1. CORPORATE INFORMATION

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

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

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

According to an announcement relating to the corporate restructuring of the CNPC Group in November 1999, JCGC transferred all of the state-owned shares held in the Company together with certain assets and businesses of JCGC to PetroChina Company Limited ("PetroChina"), a wholly-owned subsidiary of CNPC which was established on November 5, 1999. Accordingly, PetroChina replaced JCGC to become the immediate holding company of the Company.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board. These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

With effect from January 1, 2001, the Company has applied IAS 17 "Leases", as clarified by IAS 40 "Investment Property", to accounting for the land use rights taken over by the Company as part of the Restructuring. The Company has reclassified these land use rights as operating leases and is reflecting the carrying value of these land use rights at RMB nil. Reserves at January 1, 2001 have been adjusted by RMB950 million in this regard.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

(b) Basis of consolidation

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

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

(c) Investments in associated companies

Associated companies are entities in which the Group holds between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associated companies are accounted for using the equity method. Such equity interests are carried in the consolidated balance sheet at amounts that reflect the Group's share of the net assets of the associated companies and include goodwill on acquisition, if any. Equity accounting involves recognising in the consolidated profit and loss account the Group's share of the profit or loss for the year of the associated companies. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of loss in an associated company equals or exceeds its interest in the associated company, the Group does not recognise further loss, unless the Group has incurred obligations or made payments on behalf of the associated company.

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

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

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

(d) Interests in jointly controlled entities

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

The Group's interests in jointly controlled entities are accounted for using the equity method. Such equity interests are carried in the consolidated balance sheet at amounts that reflect the Group's share of the net assets of the jointly controlled entities and include goodwill on acquisition, if any. Equity accounting involves recognising in the consolidated profit and loss account the Group's share of the profit or loss for the year of the jointly controlled entities. Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of loss in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the jointly controlled entity.

Interests in jointly controlled entities are accounted for using the equity method in the Company's financial statements.

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

(e) Foreign currencies

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

(f) Property, plant and equipment

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

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

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

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

The Group uses the following useful lives for depreciation purposes:

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

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

Property, plant and equipment are reviewed for impairment whenever there is an indication that they may be impaired. If such an indication exists, the carrying amount of an individual asset is compared with its recoverable amount which is the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the asset and from its ultimate disposal. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

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

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

As set out in Note 2(a), land use rights taken over by the Company as part of the Restructuring have been reclassified as operating leases at January 1, 2001. In prior years, these land use rights were carried at valuation and amortised over 50 years. No further operating lease payments are required to be made under the terms of these leases.

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

(g) Intangible assets

(i) Technical know-how

The purchase costs of technical know-how relate to certain production facilities and are included as part of the total contract price of the construction contract and are distinguishable. They are capitalised as intangible assets at cost, unless they are acquired in a business combination that is an acquisition in which case they are recorded at fair value. They are amortised using the straight-line method over the estimated useful life of 10 years, starting from the date when the underlying facilities are completed and ready for their intended use.

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

(ii) Housing subsidy cost

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

(iii) Land use rights

Land use rights acquired as part of a business combination that is an acquisition are recorded at fair value less subsequent accumulated amortisation. Fair value is determined based on valuation performed by independent valuers.

Land use rights are amortised using the straight-line method over their lease terms of 50 years.

Land use rights are not revalued and their carrying amount is reviewed for impairment whenever there is an indication that they may be impaired. If such an indication exists, the carrying amount of a land use right is compared with its recoverable amount which is the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the land use right and from its ultimate disposal. When the carrying amount of a land use right is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(h) Inventories

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

(i) Trade receivables

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

(j) Cash and cash equivalents

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

(k) Deferred income tax

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

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

(l) Borrowings

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

(m) Revenue recognition

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

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

(n) Research and development expenses

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

(o) Government revenue grants and subsidies

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

(p) Retirement benefit plans

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

(q) Provisions

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

(r) Related parties

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

(s) Financial instruments

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

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

3. TURNOVER

Turnover represents revenues from the sale of petroleum, petrochemical and chemical products.

Analysis of turnover by segment is shown in Note 30.

(Amounts in thousands unless otherwise stated)

4. LOSS BEFORE TAXATION

	2002	2001
	RMB	*RMB*
Loss before taxation is arrived at after crediting and charging the following items:		
Crediting		
Government grants and subsidies	**–**	(2,175)
Charging		
Amortisation of intangible assets (included in "administrative expenses")	**79,980**	79,307
Auditors' remuneration	**3,000**	2,700
Cost of inventories (approximates cost of sales) recognised as expense	**12,518,955**	12,541,889
Depreciation on property, plant and equipment	**1,028,542**	887,488
Writedown of carrying value of property, plant and equipment (included in "administrative expenses") *(Note 13)*	**323,844**	–
Employee compensation costs (including directors' and supervisors' emoluments) *(Note 5)*	**517,360**	449,560
Shut down of manufacturing assets *(Note 6)*	**283,418**	–
(Profit)/loss on disposal of property, plant and equipment	**(3,876)**	168
Operating lease rentals on land and buildings	**9,453**	–
Operating lease rentals on plant and machinery	**–**	459
Provision for impairment of receivables (included in "administrative expenses")	**–**	599,609
Provision for impairment of prepaid expenses and other current assets (included in "administrative expenses")	**51,484**	–
Provision for diminution in value of inventories and inventory writedowns	**139,985**	171,174
Repair and maintenance	**560,010**	251,382
Research and development expenditure	**3,927**	11,590

(Amounts in thousands unless otherwise stated)

5. EMPLOYEE COMPENSATION COSTS

	2002 *RMB*	2001 *RMB*
Wages and salaries	**344,130**	279,380
Retirement benefit cost	**84,150**	107,740
Staff welfare	**89,080**	62,440
	517,360	449,560

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

6. SHUT DOWN OF MANUFACTURING ASSETS

During the year ended December 31, 2002 the Group recorded direct charges totalling RMB283,418 representing property, plant and equipment permanently withdrawn from use (Note 13) as a result of management decisions to shut down certain less efficient manufacturing facilities. The cost to dismantle or to remove related shut-down facilities were minimal and have been included in the profit and loss account.

7. INTEREST EXPENSE

	2002 *RMB*	2001 *RMB*
Interest on		
Bank loans		
– wholly repayable within five years	**30,320**	102,377
– not wholly repayable within five years	**34,708**	23,955
Other loans		
– wholly repayable within five years	**440,974**	454,547
– not wholly repayable within five years	**18,390**	52,743
Less: Amounts capitalised	**(50,022)**	(34,740)
	474,370	598,882

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of constructing qualifying assets. Interest rates on such capitalised borrowings ranged from 5.50% to 5.86% (2001: 5.50% to 6.03%).

(Amounts in thousands unless otherwise stated)

8. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

	2002	2001
	RMB	*RMB*
Fees	**60**	220
Salaries, allowances and other benefits	**374**	343
Contribution to retirement benefit scheme	**10**	12
	444	575

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

	2002	2001
	Number	*Number*
Nil – RMB1,061	**16**	16

Fees for directors and supervisors disclosed above included fees of RMB45 (2001: RMB45) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2002 (2001: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2001 and December 31, 2002 were also directors or supervisors and their emoluments are reflected in the analysis presented above.

9. TAXATION

	2002	2001
	RMB	*RMB*
PRC income tax	**352**	812
Share of tax of jointly controlled entities	**764**	9
	1,116	821

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is 33% (2001: 33%). Certain subsidiaries and jointly controlled entities are Sino-foreign joint ventures and are entitled to certain tax concessions available to foreign investment production enterprises operating in the PRC. These tax concessions include a five-year tax holiday under which these enterprises are exempt from income tax for the first two years commencing from the first profitable year of operation followed by a 50% reduction in the income tax rate for three years thereafter.

(Amounts in thousands unless otherwise stated)

9. TAXATION *(Continued)*

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

	2002	2001
	RMB	*RMB*
Loss before taxation	**(1,027,638)**	(1,815,134)
Tax calculated at a rate of 33%	**(339,121)**	(598,994)
Unrecognised deferred tax assets *(Note 27)*	**345,141**	597,881
Other *(Note b)*	**(4,904)**	1,934
Tax expense	**1,116**	821

(a) Subsidiaries and jointly controlled entities entitling to tax concessions referred to above made losses during the year, therefore there is no reconciling item in this regard.

(b) Other primarily represents the deferred tax effect on the difference between the asset base under IFRS and their tax base.

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of Rmb 976,198 (2001: Rmb 1,824,978) for the year ended December 31, 2002.

11. BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share for the year ended December 31, 2002 have been computed by dividing net loss for the year by the weighted average number of 3,561,078,000 (2001: 3,561,078,000) shares issued and outstanding for the year.

There are no dilutive potential ordinary shares.

12. DIVIDEND

No dividend was declared in respect of 2001 and 2002.

(Amounts in thousands unless otherwise stated)

13. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Plant and machinery	Construction in progress	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost or valuation				
At December 31, 2001	1,558,496	12,140,059	1,184,278	14,882,833
Additions	4,550	325,485	753,203	1,083,238
Transfers	1,650	420,374	(422,024)	–
Acquisition of Jilian *(Note 15)*	167,657	1,119,443	79,741	1,366,841
Shut down of manufacturing assets *(Note 6)*	(67,394)	(561,461)	–	(628,855)
Disposals	–	(3,809)	–	(3,809)
At December 31, 2002	**1,664,959**	**13,440,091**	**1,595,198**	**16,700,248**
Accumulated depreciation				
At December 31, 2001	467,671	3,988,885	–	4,456,556
Charge for the year	83,358	945,184	–	1,028,542
Acquisition of Jilian *(Note 15)*	43,473	506,730	–	550,203
Shut down of manufacturing assets *(Note 6)*	(22,922)	(322,515)	–	(345,437)
Writedown of carrying value *(Note (b))*	58,153	263,691	–	323,844
Disposals	–	(544)	–	(544)
At December 31, 2002	**629,733**	**5,383,431**	**–**	**6,013,164**
Net book value				
At December 31, 2002	**1,035,226**	**8,056,660**	**1,595,198**	**10,687,084**
At December 31, 2001	1,090,825	8,151,174	1,184,278	10,426,277
Analysis of cost or valuation				
At 1995 valuation	734,248	1,861,228	–	2,595,476
At cost	930,711	11,578,863	1,595,198	14,104,772
	1,664,959	13,440,091	1,595,198	16,700,248
Carrying value of fixed assets had they been stated at cost less accumulated depreciation	1,084,492	8,315,604	1,595,198	10,995,294

(Amounts in thousands unless otherwise stated)

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

Company	Buildings	Plant and machinery	Construction in progress	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost or valuation				
At December 31, 2001	1,475,927	11,773,065	1,184,278	14,433,270
Additions	4,540	311,426	753,203	1,069,169
Transfers	1,650	420,374	(422,024)	–
Acquisition of Jilian (Note 15)	167,657	1,119,443	79,741	1,366,841
Shut down of manufacturing assets	(65,834)	(561,461)	–	(627,295)
Disposals	–	(3,527)	–	(3,527)
At December 31, 2002	**1,583,940**	**13,059,320**	**1,595,198**	**16,238,458**
Accumulated depreciation				
At December 31, 2001	440,145	3,804,252	–	4,244,397
Charge for the year	81,818	926,676	–	1,008,494
Acquisition of Jilian (Note 15)	43,470	506,733	–	550,203
Shut down of manufacturing assets	(21,820)	(322,515)	–	(344,335)
Writedown of carrying value	57,553	252,308	–	309,861
Disposals	–	(349)	–	(349)
At December 31, 2002	**601,166**	**5,167,105**	**–**	**5,768,271**
Net book value				
At December 31, 2002	**982,774**	**7,892,215**	**1,595,198**	**10,470,187**
At December 31, 2001	1,035,782	7,968,813	1,184,278	10,188,873
Analysis of cost or valuation				
At 1995 valuation	726,722	1,756,436	–	2,483,158
At cost	857,218	11,302,884	1,595,198	13,755,300
	1,583,940	13,059,320	1,595,198	16,238,458
Carrying value of fixed assets had they been stated at cost less accumulated depreciation	1,031,440	8,137,776	1,595,198	10,764,414

(Amounts in thousands unless otherwise stated)

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

(a) As part of the Restructuring described in Note 1 and as required by the relevant PRC regulations, a valuation of all of the contributed fixed assets and land use rights was carried out as of September 30, 1994 by China Assets Appraisal Co., Ltd., a firm of independent valuers registered in the PRC. The valuation was performed in order to determine the fair value of such contributed fixed assets and land use rights and establish amounts for share capital and capital reserve. The valuation of fixed assets was based on market value where available or depreciated replacement cost where market value was not available. The valuation of land use rights was based on standard land prices determined by the Jilin Province Land Administration Bureau. The value at which the above contributed fixed assets and land use rights were assumed by the Company was determined at RMB2,834,034 and RMB1,088,843, respectively. These contributed fixed assets and land use rights were initially accounted for by the Company at their predecessor values and are subsequently carried at revalued amounts less accumulated depreciation.

In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged American Appraisal Hong Kong Limited, independent valuers in Hong Kong, to perform a valuation of all of the Group's fixed assets as of February 28, 1995. The valuation, which was based on the market value where available or depreciated replacement costs where market value was not available, resulted in an additional surplus of RMB29,033. The surplus arising from the valuation was credited to the revaluation reserve.

(b) Revaluations of property, plant and equipment are to be performed periodically, normally by professionally qualified valuers. At December 31, 2002, the directors of the Company compared the carrying amount of the Group's property, plant and equipment to their estimate of the fair value, and on the basis of this review, made an adjustment to reduce the carrying amount of certain assets by RMB323,844 (2001: nil).

(c) At December 31, 2002, certain facilities at net book value of RMB261,019 were pledged to a bank for short-term borrowings of RMB120,000 (2001: nil) (Note 24).

14. SUBSIDIARIES

	Company	
	2002	2001
	RMB	*RMB*
Unlisted investments, at cost	**113,461**	113,461
Less: Provision for impairment loss	**(19,251)**	(19,251)
	94,210	94,210
Amounts due from subsidiaries	**67,298**	50,864
	161,508	145,074

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

(Amounts in thousands unless otherwise stated)

14. SUBSIDIARIES *(Continued)*

Particulars of principal subsidiaries at December 31, 2002 are set out as follows:

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

Except for Jilin Jihua Jianxiu Co., Limited, which was established on February 12, 2001, there were no changes in the interests held in other subsidiaries in 2001 and 2002.

15. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group and Company	
	2002 *RMB*	2001 *RMB*
Share of net assets	**44,058**	282,499

Movements of the share of net assets are set out as follows:

	At January 1, 2002 *RMB*	**Share of loss** *RMB*	**Acquisition of Jilian** *RMB*	**Dissolution of Jilian** *RMB*	**At December 31, 2002** *RMB*
Jilian (Jilin) Petrochemicals Limited ("Jilian")	237,178	(6,408)	135,000	(365,770)	–
Jilin Province BASF JCIC NPG Co., Ltd. ("BASF")	45,321	(1,263)	–	–	44,058
	282,499	(7,671)	135,000	(365,770)	44,058

(Amounts in thousands unless otherwise stated)

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

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

Particulars of jointly controlled entities at December 31, 2002 are set out as follows:

Company name	Paid-up capital RMB	Attributable equity interest (%) 2002	2001	Principal activities
Jilian *(Note (a))*	416,972	–	65	Manufacture of petrochemical products
BASF	150,000	40	40	Manufacture of petrochemical products

(a) Prior to December 2002, the Company had a 65% equity interest in Jilian and had four of the seven votes of the board of directors of Jilian. The Company, however, did not have the ability to exercise control over Jilian's board as unanimous approval was required for significant board resolutions. Accordingly, Jilian was accounted for as a jointly controlled entity.

In December 2002, the Company acquired the remaining 35% equity interest in Jilian for a consideration of RMB135,000 and integrated its business into the Company's. Jilian was subsequently dissolved in the same month and thereafter became a branch of the Company.

There was no change in the interests held in BASF during 2001 and 2002.

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

			Group's share	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Non-current assets	**103,446**	964,174	**41,378**	593,997
Current assets	**51,458**	363,054	**20,583**	225,626
Current liabilities	**29,028**	720,999	**11,611**	460,282
Non-current liabilities	**15,731**	128,036	**6,292**	76,842
Turnover	**613,439**	913,717	**370,319**	565,449
Gross profit	**81,130**	131,974	**46,335**	80,529
Other operating expenses	**(94,388)**	(66,839)	**(54,006)**	(39,934)
(Loss)/profit before taxation	**(13,258)**	65,135	**(7,671)**	40,595
Taxation	**(1,175)**	(14)	**(764)**	(9)
(Loss)/profit after taxation	**(14,433)**	65,121	**(8,435)**	40,586

(Amounts in thousands unless otherwise stated)

16. INVESTMENT IN AN ASSOCIATED COMPANY

	Group and Company	
	2002	2001
	RMB	*RMB*
Share of net assets	**18,909**	18,784

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

Particulars of the associated company are set out as follows:

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

17. INTANGIBLE ASSETS

	Group and Company			
	Technical know-how	**Housing subsidy cost**	**Land use rights**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Cost				
At December 31, 2001	631,772	84,089	–	715,861
Additions	7,542	–	–	7,542
Transfer from Jilian *(Note 29)*	570	–	61,843	62,413
At December 31, 2002	**639,884**	**84,089**	**61,843**	**785,816**
Accumulated amortisation				
At December 31, 2001	225,239	21,931	–	247,170
Charge for the year	70,661	9,319	–	79,980
Transfer from Jilian *(Note 29)*	–	–	9,814	9,814
At December 31, 2002	**295,900**	**31,250**	**9,814**	**336,964**
Net book value				
At December 31, 2002	**343,984**	**52,839**	**52,029**	**448,852**
At December 31, 2001	406,533	62,158	–	468,691

(Amounts in thousands unless otherwise stated)

18. INVENTORIES

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Raw materials				
– at cost	**334,513**	258,392	**334,115**	258,392
– at net realisable value	**164,613**	211,858	**164,613**	211,858
Work in progress				
– at cost	**146,789**	80,763	**142,168**	79,298
– at net realisable value	**101,071**	65,041	**101,071**	65,041
Finished goods				
– at cost	**80,542**	98,446	**77,235**	89,459
– at net realisable value	**217,992**	139,042	**217,992**	139,042
Spare parts				
– at cost	**12,578**	7,861	**12,578**	7,861
– at net realisable value	**327,793**	312,509	**327,793**	312,509
Low value consumables and packing materials				
– at cost	**8,337**	5,904	**8,337**	5,904
– at net realisable value	**–**	–	**–**	–
	1,394,228	1,179,816	**1,385,902**	1,169,364

19. VALUE ADDED TAX RECOVERABLE

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

20. ACCOUNTS RECEIVABLE

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Due from third parties	**935,890**	1,059,553	**932,381**	1,019,469
Due from related parties				
– PetroChina Group Companies	**242,924**	184,290	**222,367**	169,990
– CNPC Group Companies	**691**	780	**691**	780
– JCGC Group Companies	**346,503**	376,415	**346,503**	376,205
– Jointly controlled entities	**–**	455	**–**	455
– An associated company	**24,132**	–	**24,132**	–
	1,550,140	1,621,493	**1,526,074**	1,566,899
Less: Provision for impairment loss	**(865,215)**	(840,378)	**(865,211)**	(840,375)
	684,925	781,115	**660,863**	726,524

(Amounts in thousands unless otherwise stated)

20. ACCOUNTS RECEIVABLE *(Continued)*

Amounts due from related parties are interest free, unsecured. Related parties are offered credit terms of no more than 30 days.

The ageing analysis of accounts receivable at December 31, 2002 is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Within 1 year	**270,587**	272,862	**247,188**	219,857
Between 1 to 2 years	**40,315**	795,515	**40,315**	793,926
Between 2 to 3 years	**706,552**	295,705	**705,885**	295,705
Over 3 years	**532,686**	257,411	**532,686**	257,411
	1,550,140	1,621,493	**1,526,074**	1,566,899

In 2001, the Group generally offered its customers credit terms of no more than 120 days. In 2002, the Group altered its credit management policy and implemented a cash sales policy for the majority of its customers. Certain selected customers are offered credit terms of no more than 30 days.

21. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Other receivables	**121,338**	164,994	**84,131**	112,954
Amounts due from related parties				
– PetroChina Group Companies	**–**	40,234	**–**	40,234
– JCGC Group Companies	**11,094**	163,045	**11,094**	163,045
– Jointly controlled entities	**–**	50,611	**–**	50,611
Advances to suppliers	**178,864**	104,013	**178,619**	103,511
Prepaid expenses	**17,392**	62,724	**16,750**	62,453
	328,688	585,621	**290,594**	532,808
Less: Provision for impairment loss	**(76,238)**	(23,465)	**(76,238)**	(23,465)
	252,450	562,156	**214,356**	509,343

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

(Amounts in thousands unless otherwise stated)

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Cash at bank and on hand	**32,805**	36,917	**29,575**	25,161

The weighted average effective interest rate on bank deposits was 0.99% (2001: 0.99%) for the year ended December 31, 2002.

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Trade payables	**1,226,079**	596,604	**1,224,208**	588,363
Advances from customers	**251,377**	193,928	**240,581**	178,368
Salaries and welfare payable	**95,411**	30,026	**79,517**	26,307
Dividends payable to minority interests	**–**	1,150	**–**	–
Other payables and accrued liabilities	**243,511**	243,102	**241,435**	241,243
Amounts due to related parties				
– PetroChina Group Companies	**58,086**	–	**58,086**	–
– CNPC Group Companies	**1,527**	3,302	**1,527**	3,302
– JCGC Group Companies	**310,257**	85,865	**310,257**	85,045
	2,186,248	1,153,977	**2,155,611**	1,122,628

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

The ageing analysis of trade payables at December 31, 2002 is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Within 1 year	**1,029,725**	455,456	**1,027,854**	447,215
Between 1 to 2 years	**126,373**	71,500	**126,373**	71,500
Between 2 to 3 years	**22,784**	41,515	**22,784**	41,515
Over 3 years	**47,197**	28,133	**47,197**	28,133
	1,226,079	596,604	**1,224,208**	588,363

(Amounts in thousands unless otherwise stated)

24. BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Bank loans – unsecured *(Note (i))*	**178,600**	118,600	**95,000**	–
– secured *(Note (ii))*	**120,000**	–	**120,000**	–
	298,600	118,600	**215,000**	–
Loans from a fellow subsidiary *(Note (iii))*	**3,577,860**	3,020,000	**3,577,860**	3,020,000
	3,876,460	3,138,600	**3,792,860**	3,020,000
Current portion of long-term borrowings	**1,660,225**	402,885	**1,660,225**	402,885
	5,536,685	3,541,485	**5,453,085**	3,422,885

(i) At December 31, 2002, unsecured bank loans include an amount of RMB15,000 (2001: nil) which bears interest at the rate of 5.31% per annum and is guaranteed by JCGC, and an amount of RMB49,600 (2001: RMB20,000) which bears interest at the rate of 5.55% (2001: 6.435%) per annum and is guaranteed by Jilin Merchandise Group, a third-party customer of the Group.

(ii) The bank loans are secured over certain facilities of the Group (Note 13) and bear interest at the rate of 5.31% per annum.

(iii) The outstanding loans are part of the borrowing facilities provided by China Petroleum Finance Company Limited (“CP Finance”), a subsidiary of CNPC and a non-bank financial institution approved by the People’s Bank of China, totalling RMB5 billion. The loans are unsecured and bear interest at rates ranging from 4.776% to 5.019% (2001: 5.505%) per annum. On April 11, 2003, CP Finance agreed to increase the borrowing facilities to RMB8 billion which expires on December 31, 2004.

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

(b) Long-term borrowings

		Group and Company	
	Interest rate and final maturity	**2002** *RMB*	**2001** *RMB*
Renminbi– denominated loans			
Industrial and Commercial Bank of China	Fixed interest rate of 6.03% per annum as of December 31, 2002, with maturities through 2004	**27,150**	56,550
Agricultural Bank of China	Fixed interest rate at 5.94% per annum as of December 31, 2001, with maturities through 2002	**–**	190
Environment Protection Bureau	Fixed interest rate at 5.04% as of December 31, 2001, and floating interest rate set by government in the following year, with maturities through 2002	**–**	400
CP Finance	Majority variable interest rates ranging from 5.18% to 5.59% per annum as of December 31, 2002, with maturities through 2007	**2,932,700**	3,796,400
US dollar – denominated loans			
Construction Bank of China	Fixed interest rates ranging from 8.42% to 8.66% per annum as of December 31, 2002, with maturities through 2010	**327,772**	432,474
China Development Bank	Fixed interest rate at 5.50% as of December 31, 2002, and floating interest rate set by government in the following years, with maturities through 2012	**924,045**	736,292

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

(b) Long-term borrowings

		Group and Company	
	Interest rate and final maturity	**2002** *RMB*	**2001** *RMB*
JCGC Group Companies	Majority variable interest rates ranging from 6.55% to 8.38% per annum as of December 31, 2002, with maturities through 2008	**835,672**	997,811
Bank of China	Fixed interest rates ranging from interest free to 8.60% per annum as of December 31, 2002, with maturities through 2029	**89,471**	–
Japanese Yen – denominated loans			
JCGC Group Companies	Majority variable interest rates ranging from 2.00% to 5.30% per annum as of December 31, 2002, with maturities through 2008	**248,010**	269,320
Euro – denominated loans			
JCGC Group Companies	Majority variable interest rates ranging from 5.00% to 8.30% per annum as of December 31, 2002, with maturities through 2007	**102,210**	99,011
Total long-term borrowings		**5,487,030**	6,388,448
Less: Current portion of long-term borrowings		**(1,660,225)**	(402,885)
		3,826,805	5,985,563

At December 31, 2002, long-term borrowings of RMB1,185,892 (2001: RMB1,366,142) from JCGC Group Companies were borrowed from certain banks through JCGC Group Companies.

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

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

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

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
6 months or less	**1,395,802**	508,411	**1,332,202**	494,411
6 – 12 months	**5,978,254**	7,679,141	**5,958,254**	7,574,541
1 – 5 years	**1,393,548**	1,047,522	**1,393,548**	1,047,522
Over 5 years	**595,886**	291,974	**595,886**	291,974
	9,363,490	9,527,048	**9,279,890**	9,408,448

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

	Group		Company	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Total borrowings				
– at fixed rates	**6,258,703**	4,937,221	**6,175,103**	4,818,621
– at variable rates	**3,104,787**	4,589,827	**3,104,787**	4,589,827
	9,363,490	9,527,048	**9,279,890**	9,408,448
Weighted average effective interest rates:				
– bank loans	6.26%	6.58%	6.29%	6.58%
– loans from related parties	5.43%	5.65%	5.43%	5.65%
– other loans	–	5.04%	–	5.04%

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

	Group and Company Carrying values		Group and Company Fair values	
	2002	2001	**2002**	2001
	RMB	*RMB*	***RMB***	*RMB*
Bank loans	**1,368,438**	1,225,506	**1,325,750**	1,218,591
Loans from related parties	**4,118,592**	5,162,542	**4,171,319**	5,203,582
Other loans	**–**	400	**–**	390
	5,487,030	6,388,448	**5,497,069**	6,422,563

(Amounts in thousands unless otherwise stated)

24. BORROWINGS *(Continued)*

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

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date. Such discount rates ranged from 1.10% to 6.79% as of December 31, 2002 depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair value.

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

	Group and Company	
	2002	2001
	RMB	*RMB*
Bank loans		
– within one year	**196,430**	139,332
– between one to two years	**156,866**	173,050
– between two to five years	**446,309**	435,430
– after five years	**568,833**	477,694
	1,368,438	1,225,506

	Group and Company	
	2002	2001
	RMB	*RMB*
Loans from related parties		
– within one year	**1,463,795**	263,153
– between one to two years	**1,058,895**	1,729,573
– between two to five years	**1,568,848**	2,028,139
– after five years	**27,054**	1,141,677
	4,118,592	5,162,542

	Group and Company	
	2002	2001
	RMB	*RMB*
Other loans	**–**	400

(Amounts in thousands unless otherwise stated)

25. SHARE CAPITAL

	Group and Company	
	2002	2001
	RMB	*RMB*
Registered, issued and fully paid:		
– 2,396,300,000 state-owned shares of RMB1.00 each	**2,396,300**	2,396,300
– 964,778,000 H shares and ADS of RMB1.00 each	**964,778**	964,778
– 200,000,000 A shares of RMB1.00 each	**200,000**	200,000
	3,561,078	3,561,078

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

The A shares of the Company are listed on the Shenzhen Stock Exchange (the "Exchange"). The Company has recorded losses for three consecutive years from 2000 to 2002. Following the announcement of the Company's audited results for 2002, its A shares will be suspended from trading on the Exchange pursuant to the relevant provisions of the China Securities Regulatory Commission and the Exchange. Resumption of trading will depend on a number of factors including but not limited to the Company's profitability in the first half year of 2003.

(Amounts in thousands unless otherwise stated)

26. RESERVES

	Capital reserve *RMB*	Revaluation reserve *RMB*	Statutory common reserve fund *RMB* *(Note (a))*	Statutory common welfare fund *RMB* *(Note (b))*	Discretionary common reserve fund *RMB* *(Note (c))*	Total *RMB*
Group						
Balance at January 1, 2001	2,341,594	12,320	154,954	140,997	400,291	3,050,156
Adjustment of land use rights at January 1, 2001 *(Note 2 (a))*	(950,480)	–	–	–	–	(950,480)
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Transfer from accumulated losses to reserves *(Note (d))*	–	–	4,823	–	–	4,823
Balance at December 31, 2001	1,391,114	11,347	159,777	140,997	400,291	2,103,526
Transfer to accumulated losses on realisation of revaluation reserve	–	(2,100)	–	–	–	(2,100)
Transfer from accumulated losses to reserves *(Note (d))*	–	–	378	–	–	378
Balance at December 31, 2002	**1,391,114**	**9,247**	**160,155**	**140,997**	**400,291**	**2,101,804**
Company						
Balance at January 1, 2001	2,341,594	12,320	152,443	140,997	400,291	3,047,645
Adjustment of land use rights at January 1, 2001 *(Note 2 (a))*	(950,480)	–	–	–	–	(950,480)
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2001	1,391,114	11,347	152,443	140,997	400,291	2,096,192
Transfer to accumulated losses on realisation of revaluation reserve	–	(2,100)	–	–	–	(2,100)
Balance at December 31, 2002	**1,391,114**	**9,247**	**152,443**	**140,997**	**400,291**	**2,094,092**

26. RESERVES *(Continued)*

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

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

Since the Company incurred a net loss for the current year, no appropriation to the statutory common reserve fund was made in 2002 (2001: nil).

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

Since the Company incurred a net loss for the current year, no appropriation to the statutory common welfare fund was made in 2002 (2001: nil).

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

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

(d) In 2002, the Company's subsidiary, Jilin City Songmei Acetic Co., Ltd., a Sino-foreign joint venture, made an appropriation to the statutory common reserve fund of which RMB378 (2001: RMB4,607), was attributable to the Group.

In 2001, the Company's subsidiary, Jilin Winsway Chemical Industrial Store and Transportation Ltd., made an appropriation to the statutory common reserve fund of which RMB216 was attributable to the Group. No such appropriation by the subsidiary was made in 2002.

(e) The Company's distributable reserve at December 31, 2002 under the PRC accounting regulations is nil (2001: nil).

(Amounts in thousands unless otherwise stated)

27. DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 33% (2001: 33%).

Deferred tax balances are attributable to the following items:

	At January 1, 2002 *RMB*	Profit and loss account *RMB*	**At December 31, 2002** ***RMB***
Deferred tax liabilities:			
Non-current:			
Revaluation of fixed assets	4,780	(1,035)	**3,745**
Exchange gain in respect of loans borrowed for fixed assets	25,542	(2,412)	**23,130**
Deferred tax effect on housing subsidy cost	20,513	(3,075)	**17,438**
Total deferred tax liabilities	50,835	(6,522)	**44,313**
Deferred tax assets:			
Non-current:			
Deductible temporary differences	50,835	(6,522)	**44,313**
Total deferred tax assets	50,835	(6,522)	**44,313**
Net deferred tax balance	–	–	**–**

The deferred tax assets were arising from the impairment provision for receivables and inventories.

Deferred income tax assets for tax losses carried forward and deductible temporary differences are recognised to the extent that realisation of the related tax benefit through future taxable income is probable. The Group has estimated unrecognised tax losses and deductible temporary differences of RMB2,109,199 (2001: RMB1,630,878) and RMB1,513,987 (2001: RMB946,426), respectively, to carry forward against future taxable income. In accordance with PRC tax law, tax loss can be carried forward against future taxable income for a period of five years, accordingly the Group's tax losses will expire between 2005 and 2007.

The deferred tax balances shown above include the following:

	2002 ***RMB***	2001 *RMB*
Deferred tax assets to be recovered after more than 12 months	**38,347**	44,313
Deferred tax liabilities to be settled after more than 12 months	**38,347**	44,313

(Amounts in thousands unless otherwise stated)

28. CASH FLOWS FROM OPERATING ACTIVITIES

	2002 *RMB*	2001 *RMB*
Loss before taxation	**(1,027,638)**	(1,815,134)
Adjustments for:		
Depreciation and amortisation	**1,108,522**	966,795
Provision for impairment of prepaid expenses and other current assets	**51,484**	–
Provision for impairment of receivables	**–**	599,609
Writedown of carrying value of property, plant and equipment	**323,844**	–
Provision for diminution in value of inventories and inventory writedowns	**139,985**	171,174
Shut down of manufacturing assets	**283,418**	–
(Profit)/loss on disposal of property, plant and equipment	**(3,876)**	168
Share of loss/(profit) of jointly controlled entities	**7,671**	(40,595)
Share of (profit)/loss of an associated company	**(125)**	1,259
Interest income	**(1,364)**	(3,431)
Interest expense	**474,370**	598,882
Changes in working capital:		
Accounts and other receivables (a)	**379,056**	1,698,633
Inventories	**(197,137)**	469,724
Payables and accrued liabilities	**320,724**	(264,825)
CASH GENERATED FROM OPERATIONS	**1,858,934**	2,382,259
Interest received	**1,364**	3,431
Interest paid	**(530,943)**	(609,028)
Income taxes paid	**(352)**	(4,204)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,329,003**	1,772,458

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

(Amounts in thousands unless otherwise stated)

29. ACQUISITION

In December 2002, the Company acquired the remaining 35% equity interest in Jilian, a jointly controlled entity, for a cash consideration of Rmb 135,000 and integrated its business into the Company's. Jilian was subsequently dissolved (Note 15). The acquisition of Jilian is accounted for using the purchase method. The identifiable assets and liabilities acquired were restated to fair values at the time of the successive share purchases. The acquired business did not contribute significant revenues and operating profit to the Company for the year ended December 31, 2002.

Details of net assets acquired are as follows:

	RMB
Cash and cash equivalents	7,914
Property, plant and equipment *(Note 13)*	816,638
Intangible assets *(Note 17)*	52,599
Inventories	157,260
Receivables	53,351
Payables	(397,576)
Borrowings	(304,471)
Fair value of net assets	385,715
Equity interest acquired	35%
Total purchase consideration	135,000
Less: Cash and cash equivalents of Jilian acquired	(7,914)
Consideration not yet settled	(54,000)
Cash outflow on acquisition	73,086

30. SEGMENT INFORMATION

(a) Primary reporting format – business segments

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

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

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

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

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

(Amounts in thousands unless otherwise stated)

30. SEGMENT INFORMATION *(Continued)*

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

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

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

Operating segment information for the years ended December 31, 2001 and 2002 is presented below.

Year ended December 31, 2002	Petroleum products RMB	Petrochemical and organic chemicals products RMB	Chemical fertilisers and inorganic chemicals RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Profit and loss						
Sales (including intersegment)	7,971,951	6,180,161	123,325	782,559	1,559,678	16,617,674
Less: Intersegment sales	(2,805,763)	(430,086)	–	–	(243,438)	(3,479,287)
Total sales to external customers	5,166,188	5,750,075	123,325	782,559	1,316,240	13,138,387
Segment results	(210,741)	(156,705)	(153,268)	119,724	(105,046)	(506,036)
Finance costs - net						(514,056)
Share of loss of jointly controlled entities	–	(7,671)	–	–	–	(7,671)
Share of profit of an associated company	–	–	–	–	125	125
Loss before taxation						(1,027,638)
Taxation						(1,116)
Minority interests						5,655
Net loss						(1,023,099)
Shut down of manufacturing assets	160,617	43,241	51,972	–	27,588	283,418
Writedown of carrying value of property, plant and equipment	60,749	203,651	26,412	5,797	27,235	323,844
Depreciation and amortisation	438,367	481,247	16,853	55,867	116,188	1,108,522
Assets and liabilities						
Segment assets	2,652,543	8,160,438	1,057,622	616,960	1,114,611	13,602,174
Interests in jointly controlled entities	–	44,058	–	–	–	44,058
Investment in an associated company	–	–	–	–	18,909	18,909
Total assets	2,652,543	8,204,496	1,057,622	616,960	1,133,520	13,665,141
Segment liabilities	303,790	1,445,169	274,780	57,613	104,896	2,186,248
Borrowings						9,363,490
Total liabilities						11,549,738
Segment capital expenditure	35,146	226,491	733,064	11,171	77,366	1,083,238

(Amounts in thousands unless otherwise stated)

30. SEGMENT INFORMATION *(Continued)*

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

Year ended December 31, 2001	Petroleum products	Petrochemical and organic chemicals products	Chemical fertilisers and inorganic chemicals	Synthetic rubber products	Other products and services	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Profit and loss						
Sales (including intersegment)	6,141,415	6,894,381	107,090	781,690	2,184,195	16,108,771
Less: Intersegment sales	(933,462)	(1,507,901)	–	–	(1,148,876)	(3,590,239)
Total sales to external customers	5,207,953	5,386,480	107,090	781,690	1,035,319	12,518,532
Segment results	(361,866)	(719,848)	(124,881)	(21,722)	(80,163)	(1,308,480)
Finance costs - net						(545,990)
Share of profit of jointly controlled entities	–	40,595	–	–	–	40,595
Share of loss of an associated company	–	–	–	–	(1,259)	(1,259)
Loss before taxation						(1,815,134)
Taxation						(821)
Minority interests						(1,414)
Net loss						(1,817,369)
Depreciation and amortisation	297,174	423,829	3,907	164,451	77,434	966,795
Assets and liabilities						
Segment assets	2,969,199	7,653,882	1,290,935	283,364	1,331,175	13,528,555
Interests in jointly controlled entities	–	282,499	–	–	–	282,499
Investment in an associated company	–	–	–	–	18,784	18,784
Total assets	2,969,199	7,936,381	1,290,935	283,364	1,349,959	13,829,838
Segment liabilities	156,502	744,500	141,557	29,680	81,738	1,153,977
Borrowings						9,527,048
Total liabilities						10,681,025
Segment capital expenditure	27,931	185,989	582,576	8,878	61,484	866,858

(b) Secondary reporting format – geographical segments

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

(Amounts in thousands unless otherwise stated)

31. RELATED PARTY TRANSACTIONS

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

	Notes	2002 *RMB*	2001 *RMB*
PetroChina Group Companies			
Purchase of crude oil	*(a)*	**5,883,507**	6,738,177
Purchase of materials	*(a)*	**694,206**	751,840
Sale of gasoline	*(b)*	**1,759,816**	1,820,000
Sale of diesel oil	*(b)*	**2,981,184**	2,543,500
Sale of petrochemical goods	*(b)*	**2,190,492**	1,995,286
JCGC Group Companies			
Sale of goods	*(c)*	**658,700**	657,215
Sub-contracting fees	*(d)*	**23,880**	24,353
Construction of property, plant and equipment	*(e)*	**165,560**	113,214
Purchase of materials and spare parts	*(f)*	**269,780**	148,957
Fees for welfare and support services	*(g)*	**114,750**	127,444
CNPC Group Companies			
Interest expense	*(h)*	**373,665**	388,251

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

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

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

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

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

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

(Amounts in thousands unless otherwise stated)

31. RELATED PARTY TRANSACTIONS

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

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

The Company's Board of Directors has approved the transactions listed above and confirmed that:

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

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

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

(iv) the transactions entered into by the Group with PetroChina Group Companies, JCGC Group Companies and CNPC Group Companies have been:

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

(b) of a total value not exceeding the relevant annual caps set forth below for the year ended December 31, 2002

	Annual cap as percentage of turnover	
Related party transactions	**December 31, 2002**	December 31, 2001
Purchase of crude oil	**70%**	65%
Sale of petroleum products (gasoline and diesel oil)	**55%**	52%
Purchase of materials	**17%**	17%
Sale of petrochemical products, dyestuff and dye intermediates, synthetic rubber products	**33%**	32%

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

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

32. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

(b) Foreign exchange risk

The Group operates in the PRC and transactions are primarily denominated in Renminbi, the national currency. The Group is exposed to foreign exchange risk arising from various currency exposures with respect to borrowings denominated in foreign currencies (see Note 24).

(c) Interest rate risk

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

(d) Liquidity risk

The Group depends upon cash flows from operations, loans from banks and related parties, and equity financing to satisfy its liquidity and capital needs. Management reviews the Group's working capital and liquidity position on a regular basis to ensure it has sufficient resources to meet its working capital needs and to continue its operations for the foreseeable future. In addition, management also aims at maintaining flexibility in funding by keeping committed credit lines available. The Company expects to receive continuing support from CNPC for its working capital requirements in the foreseeable future. In this regard, CP Finance, a subsidiary of CNPC, has agreed to increase the borrowing facilities available to the Company from RMB5 billion to RMB8 billion under a facility agreement which will not expire before December 31, 2004 (Note 24 (a)).

(e) Fair values

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

(Amounts in thousands unless otherwise stated)

33. MAJOR CUSTOMERS

The Group's major customers are as follows:

	2002		2001	
		% to total		% to total
	Revenue	**revenue**	Revenue	revenue
	RMB	***%***	*RMB*	*%*
PetroChina Group Companies	**6,931,492**	**53**	6,358,786	51
JCGC Group Companies	**658,700**	**5**	657,211	5
	7,590,192	**58**	7,015,997	56

34. CAPITAL COMMITMENTS

	2002	2001
	RMB	*RMB*
Contracted but not provided for in respect of plant and equipment	**94,256**	418,056

35. ULTIMATE HOLDING COMPANY

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

36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the board of directors on April 24, 2003 and will be submitted to the shareholders for approval at the annual general meeting to be held on June 24, 2003.