6)	
	Group (Unaudited)	Company (Unaudited)	Group (Unaudited)	Company (Unaudited)
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.

UNAUDITED PROFIT APPROPRIATION STATEMENTS (PREPARED UNDER PRC ACCOUNTING STANDARDS)

	In Rmb Yuan			
	2002 (1-6) Group (Unaudited)	2001 (1-6) Group (Unaudited)	2002 (1-6) Company (Unaudited)	2001 (1-6) Company (Unaudited)
1. NET LOSS	(352,531,041)	(641,897,074)	(352,325,596)	(643,290,931)
Add: accumulated losses at the beginning of the period	(2,674,016,796)	(864,213,661)	(2,666,061,079)	(861,080,483)
Transfer from other sources				
2. ACCUMULATED LOSSES	(3,026,547,837)	(1,506,110,735)	(3,018,386,675)	(1,504,371,414)
Less: Transfer to statutory common reserve fund	(378,181)	(4,607,555)	-	-
Transfer to statutory common welfare fund				
Transfer to staff and workers' bonus and welfare fund	(142,839)	(1,740,154)	-	-
3. ACCUMULATED LOSSES	(3,027,068,857)	(1,512,458,444)	(3,018,386,675)	(1,504,371,414)
Less: Dividend for preference stocks				
Transfer to discretionary common reserve fund				
Dividend for common stocks				
Dividend for common stocks transferred to capital				
4. ACCUMULATED LOSSES AT THE END OF THE PERIOD	(3,027,068,857)	(1,512,458,444)	(3,018,386,675)	(1,504,371,414)

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

UNAUDITED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2002 (PREPARED UNDER PRC ACCOUNTING STANDARDS)

Items	Group (Unaudited)	In Rmb Yuan Company (Unaudited)
1. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	5,845,413,644	5,759,160,611
Refund of tax		
Cash received relating to other operating activities	798,065	228,726
Sub-total of cash inflows	5,846,211,709	5,759,389,337
Cash paid for goods and services	(4,673,956,744)	(4,651,109,717)
Cash paid to and on behalf of employees	(190,173,535)	(184,363,533)
Payments of all types of taxes	(393,120,719)	(383,599,238)
Cash paid relating to other operating activities	(66,439,098)	(50,660,596)
Sub-total of cash outflows	(5,323,690,096)	(5,269,733,084)
Net cash flows from operating activities	522,521,613	489,656,253
2. Cash flows from investing activities		
Cash received from sale of investments		
Cash received from distribution of dividends or profits	1,860,000	23,160,296
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	3,088,147	3,088,147
Cash received relating to other investing activities		
Sub-total of cash inflows	4,948,147	26,248,443
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(507,202,221)	(495,883,377)
Cash paid to acquire investments		
Cash paid relating to other investing activities		
Sub-total of cash outflows	(507,202,221)	(495,883,377)
Net cash flows from investing activities	(502,254,074)	(469,634,934)
3. Cash flows from financing activities		
Proceeds from issuing shares		
Including: Cash received from minority shareholders		
Proceeds from borrowings	1,951,685,139	1,937,685,139
Proceeds relating to other financing activities		
Sub-total of cash inflows	1,951,685,139	1,937,685,139
Cash repayments of borrowings	(1,715,985,498)	(1,701,985,498)
Cash payments for interest expenses or distribution of dividends or profits	(261,721,339)	(257,062,871)
Including: Dividends paid to minority shareholders	(582,591)	-
Cash payments relating to other financing activities		
Including: Cash paid to minority shareholders due to reduction of capital of subsidiaries		
Sub-total of cash outflows	(1,977,706,837)	(1,959,048,369)
Net cash flows from financing activities	(26,021,698)	(21,363,230)
4. Effect of foreign exchange rate changes on cash		
5. Net decrease in cash and cash equivalents	(5,754,159)	(1,341,911)

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

UNAUDITED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2002
(PREPARED UNDER PRC ACCOUNTING STANDARDS) (CONT'D)

Supplementary Information

Items	Group (Unaudited)	In Rmb Yuan Company (Unaudited)
I. Reconciliation of net loss to cash flows from operating activities		
Net loss	(352,531,041)	(352,325,596)
Add: Minority interests	(879,562)	-
Provision for impairment of assets		
Depreciation of fixed assets	341,885,084	331,677,158
Amortisation of intangible assets	42,394,092	42,347,157
Amortisation of long-term deferred expenses	84,704,139	84,704,139
Decrease in prepaid expenses	6,055,436	6,490,447
Increase in accrued expenses	34,006,926	32,305,604
Income on disposal of fixed assets, intangible assets and other long-term assets	(2,623,190)	(2,623,190)
Loss on scrapping of fixed assets	110,040,000	110,040,000
Financial expenses	272,063,883	267,983,171
Investment loss	4,915,624	7,792,288
Deferred tax debit		
Increase in inventories	(200,864,914)	(182,366,848)
Decrease in operating receivables	116,320,706	81,008,341
Increase in operating payables	67,034,430	62,623,582
	<u>522,521,613</u>	<u>489,656,253</u>
Net cash flows from operating activities		
2. Investing and financing activities that do not involve cash receipts and payments		
Investments in the form of fixed assets		
Convertible bonds maturing within one year		
Finance lease of fixed assets		
3. Net decrease in cash and cash equivalents		
Cash at end of period	31,162,843	23,819,438
Less: Cash at beginning of period	(36,917,002)	(25,161,349)
Cash equivalents at end of period		
Less: Cash equivalents at beginning of period		
	<u>(5,754,159)</u>	<u>(1,341,911)</u>
Net decrease in cash and cash equivalents		

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002

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

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 production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilisers, 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 to take over the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary of Jilin Chemical Industrial Corporation. Jilin Chemical Industrial Corporation 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 regulation promulgated by State Council of the PRC, JCGC and certain oil fields and oil distribution companies became wholly-owned subsidiaries of China National Petroleum Group Corporation ("CNPC") since July 1, 1998. Therefore, CNPC becomes the ultimate holding company of the Company through its control over JCGC.

CNPC and its subsidiaries launched corporate restructuring (the "Corporate Restructuring") in 1999. According to the Corporate Restructuring, CNPC transferred the 2,396,300,000 State-owned shares of the Company owned by JCGC, together with certain assets and business undertakings of JCGC, 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

I 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 accrual basis and under the historical cost convention unless otherwise stated.

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 acquisition of fixed assets during the construction period have been capitalised. 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 into 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 the accounts receivable are not recoverable. 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 charged to production overhead expenditures upon usage. Finished goods and work in progress comprise raw materials, 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 when 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.

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 there is a 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 have 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.

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 to finance the capital assets before they reach usable condition. Construction in progress is transferred to fixed assets when it has reached its 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 including 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 are capitalised 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 its expected usable condition. Borrowing costs incurred thereafter are recognised as expenses in the periods 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.

13. Intangible assets and amortisation

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 is stated at the actual amount paid and is 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 amortised over one year and mainly include catalyst. Long-term deferred expenses are amortised on a straight-line basis over the beneficial period.

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

15. Revenue recognition

Sales are recognised 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 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 service started in one year 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 service transaction 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 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 utilised. Other deferred tax assets are regarded as permanent differences.

17. 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 include the financial statements of the Company and its subsidiaries within the consolidation scope for the period ended June 30, 2002. In accordance with the circular [1996] No. 2 "Comments on the Consolidation Scope for the Purpose 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 has the ability to control their accounting and operating policies and from the operation of which the Company can derive benefit.

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

All material transactions and balances between the Company and its subsidiaries and jointly controlled entities within the consolidation scope have been eliminated in preparing the consolidated financial statements.

Minority interests in the consolidated financial statements refer to the portion of the consolidated 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 Rmb 277.6 per ton and Rmb 117.6 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 total VAT, BT and CT payable.
- (vi) Education tax ("ET") – the Group is subject to ET at 3% of the total VAT, BT and CT payable.

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 tax regulations. 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% for three years 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 to fifth years in accordance with the tax regulations. Songmei is exempted from income tax for 2000 and 2001, being the first two profitable years. In 2002, Songmei is subject to income tax at 15%.

Jilin Jihua Jianxiu Company Limited ("Jianxiu"), a subsidiary of the Company established in 2001, is subject to income tax at 33%.

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 tax regulations. Jilian is awarded the status of "advanced technology enterprise" and enjoyed a 50% reduction in the income tax rate for the sixth year. Jilian enjoyed income tax exemption in 1995 and 1996, and 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.

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, 2001 and the six months ended June 30, 2002, accordingly no provision for income tax is required.

Jilin Lianli Trading Company Limited ("Lianli"), an associated company established in 2001, is subject to income tax at 33%.

IV. MAJOR SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Name of enterprise	Registered/ paid-in capital	Business scope	Investment amount	Percentage of equity held	Remarks
<i>Subsidiaries</i>					
Winsway	51,454,000	Provision of transportation services for chemical 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 processing	44,537,759	99%	Consolidated entity
Jilin Xinghua Nitrochloro-benzene Company Limited ("Xinghua")	25,668,000	Manufacturing of nitrochloro-benzene	19,250,000	75%	Unconsolidated entity (note i)
<i>Jointly controlled entities</i>					
Jilian	416,971,720	Manufacturing of petrochemical products	271,031,590	65%	Unconsolidated entity (note ii)
BASF	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	Unconsolidated entity (note ii)

(i) Xinghua has ceased its production since 2000 as it incurred substantial losses and had a negative equity. In accordance with circular (1995) No. 11 promulgated by the Ministry of Finance of the People's Republic of China, 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 and total profit for the six months ended June 30, 2002 and total assets as at June 30, 2002 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 Purpose of Consolidated Financial Statements".

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Cash on hand	25,663	113,294
Cash in bank	31,137,180	36,803,708
	<u>31,162,843</u>	<u>36,917,002</u>

Foreign currency of cash and bank at the end of period is as follows:

Currency	Original currency	Exchange rate	RMB equivalent
USD	98,357	8.2771	814,111

2. Notes receivable

Notes receivable represent bank acceptances generated from sales transactions. At June 30, 2002, no notes receivable were pledged (December 31, 2001: nil).

3. Accounts receivable

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Accounts receivable	1,439,730,683	1,575,784,831
Less: Provision for bad debts	(840,378,422)	(840,378,422)
	<u>599,352,261</u>	<u>735,406,409</u>

(a) Ageing analysis:

	June 30, 2002 (Unaudited)			December 31, 2001 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	88,263,862	6	(2,881,500)	227,153,128	14	(18,889,965)
1-2 years	388,641,509	27	(141,523,749)	795,515,437	51	(316,960,015)
2-3 years	606,807,077	42	(339,954,938)	295,704,949	19	(247,117,125)
More than 3 years	356,018,235	25	(356,018,235)	257,411,317	16	(257,411,317)
	<u>1,439,730,683</u>	<u>100</u>	<u>(840,378,422)</u>	<u>1,575,784,831</u>	<u>100</u>	<u>(840,378,422)</u>

There was no significant write-off of accounts receivable for the six months ended June 30, 2002 (six months ended June 30, 2001: 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 June 30, 2002, the five largest accounts receivable of the Group are as follows:

Name of enterprises	Amount (Unaudited)	% of accounts receivable
JCGC Propylene Company	182,474,875	13
JCGC Jilin City Chang Song Chemical Company	136,351,688	9
JCGC Song Bei Company	102,762,754	7
PetroChina Group Companies	98,075,787	7
JCGC Song Jiang Chemical Company	76,201,085	5
	<u>595,866,189</u>	<u>41</u>

4. Other receivables

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Other receivables	301,849,201	312,503,095
Less: Provision for bad debts	(23,465,118)	(23,465,118)
	<u>278,384,083</u>	<u>289,037,977</u>

- (a) Ageing analysis:

	June 30, 2002 (Unaudited)			December 31, 2001 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	92,317,922	31	-	185,351,422	59	(8,005)
1-2 years	119,571,820	40	(1,307,541)	104,064,258	33	(2,763,832)
2-3 years	69,491,866	23	(1,689,984)	4,961,708	2	(2,567,574)
More than 3 years	20,467,593	6	(20,467,593)	18,125,707	6	(18,125,707)
	<u>301,849,201</u>	<u>100</u>	<u>(23,465,118)</u>	<u>312,503,095</u>	<u>100</u>	<u>(23,465,118)</u>

There was no significant write-off of other receivables for the six months ended June 30, 2002 (six months ended June 30, 2001: 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 June 30, 2002, the five largest other receivables of the Group are as follows:

Name of enterprises	Amount (Unaudited)	% of accounts receivable
JCGC Group Companies	74,871,706	25
Jilian	50,611,278	17
PetroChina Group Companies	41,700,000	14
Jilin Merchandise Group	17,335,834	6
Shenzhen Beidou Chemical Instruments Company	4,161,511	1
	<u>188,680,329</u>	<u>63</u>

5. Advances to suppliers

(a) Ageing analysis:

	June 30, 2002 (Unaudited)		December 31, 2001 (Audited)	
	Balance	%	Balance	%
Ageing:				
Within 1 year	243,193,083	92	155,834,230	75
1-2 years	9,772,703	4	36,187,814	17
2-3 years	5,267,289	2	5,438,475	3
More than 3 years	6,821,572	2	11,073,598	5
	<u>265,054,647</u>	<u>100</u>	<u>208,534,117</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

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Jilian	<u>-</u>	<u>1,860,000</u>

7. Inventories

	December 31, 2001 (Audited)			June 30, 2002 (Unaudited)
Cost:				
Raw materials	505,940,453			485,025,102
Work in progress	170,244,009			363,479,214
Finished goods	259,322,093			337,328,545
Spare parts	475,036,816			424,487,338
Low value consumables and packing materials	5,903,708			6,991,794
	<u>1,416,447,079</u>			<u>1,617,311,993</u>
Provision for diminution in value of inventories:		Additions (Unaudited)	Reversals (Unaudited)	
Raw materials	(35,691,091)	–	–	(35,691,091)
Work in progress	(24,439,710)	–	–	(24,439,710)
Finished goods	(21,833,438)	–	–	(21,833,438)
Spare parts	(154,666,866)	–	–	(154,666,866)
Low value consumables and packing materials	–	–	–	–
	<u>(236,631,105)</u>	<u>–</u>	<u>–</u>	<u>(236,631,105)</u>
	<u><u>1,179,815,974</u></u>			<u><u>1,380,680,888</u></u>

8. Prepaid expenses

	December 31, 2001 (Audited)	Additions (Unaudited)	Amortisation (Unaudited)	Transfer out (Unaudited)	June 30, 2002 (Unaudited)
Catalyst	56,389,742	7,302,145	(12,379,122)	(44,121,345)	7,191,420
Insurance premium	1,441,195	20,927,456	(20,358,191)	–	2,010,460
Other	4,893,263	13,058,969	(14,606,693)	–	3,345,539
	<u>62,724,200</u>	<u>41,288,570</u>	<u>(47,344,006)</u>	<u>(44,121,345)</u>	<u>12,547,419</u>

9. Long-term investments

	December 31, 2001 (Audited)	Additions (Unaudited)	Decrease (Unaudited)	June 30, 2002 (Unaudited)
Jointly controlled entities	282,499,343	–	(4,766,492)	277,732,851
Associated company	18,783,769	–	(149,132)	18,634,637
	<u>301,283,112</u>	<u>–</u>	<u>(4,915,624)</u>	<u>296,367,488</u>

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

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		December 31, 2001 (Audited) %	June 30, 2002 (Unaudited) %	December 31, 2001 (Audited)	Additions (Unaudited)	June 30, 2002 (Unaudited)
<i>Jointly controlled entities</i>						
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
<i>Associated company</i>						
Lianli	March 22, 2001 to March 22, 2006	47	47	20,042,147	–	20,042,147
				<u>351,139,887</u>	<u>–</u>	<u>351,139,887</u>

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

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

	December 31, 2001 book value (Audited)	Additional investment (Unaudited)	Share of net loss (Unaudited)	Dividend received (Unaudited)	June 30, 2002 book value (Unaudited)
<i>Jointly controlled entities</i>					
Jilian	237,177,307	–	(719,853)	–	236,457,454
BASF	45,322,036	–	(4,046,639)	–	41,275,397
<i>Associated company</i>					
Lianli	18,783,769	–	(149,132)	–	18,634,637
	<u>301,283,112</u>	<u>–</u>	<u>(4,915,624)</u>	<u>–</u>	<u>296,367,488</u>

10. Fixed assets and accumulated depreciation

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
Cost					
December 31, 2001 (Audited)	1,544,371,221	9,083,293,549	2,226,548,928	178,083,004	13,032,296,702
Additions (Unaudited)	1,650,000	59,303,953	7,769,976	3,101,578	71,825,507
Disposals (Unaudited)	(45,790,000)	(160,967,563)	(423,226)	(358,991)	(207,539,780)
June 30, 2002 (Unaudited)	<u>1,500,231,221</u>	<u>8,981,629,939</u>	<u>2,233,895,678</u>	<u>180,825,591</u>	<u>12,896,582,429</u>
Accumulated depreciation					
December 31, 2001 (Audited)	464,410,410	2,039,218,413	1,379,033,256	99,099,891	3,981,761,970
Depreciation (Unaudited)	59,067,287	157,741,725	117,669,727	7,406,345	341,885,084
Disposals (Unaudited)	(15,510,000)	(81,182,417)	(53,844)	(278,562)	(97,034,823)
June 30, 2002 (Unaudited)	<u>523,477,697</u>	<u>2,115,777,721</u>	<u>1,496,649,139</u>	<u>106,227,674</u>	<u>4,226,612,231</u>
Net book value					
June 30, 2002 (Unaudited)	<u>992,273,524</u>	<u>6,865,852,218</u>	<u>737,246,539</u>	<u>74,597,917</u>	<u>8,669,970,198</u>
December 31, 2001 (Audited)	<u>1,079,960,811</u>	<u>7,044,075,136</u>	<u>847,515,672</u>	<u>78,983,113</u>	<u>9,050,534,732</u>

II. Construction in progress

Name of project	December 31,		Additions (Unaudited)	Transfer to fixed assets (Unaudited)	June 30, 2002 (Unaudited)	Source of funds (Unaudited)	% of completion (Unaudited)
	Budget (Unaudited)	2001 (Audited)					
Synthetic ammonia facilities	1,612,640,000	1,002,603,574	245,491,261	-	1,248,094,835	Borrowings/ Working capital	77%
Catalyst facilities	213,740,000	123,375,168	92,959,401	-	216,334,569	Borrowings/ Working capital	100%
Ethylene facilities	53,350,000	18,312,391	1,377,612	(18,991,391)	698,612	Working capital	100%
7000 T/A Organic Silicon Project	49,640,000	14,485,149	6,400,385	-	20,885,534	Borrowings/ Working capital	40%
Other (b)	283,210,000	18,666,626	39,861,559	(7,005,152)	51,523,033		
	<u>2,212,580,000</u>	<u>1,177,442,908</u>	<u>386,090,218</u>	<u>(25,996,543)</u>	1,537,536,583		
Including: Interest capitalised		<u>71,870,005</u>	<u>23,052,951</u>	-	94,922,956		
		<u>1,177,442,908</u>			1,537,536,583		

- (a) The annual capitalisation rate for interest capitalised as construction in progress for the six months ended June 30, 2002 is 5.50% (six months ended June 30, 2001: 5.50%).
- (b) Other projects represent construction in progress with individual cost of less than Rmb15 million.
- (c) At June 30, 2002, there was no significant impairment for construction in progress (December 31, 2001: nil).

12. Intangible assets

	Land use rights	Technical know-how	Total
Cost			
December 31, 2001 (Audited)	1,087,358,104	631,772,471	1,719,130,575
Additions (Unaudited)	—	—	—
June 30, 2002 (Unaudited)	1,087,358,104	631,772,471	1,719,130,575
Accumulated amortisation			
December 31, 2001 (Audited)	157,617,265	225,239,150	382,856,415
Amortisation (Unaudited)	11,646,823	30,747,269	42,394,092
June 30, 2002 (Unaudited)	169,264,088	255,986,419	425,250,507
Net book value			
June 30, 2002 (Unaudited)	918,094,016	375,786,052	1,293,880,068
December 31, 2001 (Audited)	929,740,839	406,533,321	1,336,274,160
Remaining years of amortisation	42	6	

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 and erect buildings on the land 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 June 30, 2002, there was no significant impairment for intangible assets (December 31, 2001: nil).

13. Long-term deferred expenses

	Cost (Unaudited)	Accumulated amortisation (Unaudited)	December 31, 2001 (Audited)	Transfer in (Unaudited)	Additions (Unaudited)	Amortisation (Unaudited)	June 30, 2002 (Unaudited)	Remaining years of amortisation (Unaudited)
Overhaul expenditures	63,908,898	6,853,853	61,097,062	—	63,908,898	(67,950,915)	57,055,045	2
Catalyst	177,571,442	78,306,603	36,474,062	44,121,345	34,819,858	(16,150,426)	99,264,839	2-7
Other	14,487,916	12,967,417	2,005,811	—	117,486	(602,798)	1,520,499	1-2
	<u>255,968,256</u>	<u>98,127,873</u>	<u>99,576,935</u>	<u>44,121,345</u>	<u>98,846,242</u>	<u>(84,704,139)</u>	<u>157,840,383</u>	

14. Short-term loans

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Guaranteed loans – RMB	118,600,000	118,600,000
Unsecured loans – RMB	3,348,750,000	3,020,000,000
	<u>3,467,350,000</u>	<u>3,138,600,000</u>

At June 30, 2002, loans totalling Rmb20 million were guaranteed by Jilin Merchandise Group, all other loans were 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. At June 30, 2002, total borrowings from CP Finance were Rmb3.35 billion. On March 18, 2002, CP Finance agreed to extend the Rmb5 billion borrowing facilities granted to the Company to December 31, 2003.

15. Accounts payable, advances from customers and other payables

Except for the payables due to PetroChina Group Companies as disclosed in Note VII (g), there are 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.

There were no balances included in accounts payable and other payables of which the age exceeded 3 years at the period end. There were no balances included in advances from customers of which the age exceeded 1 year at the period end.

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

16. Dividend payable

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Goldliq B.V.B.A	<u>1,150,198</u>	<u>1,150,198</u>

17. Taxes payable

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Value added tax	(102,606,073)	(73,582,515)
Business tax	351,840	2,166,801
City construction and maintenance tax	(5,405,814)	(3,430,426)
Consumption tax	530,519	11,201,197
Income tax	(211,941)	(438,451)
Property tax	(25,308)	604,572
Land use tax	258,135	–
Other	348,241	834,892
	<u>(106,760,401)</u>	<u>(62,643,930)</u>

18. Long-term liabilities due within one year

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Long-term borrowings due within one year (Note 19)		
Guaranteed loans – USD	134,131,098	–
Unsecured loans – RMB	75,190,000	75,400,000
– USD	–	109,931,868
	<u>209,321,098</u>	<u>185,331,868</u>
Other long-term liabilities due within one year (Note 20)		
Unsecured loans – USD	182,689,965	162,212,011
– JPY	51,284,700	42,960,600
– EUR	24,125,217	12,380,389
	<u>258,099,882</u>	<u>217,553,000</u>
	<u>467,420,980</u>	<u>402,884,868</u>

19. Long-term loans

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Guaranteed loans	1,171,820,416	190,000
Unsecured loans	3,623,050,000	4,836,783,714
	<u>4,794,870,416</u>	<u>4,836,973,714</u>

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Details of long-term loans at June 30, 2002 are as follows:

Name of enterprise	Balance at June 30, 2002 (Unaudited)	Currency	Foreign currency amount	Exchange rate	Interest rate %	Due date	Conditions
Commercial and Industrial Bank of China	17,650,000	RMB			6.03	July 15, 2003	Unseured
	9,500,000	RMB			6.03	December 29, 2004	Unseured
	9,700,000	RMB			5.94	November 16, 2002	Unseured
	9,900,000	RMB			5.94	December 16, 2002	Unseured
	9,800,000	RMB			5.94	October 16, 2002	Unseured
Agricultural Bank of China	190,000	RMB			5.94	January 31, 2003	Guaranteed by JCGC
CP Finance	45,600,000	RMB			5.67	December 20, 2002	Unseured
	45,600,000	RMB			5.67	December 20, 2003	Unseured
	45,600,000	RMB			5.67	December 20, 2004	Unseured
	46,000,000	RMB			5.67	December 20, 2005	Unseured
	405,800,000	RMB			5.59	November 15, 2003	Unseured
	100,000,000	RMB			5.67	October 30, 2003	Unseured
	90,000,000	RMB			5.59	March 15, 2004	Unseured
	1,000,000,000	RMB			5.59	December 18, 2003	Unseured
CP Finance	1,000,000,000	RMB			5.83	March 8, 2007	Unseured
	200,000,000	RMB			5.59	June 26, 2004	Unseured
	185,900,000	RMB			5.59	July 10, 2004	Unseured
	200,000,000	RMB			5.59	July 26, 2004	Unseured
	89,000,000	RMB			5.59	October 25, 2004	Unseured
	188,000,000	RMB			5.59	September 20, 2004	Unseured
Construction Bank of China	202,095,744	USD	24,416,250	8.2771	8.66	September 20, 2009	Guaranteed by JCGC
	147,823,860	USD	17,862,046	8.2771	8.42	August 1, 2010	Guaranteed by JCGC
	50,336,498	USD	6,078,750	8.2771	Floating rate (note (1))	December 30, 2004	Guaranteed by JCGC
Development Bank of China	141,529,860	USD	17,100,000	8.2771	5.50	December 27, 2006	Guaranteed by PetroChina
	764,165,552	USD	92,321,828	8.2771	5.50	April 1, 2012	Guaranteed by PetroChina
	5,004,191,514						
Current portion of long-term loans (Note 18)	(209,321,098)						
	4,794,870,416						

(1) The weighted average floating interest rate for the six months ended June 30, 2002 is 2.25% (six months ended June 30, 2001: 4.53%).

20. Other long-term liabilities

Other long-term liabilities include unsecured long-term loans from JCGC.

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)	Interest rate
Payables to JCGC			
– Ethylene Project loans	1,291,206,240	1,366,142,531	5.2%–8.4%
Other long-term liabilities due within one year (Note 18)	(258,099,882)	(217,553,000)	
	<u>1,033,106,358</u>	<u>1,148,589,531</u>	

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

	June 30, 2002 (Unaudited)		December 31, 2001 (Audited)	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	110,759,680	916,768,946	120,558,121	997,811,344
Japanese Yen	3,933,481,250	271,036,526	4,274,558,064	269,320,421
Euro	12,681,453	103,400,767	13,530,127	99,010,766
		<u>1,291,206,239</u>		<u>1,366,142,531</u>

21 Share capital

	June 30, 2002 (Unaudited) (Shares in thousand)	December 31, 2001 (Audited) (Shares in thousand)
Non-listed shares:		
– State-owned shares	2,396,300	2,396,300
Listed shares:		
– H shares and ADSs	964,778	964,778
– A shares	200,000	200,000
	<u>1,164,778</u>	<u>1,164,778</u>
Total	<u>3,561,078</u>	<u>3,561,078</u>
Total share capital (Rmb)	<u>3,561,078,000</u>	<u>3,561,078,000</u>

- (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 ("ADSs") (1 ADS = 100 H shares). The issue prices for the H shares and ADSs are HK\$ 1.589 per H share and US\$ 20.75 per ADS, respectively.
- (b) The Company issued 71,751,000 H shares, with a par value of Rmb1.00 each, to overseas underwriters in the form of 717,510 ADSs on June 17, 1995. The issue price was US\$ 20.75 per ADS. These ADSs 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 Commission 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 Commission 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 Rmb495,000,000, after deducting issue expenses, the net proceeds amounted to Rmb485,518,000. The Company's total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

22. Capital surplus

	December 31, 2001 (Audited)	Additions (Unaudited)	Decrease (Unaudited)	June 30, 2002 (Unaudited)
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	11,550	–	–	11,550
	<u>2,293,618,886</u>	<u>–</u>	<u>–</u>	<u>2,293,618,886</u>

23. Common reserve funds

	Statutory common reserve fund	Statutory common welfare fund	Discretionary common reserve fund	Total
December 31, 2001 (Audited)	159,776,537	126,834,279	414,453,720	701,064,536
Additions (Unaudited)	<u>378,181</u>	–	–	<u>378,181</u>
June 30, 2002 (Unaudited)	<u>160,154,718</u>	<u>126,834,279</u>	<u>414,453,720</u>	<u>701,442,717</u>

24. Accumulated losses

Accumulated losses at December 31, 2001 (Audited)	(2,674,016,796)
Add: Net loss for the period (Unaudited)	(352,531,041)
Less: Appropriation for statutory common reserve fund (Unaudited)	(378,181)
Appropriation for staff and workers' bonus and welfare fund (Unaudited)	<u>(142,839)</u>
Accumulated losses at the June 30, 2002 (Unaudited)	<u>(3,027,068,857)</u>

In accordance with the PRC Company Law and the Articles of Association of the Company, the Company is required to appropriate 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 according to the approval of 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 the first half year of 2001 and 2002 as it incurred losses in these two periods. The statutory common reserve fund and staff and workers' bonus and welfare fund reflected in the consolidated financial statements were appropriated by the Company's subsidiaries as follows:

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Statutory common reserve fund		
– Songmei	<u>378,181</u>	<u>4,607,555</u>
Staff and workers' bonus and welfare fund		
– Songmei	<u>142,839</u>	<u>1,740,154</u>

25. Sales revenue

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

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Petroleum products	1,645,651,456	2,972,200,189
Petrochemical and organic chemical products	2,193,178,739	2,591,957,875
Chemical fertilisers and inorganic chemicals	78,099,432	26,091,998
Synthetic rubber products	348,246,471	409,572,369
Other products and services	4,881,659	611,406
Total	<u>4,270,057,757</u>	<u>6,000,433,837</u>

The five largest customers of the Group for the six months ended June 30, 2002 are as follows:

Name of enterprise	Amount (Unaudited)	% of sales revenue
PetroChina Group Companies	2,132,430,685	50
JCGC Group Companies	258,500,010	6
Jilian	133,102,564	3
Yantai Wanhua Polyurethane Co., Ltd.	43,376,068	1
Shandong Qilu Plasticizer Co., Ltd.	42,709,402	1
	<u>2,610,118,729</u>	<u>61</u>

26. Cost of sales

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Petroleum products	1,454,961,867	2,638,558,539
Petrochemical and organic chemical products	1,962,327,329	2,460,533,401
Chemical fertilisers and inorganic chemicals	172,877,338	44,868,759
Synthetic rubber products	254,703,327	331,294,703
Other products and services	3,612,283	452,674
Total	<u>3,848,482,144</u>	<u>5,475,708,076</u>

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

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Interest expense	272,063,883	322,023,052
Less: Interest income	(412,025)	(1,615,756)
Exchange loss	38,030,062	14,254,329
Less: Exchange gain	(3,111,595)	(54,353,446)
	<u>306,570,325</u>	<u>280,308,179</u>

29. Investment income/(loss)

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Share of profit/(loss) of jointly controlled entities	(4,766,492)	12,244,100
Share of loss of an associated company	(149,132)	-
	<u>(4,915,624)</u>	<u>12,244,100</u>

30. Non-operating income

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Income from disposal of fixed assets	2,623,190	8,199,890
Other	26,040	32,944
	<u>2,649,230</u>	<u>8,232,834</u>

31. Non-operating expenses

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Loss on temporary shutdown	5,780,656	17,871,385
Loss on disposal of fixed assets	110,040,000	13,114,441
Penalty	1,212	1,382,296
Flood fund	6,015,249	3,634,308
Other	2,130,958	3,198,067
	<u>123,968,075</u>	<u>39,200,497</u>

32. Income tax

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Income tax:		
– Company	–	–
– subsidiaries	351,996	756,482
Deferred tax	–	–
	<u>351,996</u>	<u>756,482</u>

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

I. Accounts receivable

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Accounts receivable	1,466,504,171	1,567,121,950
Less: Provision for bad debts	(840,374,865)	(840,374,865)
	<u>626,129,306</u>	<u>726,747,085</u>

(a) Ageing analysis:

	June 30, 2002 (Unaudited)			December 31, 2001 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	115,890,283	8	(2,881,500)	220,080,134	14	(18,889,965)
1-2 years	387,788,576	27	(141,520,192)	793,925,550	51	(316,956,458)
2-3 years	606,807,077	41	(339,954,938)	295,704,949	19	(247,117,125)
More than 3 years	356,018,235	24	(356,018,235)	257,411,317	16	(257,411,317)
	<u>1,466,504,171</u>	<u>100</u>	<u>(840,374,865)</u>	<u>1,567,121,950</u>	<u>100</u>	<u>(840,374,865)</u>

There was no significant write-off of accounts receivable for the six months ended June 30, 2002 (six months ended June 30, 2001: 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 June 30, 2002, the five largest accounts receivable of the Company were as follows:

Name of enterprise	Amount (Unaudited)	% of accounts receivable
JCGC Propylene Company	182,474,875	13
JCGC Jilin Chang Song Chemical Company	136,351,688	9
JCGC Song Bei Company	102,762,754	7
PetroChina Group Companies	91,383,526	6
JCGC Song Jiang Chemical Company	76,201,085	5
	<u>589,173,928</u>	<u>40</u>

2. Other receivables

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Other receivables	270,128,097	285,236,161
Less: Provision for bad debts	(23,465,118)	(23,465,118)
	<u>246,662,979</u>	<u>261,771,043</u>

(a) Ageing analysis:

	June 30, 2002 (Unaudited)			December 31, 2001 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	77,070,870	29	-	164,173,120	58	(8,005)
1-2 years	103,097,768	38	(1,307,541)	97,975,626	34	(2,763,832)
2-3 years	69,491,866	26	(1,689,984)	4,961,708	2	(2,567,574)
More than 3 years	20,467,593	7	(20,467,593)	18,125,707	6	(18,125,707)
	<u>270,128,097</u>	<u>100</u>	<u>(23,465,118)</u>	<u>285,236,161</u>	<u>100</u>	<u>(23,465,118)</u>

There was no significant write-off of other receivables for the six months ended June 30, 2002 (six months ended June 30, 2001: nil).

(b) Except for the receivables due from PetroChina 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 June 30, 2002, the five largest other receivables of the Company were as follows:

Name of enterprise	Amount (Unaudited)	% other receivables
JCGC Group Companies	74,871,706	28
Jilian	50,611,278	19
PetroChina Group Companies	41,700,000	15
Jilin Merchandise Group	17,335,834	6
Shenzhen Beidou Chemical Instruments Company	4,161,511	2
	<u>188,680,329</u>	<u>70</u>

3. Long-term investments

	December 31, 2001 (Audited)	Additions (Unaudited)	Decrease (Unaudited)	June 30, 2002 (Unaudited)
Subsidiaries (Note (1))	138,238,152	1,401,438	(5,838,103)	133,801,487
Jointly controlled entities (Note (2))	282,499,343	–	(4,766,492)	277,732,851
Associated company (Note (2))	18,783,769	–	(149,132)	18,634,637
	<u>439,521,264</u>	<u>1,401,438</u>	<u>(10,753,727)</u>	<u>430,168,975</u>

(1) Subsidiaries

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		December 31, 2001 (Audited) %	June 30, 2002 (Unaudited) %	December 31, 2001 (Audited)	Addition (Unaudited)	June 30, 2002 (Unaudited)
Winsway	August 7, 1995 to August 6, 2005	70	70	36,154,000	–	36,154,000
Songmei	December 26, 1997 to December 25, 2017	66	66	47,660,421	–	47,660,421
Jianxiu	February 12, 2001 to February 12, 2003	99	99	44,537,759	–	44,537,759
Xinghua	February 21, 1991 to February 20, 2011	75	75	19,250,000	–	19,250,000
				<u>147,602,180</u>	<u>–</u>	<u>147,602,180</u>

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

	December 31, 2001 book value (Audited)	Additional investment (Unaudited)	Share of net profit/(loss) (Unaudited)	Dividend received (Unaudited)	June 30, 2002 book value (Unaudited)
Winsway	39,365,866	–	1,401,438	–	40,767,304
Songmei	54,293,751	–	(2,638,380)	(1,560,001)	50,095,370
Jianxiu	44,578,535	–	(1,639,722)	–	42,938,813
Xinghua	–	–	–	–	–
	<u>138,238,152</u>	<u>–</u>	<u>(2,876,664)</u>	<u>(1,560,001)</u>	<u>133,801,487</u>

The status of Xinghua is explained in Note IV.

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

4. Sales revenue

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Petroleum products	1,645,651,456	2,972,200,189
Petrochemical and organic chemical products	2,153,011,799	2,347,860,433
Chemical fertilisers and inorganic chemicals	78,099,432	26,091,998
Synthetic rubber products	348,246,471	409,572,369
Other products and services	4,881,659	611,406
	<hr/>	<hr/>
Total	<u>4,229,890,817</u>	<u>5,756,336,395</u>

5. Cost of sales

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Petroleum products	1,454,961,867	2,638,558,539
Petrochemical and organic chemical products	1,937,552,266	2,259,168,280
Chemical fertilisers and inorganic chemicals	172,877,338	44,868,759
Synthetic rubber products	254,703,327	331,294,703
Other products and services	3,612,283	452,674
	<hr/>	<hr/>
Total	<u>3,823,707,081</u>	<u>5,274,342,955</u>

6. Investment income/(loss)

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
Share of profit/(loss) of jointly controlled entities	(4,766,492)	12,244,100
Share of loss of an associated company	(149,132)	–
Share of profit/(loss) of subsidiaries	(2,876,664)	3,356,817
	<hr/>	<hr/>
	<u>(7,792,288)</u>	<u>15,600,917</u>

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS

(a) *Related companies in which control exists:*

Name of enterprise	Place of registration	Principal activities	Relationship with the Company	Nature of the enterprise	Legal representative
CNPC	PRC	Exploration, development, production 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	Zhang Xiaopei
Xinghua	PRC	Manufacture and sale of Nitrochloro-benzene	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 Jin

(b) Registered capital and its movements of the related companies in which control exists:

Name	December	Additions	Decrease	June 30,
	31, 2001			(Unaudited)
	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)
	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 of the Company held by the related company which controls the Company:

Name	December 31, 2001		Additions		Decrease		June 30, 2002	
	(Audited)		(Unaudited)		(Unaudited)		(Unaudited)	
	RMB'0000	%	RMB'0000	%	RMB'0000	%	RMB'0000	%
PetroChina	239,630	67	–	–	–	–	239,630	67

(d) Movements of the capital or equity of subsidiaries directly held by the Company:

	Capital or equity held at December 31, 2001		Additions		Reduction		Capital or equity held at June 30, 2002	
	(Audited)	%	(Unaudited)	%	(Unaudited)	%	(Unaudited)	%
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

(e) Related companies in which no control exists:

Name	Nature of the enterprise	Date of registration	Place of registration	Registered capital RMB'0000	Currency	Equity percentage held at June 30, 2002	Principle activities
<i>Jointly controlled entities</i>							
- Jilian	Sino-foreign joint venture	1994.3.15	Jilin	41,697	RMB	65%	Manufacturing of petrochemical products
- BASF	Sino-foreign joint venture	1995.11.18	Jilin	15,000	RMB	40%	Manufacturing of petrochemical products
<i>Associated company</i>							
- Lianli	State-owned	2001.3.22	Jilin	4,221	RMB	47%	Wholesale or retail of petrochemical products

Besides the jointly controlled entities and associated company, JCGC and its subsidiaries and the Company are subsidiaries of CNPC.

(f) Significant related party transactions

	Six months ended June 30, 2002 (Unaudited)	Six months ended June 30, 2001 (Unaudited)
CNPC Group Companies:		
Interest expense	194,110,000	201,000,000
JCGC Group Companies:		
Sale of goods	258,500,010	406,350,000
Sub-contracting fees	5,550,311	–
Construction of fixed assets	46,641,020	27,390,000
Purchase of raw materials and spare parts	73,431,030	44,010,000
Fees for welfare and support services	49,420,793	56,710,000
PetroChina Group Companies:		
Purchase of crude oil	2,444,807,804	3,684,426,876
Purchase of materials	297,304,280	500,897,600
Sale of gasoline	530,275,790	943,956,937
Sale of diesel oil	784,842,019	1,235,089,084
Sale of petrochemical goods	817,312,876	1,150,378,353
Jilian:		
Sale of goods	133,102,564	159,341,229

The prices of the transactions between the Group and related companies are mainly based on market prices.

(g) *Related party balances*

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Accounts receivable from:		
– CNPC Group Companies	23,921,747	780,000
– PetroChina Group Companies	98,075,787	184,290,549
– JCGC Group Companies	372,661,603	376,414,732
– BASF	–	455,002
– Lianli	530,945	–
Other receivables from:		
– PetroChina Group Companies	41,700,000	40,234,452
– JCGC Group Companies	74,871,706	58,523,690
– Jilian	50,611,278	50,611,278
Advances to suppliers to:		
– JCGC Group Companies	137,588,233	104,521,354
Accounts payable to:		
– CNPC Group Companies	(3,012,789)	(3,302,453)
– PetroChina Group Companies	(23,480,788)	–
– JCGC Group Companies	(46,368,952)	(54,108,024)
Advances from customers from:		
– JCGC Group Companies	(1,931,256)	(1,143,965)
– BASF	(476,432)	–
Other payables to:		
– JCGC Group Companies	(35,407,632)	(30,613,978)
Short-term loans from:		
– CP Finance	(3,348,750,000)	(3,020,000,000)
Long-term loans due within 1 year from:		
– JCGC Group Companies	(258,099,882)	(217,553,000)
Long-term loans from:		
– CP Finance	(3,641,500,000)	(3,750,800,000)
Other long-term liabilities from:		
– JCGC Group Companies	(1,033,106,358)	(1,366,142,531)

VIII. CAPITAL COMMITMENTS

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

	June 30, 2002 (Unaudited)	December 31, 2001 (Audited)
Property, plant and equipment	364,545,000	418,056,000

ASSETS IMPAIRMENT PROVISION AS AT JUNE 30, 2002 (UNAUDITED)

Items	As at December 31, 2001		Current period additions		Current period reversals		As at June 30, 2002	
	Group	Company	Group	Company	Group	Company	Group	Company
1. Bad debt provision	863,843,540	863,839,983	-	-	-	-	863,843,540	863,839,983
Including: Accounts receivable	840,378,422	840,374,865	-	-	-	-	840,378,422	840,374,865
Other receivables	23,465,118	23,465,118	-	-	-	-	23,465,118	23,465,118
2. Provision for short-term investments								
Including: Equity investments								
Bond investments								
3. Inventory provision	236,631,105	236,631,105	-	-	-	-	236,631,105	236,631,105
Including: Raw Materials	35,691,091	35,691,091	-	-	-	-	35,691,091	35,691,091
Work in progress	24,439,710	24,439,710	-	-	-	-	24,439,710	24,439,710
Finished goods	21,833,438	21,833,438	-	-	-	-	21,833,438	21,833,438
Spare parts	154,666,866	154,666,866	-	-	-	-	154,666,866	154,666,866
4. Provision for long-term investments								
Including: Long-term equity investments								
Long-term bond investments								
5. Impairment provision for fixed assets								
Including: Buildings								
Machinery								
6. Impairment provision for intangible assets								
Including: Technical know-how								
Patent								
7. Impairment provision for construction in progress								
8. Provision for trust loan								

UNAUDITED CONSOLIDATED INTERIM CONDENSED PROFIT AND LOSS ACCOUNT
 PREPARED IN ACCORDANCE WITH IAS
 FOR THE SIX MONTHS ENDED JUNE 30, 2002

(Amounts in thousands except for per share data)

	Notes	Six months ended June 30,	
		2002 RMB	2001 RMB
Turnover	2	4,525,618	5,984,561
Cost of sales		(4,259,866)	(5,703,528)
Gross profit		265,752	281,033
Distribution costs		(13,453)	(23,431)
Administrative expenses		(181,886)	(598,996)
Other expense		(109,523)	(30,968)
Operating loss	3	(39,110)	(372,362)
Interest expense	4	(272,064)	(339,940)
Interest income		412	1,096
Exchange loss		(38,031)	(14,254)
Exchange gain		3,112	54,353
Share of profit/(loss) of jointly controlled entities		(4,766)	12,244
Share of loss of an associated company		(149)	—
Loss before taxation	2	(350,596)	(658,863)
Taxation	5	(352)	(756)
Loss before minority interests		(350,948)	(659,619)
Minority interests		880	(1,122)
Loss attributable to shareholders		(350,068)	(660,741)
Basic and diluted loss per share	6	(Rmb 0.10)	(Rmb 0.19)
Dividend	7	—	—

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED BALANCE SHEET
(PREPARED IN ACCORDANCE WITH IAS)
As Of JUNE 30, 2002

(Amounts in thousands)

	Notes	June 30, 2002 RMB	December 31, 2001 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	8	10,453,013	10,426,277
Interests in jointly controlled entities		277,733	282,499
Investment in an associated company		18,635	18,784
Intangible assets	8	433,284	468,691
		11,182,665	11,196,251
CURRENT ASSETS			
Inventories		1,380,681	1,179,816
Value added tax recoverable		102,606	73,583
Accounts receivable	9	611,148	781,115
Prepaid expenses and other current assets		555,986	562,156
Cash and cash equivalents		31,163	36,917
		2,681,584	2,633,587
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	10	1,307,787	1,153,977
Short-term borrowings	11	3,934,771	3,541,485
		5,242,558	4,695,462
NET CURRENT LIABILITIES			
		(2,560,974)	(2,061,875)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		8,621,691	9,134,376
FINANCED BY:			
Share capital		3,561,078	3,561,078
Reserves		2,103,418	2,103,526
Accumulated losses		(2,908,518)	(2,558,558)
		2,755,978	3,106,046
Shareholders' equity			
		37,736	42,767
NON-CURRENT LIABILITIES			
Long-term borrowings	11	5,827,977	5,985,563
		8,621,691	9,134,376

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(PREPARED IN ACCORDANCE WITH IAS)

FOR THE SIX MONTHS ENDED JUNE 30, 2002

(Amounts in thousands)

	Share capital RMB	Accumulated losses RMB	Reserves RMB	Total RMB
Balance at January 1, 2001	3,561,078	(737,339)	3,050,156	5,873,895
Adjustment of land use rights at January 1, 2001 (note 1)	–	–	(950,480)	(950,480)
Net loss for the period	–	(660,741)	–	(660,741)
Transfer to retained earnings on realisation of revaluation reserve	–	2,936	(2,936)	–
Transfer from retained earnings to reserves	–	(4,608)	4,608	–
Balance at June 30, 2001	<u>3,561,078</u>	<u>(1,399,752)</u>	<u>2,101,348</u>	<u>4,262,674</u>
Balance at January 1, 2002	3,561,078	(2,558,558)	2,103,526	3,106,046
Net loss for the period	–	(350,068)	–	(350,068)
Transfer to retained earnings on realisation of revaluation reserve	–	486	(486)	–
Transfer from retained earnings to reserves	–	(378)	378	–
Balance at June 30, 2002	<u>3,561,078</u>	<u>(2,908,518)</u>	<u>2,103,418</u>	<u>2,755,978</u>

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT
(PREPARED IN ACCORDANCE WITH IAS)
FOR THE SIX MONTHS ENDED JUNE 30, 2002

(Amounts in thousands)

	Six months ended June 30,	
	2002	2001
	RMB	RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(350,068)	(660,741)
Depreciation and amortisation	466,380	488,310
Loss on disposal of property, plant and equipment	107,417	13,114
Provision for impairment of receivables	–	300,493
Decrease in accounts receivable	169,967	88,453
Increase in inventories	(200,865)	(150,958)
Taxation paid	(227)	(326)
Other, net	68,779	26,804
	261,383	105,149
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(507,202)	(131,068)
Other, net	4,948	8,233
	(502,254)	(122,835)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	1,951,685	2,700,770
Repayments of borrowings	(1,715,985)	(2,868,470)
Other, net	(583)	1,000
	235,117	(166,700)
NET CASH PROVIDED BY/(USED FOR) FINANCING ACTIVITIES		
	(5,754)	(184,386)
Cash and cash equivalents at beginning of period	36,917	228,964
Cash and cash equivalents at end of period	31,163	44,578

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

**NOTES TO THE UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2002**

(Amounts in thousands unless otherwise stated)

I. Accounting Policies

The unaudited consolidated interim condensed financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the consolidated interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended December 31, 2001.

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual tax rate used for the six-month period from January 1, 2002 to June 30, 2002 is 33 per cent. (the estimated weighted average tax rate used for the six-month period from January 1, 2001 to June 30, 2001 was 33 per cent.).

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 and amortisation for the six months ended June 30, 2001 have been adjusted by Rmb950 million and Rmb 10.37 million respectively in this regard.

These unaudited consolidated interim condensed financial statements should be read in conjunction with the 2001 annual financial statements.

2. Segment Information

Six months ended June 30, 2002

	Petroleum Products RMB	Petrochemical and organic chemical products RMB	Chemical fertilisers and inorganic products RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Revenues	<u>1,505,511</u>	<u>2,173,454</u>	<u>77,562</u>	<u>345,840</u>	<u>423,251</u>	<u>4,525,618</u>
Segment results	(126,163)	115,060	(98,751)	75,863	(5,119)	(39,110)
Finance costs, net						(306,571)
Share of loss of jointly controlled entities	-	(4,766)	-	-	-	(4,766)
Share of loss of an associated company	-	-	-	-	(149)	(149)
Loss before taxation						<u>(350,596)</u>

Six months ended June 30, 2001

	Petroleum products RMB	Petrochemical and organic chemical products RMB	Chemical fertilisers and inorganic products RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Revenues	<u>2,780,500</u>	<u>2,574,695</u>	<u>25,918</u>	<u>406,844</u>	<u>196,604</u>	<u>5,984,561</u>
Segment results	(34,927)	(251,982)	(45,164)	52,445	(92,734)	(372,362)
Finance costs, net						(298,745)
Share of profit of jointly controlled entities	-	12,244	-	-	-	12,244
Loss before taxation						<u>(658,863)</u>

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. Accordingly, no geographic segment information is presented.

3. Operating Loss

The following items have been charged to operating loss during the period:

	Six months ended June 30,	
	2002 RMB	2001 RMB
Depreciation of property, plant and equipment	430,973	477,735
Loss on disposal of property, plant and equipment	107,417	13,114
Provision for diminution in value of inventories	–	32,260
Amortisation of intangible assets	35,407	10,575
Provision for impairment of receivables	–	300,493
Research and development expenditure	3,246	8,322
Employee compensation costs	190,170	184,290

4. Interest Expense

	Six months ended June 30,	
	2002 RMB	2001 RMB
Interest expense	295,117	352,035
Less: Amount capitalised	(23,053)	(12,095)
	<u>272,064</u>	<u>339,940</u>

5. Taxation

	Six months ended June 30,	
	2002 RMB	2001 RMB
PRC income tax	352	756
Deferred tax	–	–
	<u>352</u>	<u>756</u>

In accordance with PRC tax regulations, tax losses can be carried forward for a period of 5 years. As the recoverability of these tax losses is uncertain, the resulting deferred tax benefit arising from these tax losses has not been recognised in the financial statements.

6. Basic And Diluted Loss Per Share

Basic and diluted loss per share for the six months ended June 30, 2002 and 2001 have been computed by dividing the loss attributable to shareholders of Rmb350.068 million and Rmb660.741 million respectively by the number of 3,561,078,000 shares issued and outstanding for the period.

7. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended June 30, 2002 (2001: nil).

8. Property, Plant And Equipment And Intangible Assets

	Property, plant and equipment	Intangible assets
	RMB	RMB
Net book value:		
At January 1, 2002	10,426,277	468,691
Additions	568,214	–
Disposals	(110,505)	–
Depreciation/amortisation	(430,973)	(35,407)
	<u>10,453,013</u>	<u>433,284</u>
At June 30, 2002	10,453,013	433,284
Capital commitments contracted but not provided for:		
At June 30, 2002	364,545	–
At December 31, 2001	418,056	–

9. Accounts Receivable

	June 30, 2002 RMB	December 31, 2001 RMB
Due from third parties	956,335	1,059,553
Due from related parties		
– PetroChina Group Companies	98,076	184,290
– CNPC Group Companies	23,922	780
– JCGC Group Companies	372,662	376,415
– Jointly controlled entities	–	455
– Associated company	531	–
	<u>1,451,526</u>	1,621,493
Less: Provision for impairment loss	(840,378)	(840,378)
	<u>611,148</u>	<u>781,115</u>

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

The ageing analysis of accounts receivable at June 30, 2002 is as follows:

	June 30, 2002 RMB	December 31, 2001 RMB
Within 1 year	100,059	272,862
Between 1 to 2 years	388,642	795,515
Between 2 to 3 years	606,807	295,705
Over 3 years	356,018	257,411
	<u>1,451,526</u>	<u>1,621,493</u>

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

10. Accounts Payable And Accrued Liabilities

	June 30, 2002 RMB	December 31, 2001 RMB
Trade payables	731,640	596,604
Advances from customers	128,365	193,928
Salaries and welfare payable	22,984	13,741
Accrued expenses	34,007	–
Dividends payable by subsidiaries to minority shareholders	1,150	1,150
Other payables	278,963	259,387
Amounts due to related parties		
– PetroChina Group Companies	23,481	–
– CNPC Group Companies	3,013	3,302
– JCGC Group Companies	83,708	85,865
– Associated company	476	–
	<u>1,307,787</u>	<u>1,153,977</u>

The ageing analysis of trade payables at June 30, 2002 is as follows:

	June 30, 2002 RMB	December 31, 2001 RMB
Within 1 year	600,827	455,456
Between 1 to 2 years	50,773	71,500
Between 2 to 3 years	31,439	41,515
Over 3 years	48,601	28,133
	<u>731,640</u>	<u>596,604</u>

II. Borrowings

	June 30, 2002 RMB	December 31, 2001 RMB
Short-term borrowings	3,934,771	3,541,485
Long-term borrowings	5,827,977	5,985,563
	<u>9,762,748</u>	<u>9,527,048</u>

The movements in borrowings can be analysed as follows:

	RMB
Balance at January 1, 2002	9,527,048
New borrowings	1,951,685
Repayments of borrowings	<u>(1,715,985)</u>
Balance at June 30, 2002	<u>9,762,748</u>

	June 30, 2002 RMB	December 31, 2001 RMB
Unsecured long-term borrowings	6,295,398	6,388,448
Current portion of long-term borrowings	(467,421)	<u>(402,885)</u>
	<u>5,827,977</u>	<u>5,985,563</u>

The analysis of the above long-term borrowings is as follows:

Wholly repayable within five years	5,706,328	4,769,077
Not wholly repayable within five years	589,070	<u>1,619,371</u>
	6,295,398	6,388,448
Current portion of long-term borrowings	(467,421)	<u>(402,885)</u>
	<u>5,827,977</u>	<u>5,985,563</u>

Details of long-term borrowings are as follows:

		June 30, 2002 RMB	December 31, 2001 RMB
Renminbi denominated loans	Floating interest rate at 5.51% to 6.44% per annum as of June 30, 2002, with maturities through 2007	3,698,240	3,853,540
US dollar denominated loans	Floating interest rate at 5.50% to 8.66% per annum as of June 30, 2002, with maturities through 2012	2,222,720	2,166,577
Japanese Yen denominated loans	Floating interest rate at 4.10% to 5.30% per annum as of June 30, 2002, with maturities through 2008	271,037	269,320
EURO denominated loans	Floating interest rate at 5.00% to 8.30% per annum as of June 30, 2002, with maturities through 2006	103,401	99,011
		<u>6,295,398</u>	<u>6,388,448</u>

The Group's long-term borrowings are repayable as follows:

	June 30, 2002 RMB	December 31, 2001 RMB
Within one year	467,421	402,885
In the second year	2,324,637	1,902,623
In the third to fifth year	2,914,270	2,463,569
After the fifth year	589,070	1,619,371
		<u>6,295,398</u>
		<u>6,388,448</u>

12. Related Party Transactions

	Six months ended June 30,	
	2002	2001
	RMB	RMB
CNPC Group Companies		
Interest expense	194,110	201,000
JCGC Group Companies		
Sale of goods	258,500	406,350
Sub-contracting fees	5,550	–
Construction of fixed assets	46,641	27,390
Purchase of raw materials and spare parts	73,431	44,010
Fees for welfare and support services	49,421	56,710
PetroChina Group Companies		
Purchase of crude oil	2,444,808	3,684,427
Purchase of materials	297,304	500,898
Sale of gasoline	530,276	943,957
Sale of diesel oil	784,842	1,235,089
Sale of petrochemical goods	817,313	1,150,378
Jilian (Jilin) Petrochemicals Limited		
Sale of petrochemical goods	133,103	159,341

13. Significant Differences Between Financial Statements Prepared Under PRC Accounting Regulations (“PRC GAAP”) And International Accounting Standards (“IAS”)

Effects of significant differences between PRC GAAP and IAS on net loss and shareholders' equity are summarised below.

Net loss

	Notes	Six months ended June 30,	
		2002 RMB	2001 RMB
As reported under PRC GAAP		(352,531)	(641,897)
Adjustments to conform with IAS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	(i)	(726)	(726)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	(3,655)	(3,655)
– Interest income from share proceeds	(iv)	–	(520)
– Appropriation to staff bonus and welfare fund	(v)	(143)	(1,740)
– Interest expense capitalised in construction in progress	(vi)	–	(17,917)
– Amortisation of housing subsidy cost	(vii)	(4,660)	(4,656)
– Amortisation of land use rights	(viii)	11,647	10,370
		<u>(350,068)</u>	<u>(660,741)</u>
As reported under IAS			

Shareholders' equity

	Notes	June 30, 2002 RMB	December 31, 2001 RMB
As reported under PRC GAAP		3,529,070	3,881,744
Adjustments to conform with IAS:			
– Depreciation expense due to revaluation at February 28, 1995	(i)	(10,647)	(9,921)
– Surplus on revaluation of fixed assets at February 28, 1995	(i)	29,033	29,033
– Deferred tax effect on revaluation surplus	(i)	(9,580)	(9,580)
– Difference in loss on disposal of fixed assets due to revaluation at February 28, 1995	(ii)	(4,626)	(4,626)
– Exchange gains in respect of funds borrowed for fixed assets	(iii)	112,471	112,471
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	(38,728)	(35,073)
– Housing subsidy cost	(vii)	57,499	62,159
– Deferred tax effect on housing subsidy cost	(vii)	(23,587)	(23,587)
– Adjustment of land use rights at January 1, 2001	(viii)	(918,094)	(929,741)
– Tax adjustment	(ix)	33,167	33,167
		<u>2,755,978</u>	<u>3,106,046</u>
As reported under IAS			

- (i) Depreciation expense under IAS includes the effect of revaluation of fixed assets at February 28, 1995 in connection with the listing of the Company's shares on the Hong Kong Stock Exchange. Under PRC GAAP, this revaluation, which was not officially approved as part of the 1994 Restructuring, was not recognised. Accordingly, depreciation charge calculated under PRC GAAP is lower than that under IAS.
- (ii) In 2000, certain fixed assets including those revalued at February 28, 1995 were written off in connection with the shut down of manufacturing assets. As the effect of the February 28, 1995 has not been recognised under PRC GAAP, additional loss on write-off of fixed assets relating to the surplus arising from the February 28, 1995 revaluation was recorded in the IAS financial statements.
- (iii) Under IAS, foreign currency translation differences relating to borrowings to the extent that they are adjustments to interest costs of funds to finance the construction of fixed assets are capitalised. Under PRC GAAP, all foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. Accordingly, the cost of the underlying fixed assets as reported in the IAS financial statements is greater than that as determined under PRC GAAP, and thus resulted in additional depreciation charge.
- (iv) According to the relevant rules and regulations of the China Securities Regulatory Commission, for those new shares issued in 1996, the corresponding interest income generated during the allotment period should be included as part of the share premium. Interest income relating to the unsuccessful applicants is released to the profit and loss account over a period of five years starting from 1997. Under IAS, such income, when received, was recorded in the profit and loss account.
- (v) In 2001 and 2002, a subsidiary of the Company, which is a Sino-foreign joint venture made an appropriation from retained earnings to the staff and workers' bonus and welfare fund in accordance with the relevant rules and regulations in the PRC. Under IAS, such appropriation is charged to the profit and loss account.
- (vi) Under IAS, interest expense relating to funds borrowed generally and used for the construction of fixed assets are capitalised by applying a weighted average rate applicable to the borrowings that are outstanding during the period. Under PRC GAAP, only interest expense incurred on funds borrowed specifically for the construction of fixed assets are capitalised.
- (vii) As a result of the reorganisation of CNPC and PetroChina, PetroChina agreed to bear the cost of housing subsidy and accordingly the relevant payable of RMB84.09 million to JCGC, after netting off deferred tax of RMB23.59 million, was credited to capital reserve under IAS. Under PRC GAAP, the payable of RMB84.09 million was offset against housing subsidiary cost brought forward of RMB75.68 million and the balance of 8.41 million was credited to capital reserve. Consequently, there is no amortisation of housing subsidiary cost under PRC GAAP.
- (viii) Under PRC GAAP, land use rights are recognised and amortised over 50 years. 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 historical cost of RMB nil. Consequently, there is no amortisation of land use rights under IAS.
- (ix) As there is uncertainty as to whether the deferred tax asset established to (i) and (vii) above can be recovered, the deferred tax asset is not recognised.

SIGNIFICANT DIFFERENCES BETWEEN IAS AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (“US GAAP”) (UNAUDITED) FOR THE SIX MONTHS ENDED JUNE 30, 2002

(Amounts in thousands unless otherwise stated)

Effect on net loss of significant differences between IAS and US GAAP is as follows:

		Six months ended June 30,			
		2002	2001	2002	2001
Notes		RMB	RMB	US\$	US\$
	As reported under IAS	(350,068)	(660,741)	(42,294)	(79,827)
	US GAAP adjustments:				
	– Depreciation charge on fixed asset revaluation surplus on Restructuring and at February 28, 1995 (i)	4,886	4,886	590	590
	– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets (ii)	765	766	92	92
	– Depreciation charge due to fixed assets revaluation of a jointly controlled entity (iii)	3,815	3,815	462	462
	– Tax adjustment (iv)	–	(362,236)	–	(43,764)
	As reported under US GAAP	<u>(340,602)</u>	<u>(1,013,510)</u>	<u>(41,150)</u>	<u>(122,447)</u>
	Basic and diluted net loss per share	<u>(RMB0.10)</u>	<u>(RMB0.28)</u>	<u>(US\$0.01)</u>	<u>(US\$0.03)</u>

Supplementary Information

Effect on shareholders' equity of significant differences between IAS and US GAAP is as follows:

	Notes	June 30, 2002 RMB	December 31, 2001 RMB	June 30, 2002 US\$	December 31, 2001 US\$
As reported under IAS		2,755,978	3,106,046	332,964	375,258
US GAAP adjustments:					
– Reversal of fixed asset revaluation on Restructuring	(i)	(714,974)	(714,974)	(86,380)	(86,380)
– Depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995	(i)	592,719	587,833	71,610	71,019
– Deferred tax asset on revaluation surplus on Restructuring	(i)	235,941	235,941	28,505	28,505
– Reversal of fixed asset revaluation at February 28, 1995	(i)	(29,033)	(29,033)	(3,508)	(3,508)
– Reversal of deferred tax liability on revaluation surplus at February 28, 1995	(i)	9,580	9,580	1,158	1,158
– Reduction in loss on write-off of fixed assets	(i)	9,006	9,006	1,088	1,088
– Foreign currency translations difference on interest components capitalised in fixed assets	(ii)	(30,616)	(30,616)	(3,699)	(3,699)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	8,420	7,655	1,018	925
– Fixed asset revaluation of a jointly controlled entity	(iii)	(65,320)	(65,320)	(7,892)	(7,892)
– Depreciation charge on revaluation of fixed assets of a jointly controlled company	(iii)	58,997	55,182	7,128	6,668
– Tax adjustment	(iv)	(245,521)	(245,521)	(29,663)	(29,663)
As reported under US GAAP		2,585,177	2,925,779	312,329	353,479

(i) Revaluation of fixed assets

On September 30, 1994, the fixed assets transferred to the Company by Jilin Chemical Industrial Corporation as part of the Restructuring were appraised, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC. The revaluation of the fixed assets transferred resulted in Rmb1,665 million in excess of the prior carrying value and was recorded in share capital and capital reserve and not as a revaluation reserve. The depreciation charge on the revaluation surplus for the six-month period ended June 30, 2002 was Rmb4.16 million (2001: Rmb4.16 million). For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charge is reversed. A deferred tax asset of Rmb236 million relating to the reversal of the revaluation effect was established, together with a corresponding increase in shareholders' equity.

On February 28, 1995, the fixed assets were further revalued by a firm of independent valuers registered in Hong Kong to satisfy the Hong Kong Stock Exchange listing requirements. This revaluation, which resulted in an additional revaluation surplus of Rmb29 million, was not recognised by the PRC authorities and was therefore not recorded in the statutory accounting books. A deferred tax liability of Rmb9.6 million was created under IAS with a corresponding decrease in revaluation surplus. The depreciation charge on the revaluation surplus for the six-month period ended June 30, 2002 was Rmb0.726 million (2001: Rmb0.726 million). For purposes of reconciling to the US GAAP financial data, both the revaluation surplus and the related depreciation charge and the tax effect are reversed.

In 2000, certain fixed assets with a net book value of Rmb602 million (Rmb9 million related to revaluation surplus recorded in share capital and capital reserve) were written off as a charge to the profit and loss account in connection with the shut down of manufacturing assets. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation related to the written-off assets charged to the profit and loss account is reversed.

(ii) Foreign exchange difference

Under US GAAP, foreign exchange difference is reflected in the profit and loss account in the period in which they occur.

Under IAS, the Group capitalised foreign currency translation difference relating to borrowings to the extent that these are adjustments to interest costs of funds used to finance the construction of fixed assets during the period of construction. For purposes of reconciling to the US GAAP financial data, the effect of the capitalised foreign currency translation difference and the related depreciation charge is reversed.

(iii) Fixed assets transferred to a jointly controlled entity

During the period ended December 31, 1994, certain fixed assets of the Company were transferred to Jilian, a jointly controlled entity of the Company. These fixed assets were appraised and resulted in Rmb65 million in excess of the prior carrying value. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charge is reversed.

(iv) Tax adjustment

As there is uncertainty as to whether the deferred tax asset established in (i) above can be fully realised, a valuation allowance for the deferred tax asset is made.

(v) Amounts in Renminbi have been converted into United States dollars at the respective rates of US\$1.00: Rmb8.2771 announced by the People's Bank of China as at June 30, 2002. No representation is made that the Renminbi amounts could have been, or could be, converted into US dollars at that rate.

Documents Available For Inspection And Address For Inspection Of Documents

1. The original 2002 interim report of the Company signed by the Chairman of the Board of Directors.
2. The original financial statements for the six months ended 30th June, 2002 prepared in accordance with PRC accounting standards and IAS signed by the legal representative, the general accountant and the chief of the Financial Department of the Company.
3. The original announcements and other documents disclosed by the Company in the newspapers designated by CSRC during the reporting period.
4. The articles of association of the Company.
5. The announcements of interim results disclosed in Hong Kong.

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Note: This interim report is prepared in both Chinese and English. In the event of any inconsistency between the two versions, the Chinese version shall prevail.