

## Notes to Financial Statements

For the year ended December 31, 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 the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilizers and inorganic chemical products, and other related products, and the provision of related services.

In accordance with the restructuring agreement, the Company issued 2,396,300,000 state-owned shares with a par value of RMB1.00 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 then changed its name to Jilin Chemical Group Corporation (“JCGC”) and became the Company’s immediate holding company.

As a state-owned enterprise, JCGC was originally controlled and administered by Jilin provincial government, as well as supervised by the National Administration of Petroleum and Chemical Industries. According to the restructuring regulations promulgated by the State Council of the PRC, JCGC, together with certain oil fields and oil distribution companies, became wholly-owned subsidiaries of China National Petroleum Corporation (“CNPC”) since July 1, 1998. Therefore, CNPC becomes the ultimate holding company of the Company through its control over JCGC. Since then, the Company has been receiving continuing support from CNPC for its working capital requirements. At the date of this report, China Petroleum Finance Company Limited (“CP Finance”), subsidiary of CNPC, has agreed to provide credit facilities of RMB8 billion to the Company (see Note V13).

In 1999, CNPC and its subsidiaries underwent a corporate restructuring (the “Corporate Restructuring”). 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. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1 Basis of preparation of the financial statements

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 as 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.

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

### 3. Reporting currency

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

### 4. Basis of accounting

The Group uses the accrual method as its basis of accounting. Assets are recorded at their acquisition costs. Subsequently, if the assets are impaired, impairment provisions are made accordingly.

### 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, except for those relating to funds borrowed to finance the acquisition of fixed assets during the construction period which have been capitalised.

### 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 (with original maturities of 3 months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Restricted cash, including time deposits with original maturities in excess of three months, and deposits that have been pledged are not included as cash and cash equivalents in the cash flow statements.

### 7. Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables.

Provision for bad debts is made for possible bad debt losses using the “allowance method”. Specific provisions are made based on a detailed review of the collectibility of the receivable balances.

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

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

### 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 labor and an appropriate allocation of all indirect production overhead expenditures based on normal operating capacity.

Inventories are stated at the lower of cost and net realisable value. Provision for loss on realisation of inventories is made based on the excess of their original costs over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, selling expenses and related taxes.

### 9. Long-term investments

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

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

Entities accounted for using the equity method include subsidiaries, jointly controlled entities, and associated companies. Subsidiaries refer to those entities in which the Company directly or indirectly owns more than 50% of the voting rights, or owns less than 50% of the voting rights but has the power to govern their financial and operating policies and consequently is able to obtain benefits from the operating activities of these entities. Jointly controlled entities refer to entities which are jointly controlled by the Company and its joint venture partners. Associated companies refer to entities in which the Company has significant influence.

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", which is amortized on the straight-line basis over 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 prices or a deterioration in the invested companies' operations which are not expected to be recovered in the foreseeable future.

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

### 10. Fixed assets and depreciation

Fixed assets refer to buildings, plant and equipment relating to the production and operation of the Company with useful lives of more than one year and individual cost of more than RMB2,000.

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

Costs for major re-construction, extension and improvements of fixed assets are capitalised. Costs for repair and maintenance of fixed assets are expensed as incurred.

Depreciation of fixed assets is calculated on the straight-line basis over the estimated useful lives, after taking into account their residual value. For those fixed assets against which provision for impairment has been made, the depreciation rates are determined based on the net book amounts of these assets and their remaining useful lives.

The categories, estimated useful lives, residual value and annual depreciation rates of fixed assets are as follows:

	Estimated useful live	Estimated residual value	Annual depreciation rate
Buildings	10 to 45 years	3%	2.15 – 9.70%
Plant and machinery	10 to 28 years	3%	3.46 – 9.70%
Equipment	8 to 28 years	3%	3.46 – 12.13%
Motor vehicles	12 years	3%	8.00%

Fixed assets are stated at the lower of the carrying amount and 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 or installation 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.

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

### 12. Borrowing costs

Borrowing costs including interest incurred, amortization 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 as part of the cost of the fixed assets if the capital expenditures and borrowing costs have been incurred; and the activities that are necessary to prepare the asset for its intended use have been commenced. Capitalization of borrowing costs ceases when the fixed assets have reached their expected usable condition. Borrowing costs incurred thereafter are recognised as expenses in the period in which they are incurred.

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

All other borrowing costs are recorded as financial expenses as incurred.

### 13. Intangible assets and amortisation

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

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

From January 1, 2001, 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 relating to certain production facilities. The costs of know-how are included as part of the total contract price of the construction contract and are distinguishable. They are amortised using the straight-line method over the estimated useful life 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.

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

### 14. Long-term deferred expenses

Long-term deferred expenses refer to those expenses which have been paid and should be amortised over one year (not including one year) and mainly include catalyst. Long-term deferred expenses are amortised on the 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. Provisions

Provisions are recognized when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the related amount can be made.

### 16. Employee social security benefits

The Company participates in employee social security plans, including pension, medical, housing and other welfare benefits, organised by government authorities in accordance with relevant regulations. Except for the above social security benefits, the Company has no other material commitment with respect to employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions accrued and remitted to the social welfare authorities are calculated based on percentages of the total salaries of employees, subject to certain ceilings. Contributions to the plans are charged to the profit and loss account as incurred.

### 17. Revenue recognition

#### *Sales*

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 discounts are recorded as financial expenses when incurred. Sales discounts are netted off against sales when incurred.

#### *Service income*

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

**II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17. Revenue recognition (Continued)**

Other revenues are recognised on the following bases:

Interest income – recognised on a time proportion basis based on the amounts deposited and the effective yield;

Subsidy income – when received.

**18. Accounting for income tax**

The Group accounts for enterprise and local income taxes using the liability method under the deferred tax method. Cumulative income taxes at the end of each period are adjusted by applying the currently enacted tax rates on timing differences.

Deferred income tax assets are recognised to the extent that it is probable that taxable income will be available against which timing differences can be utilised in the near future. Other timing differences are treated as permanent differences.

**19. Basis of consolidation**

Consolidated financial statements include the financial statements of the Company and its consolidated subsidiaries and are prepared in accordance with the circular [1995] No. 11 “Provisional Regulations on Consolidated Financial Statements” and other relevant regulations issued by the Ministry of Finance of the People’s Republic of China.

The Company starts to consolidate the revenue, cost and profit of its subsidiaries from the date it acquires effective control of the subsidiaries; and ceases to consolidate from the date effective control is lost. All material transactions, balances and unrealized profits between the Company and its consolidated subsidiaries 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.

In the event that the accounting policies of the consolidated subsidiaries are not consistent with those of the Company, and the difference caused by the inconsistency has a significant impact on the consolidated financial statements, adjustment is made to ensure compliance with the Company’s accounting policies.

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.



### 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 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 5%.
- (iii) Consumption tax (“CT”) – the Group’s sales of gasoline and diesel oil are subject to CT at RMB277.6 per ton and RMB117.6 per ton, respectively.
- (iv) Income tax – the Group is subject to income tax at 33% of its taxable income.
- (v) City construction and maintenance tax (“CCMT”) – the Group is subject to CCMT at 7% of the total VAT, BT and CT payable.
- (vi) Education levy (“EL”) – the Group is subject to EL 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 (ie: 15%) 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 operation 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 equity joint venture. In accordance with tax regulations and the circular (1999) No. 172, Jilian is exempted from income tax for 1995 and 1996 and subject to income tax at 15% from 1997 to 2002. In 2002, the Company acquired the equity interests of the other joint venture partner. Since then, Jilian became a branch of the Company (see Note IV (ii)).

Jilin Province BASF JCIC NPG Co., Ltd. (“BASF”), a sino-foreign equity joint venture, 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 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 from 1998 to 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
<b>Subsidiaries</b>					
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 installation	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)
<b>Jointly controlled entities</b>					
Jilian	416,971,720	Manufacturing of petrochemical products	271,031,590	65%	note ii
BASF	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	Unconsolidated entity (note iii)

(i) Xinghua has ceased its production since 2000 as it incurred substantial losses and had a negative equity. In accordance with the 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 had 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. According to the share transfer agreement between the Company and the foreign investor of Jilian signed on August 30, 2002, the Company acquired the 35% equity interest owned by the foreign investor at a consideration of RMB135 million. The equity transfer was approved by Ministry of Foreign Trade and Economic Cooperation of the PRC in September 2002. In December 2002, the Company paid the first instalment of RMB81 million, and applied for the cancellation of the business license of Jilian which was approved on December 26, 2002. Since then, Jilian was no longer an independent entity and became a branch of the Company. Before December 2002, as the amounts of revenue, total profit, and total assets of Jilian are less than 10% of the respective amounts of those of the Company, the financial statements of Jilian is not consolidated and is 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". Since December 2002, the assets, liabilities, profit and loss of Jilian were included in the Company's financial statements.

(iii) According to BASF's articles of association, BASF is jointly controlled by the Company and the other joint venture partner. Therefore, BASF is a jointly controlled entity of the Company. As the amounts of revenue and total profit for 2002 and total assets as at December 31, 2002 of BASF are less than 10% of the respective amounts of those of the Company, the financial statements of 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

	December 31, 2002	December 31, 2001
Cash on hand	6,902	113,294
Cash in bank	32,797,739	36,803,708
	<u>32,804,641</u>	<u>36,917,002</u>

Cash held in foreign currencies at the end of year is as follows:

Currency	Amount	Exchange rate	RMB equivalent
USD	120,036	8.2773	993,571
HK	143,530	1.0611	152,300
			<u>1,145,871</u>

### 2. Notes receivable

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

### 3. Accounts receivable

	December 31, 2002	December 31, 2001
Accounts receivable	1,543,784,437	1,575,784,831
Less: Provision for bad debts	(865,214,765)	(840,378,422)
	<u>678,569,672</u>	<u>735,406,409</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Accounts receivable (Continued)

(a) Analysis of accounts receivable's ageing and provision for bad debts:

	December 31, 2002			December 31, 2001		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	264,232,426	17	–	227,153,128	14	(18,889,965)
1–2 years	40,315,395	3	(18,149,672)	795,515,437	51	(316,960,015)
2–3 years	706,550,892	45	(314,379,369)	295,704,949	19	(247,117,125)
More than 3 years	532,685,724	35	(532,685,724)	257,411,317	16	(257,411,317)
	<u>1,543,784,437</u>	<u>100</u>	<u>(865,214,765)</u>	<u>1,575,784,831</u>	<u>100</u>	<u>(840,378,422)</u>

There was no significant write-off of accounts receivable in 2002 (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 December 31, 2002, the total balance of the five largest accounts receivable was RMB718,796,425, representing 47% of the total accounts receivable balance.

## 4. Other receivables

	December 31, 2002	December 31, 2001
Other receivables	129,659,526	312,503,095
Less: Provision for bad debts	(76,238,317)	(23,465,118)
	<u>53,421,209</u>	<u>289,037,977</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Other receivables (Continued)

- (a) Analysis of other receivables' ageing and provision for bad debts:

	December 31, 2002			December 31, 2001		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	12,383,063	10	–	185,351,422	59	(8,005)
1–2 years	21,214,364	16	(4,152,505)	104,064,258	33	(2,763,832)
2–3 years	71,820,950	55	(47,844,663)	4,961,708	2	(2,567,574)
More than 3 years	24,241,149	19	(24,241,149)	18,125,707	6	(18,125,707)
	<u>129,659,526</u>	<u>100</u>	<u>(76,238,317)</u>	<u>312,503,095</u>	<u>100</u>	<u>(23,465,118)</u>

There was no significant write-off of other receivables in 2002 (2001: nil).

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2002, the total balance of the five largest other receivables was RMB31,455,971, representing 24% of the total other receivables balance.

## 5. Advances to suppliers

- (a) Ageing analysis of advances to suppliers is as follows:

	December 31, 2002		December 31, 2001	
	Balance	%	Balance	%
Ageing:				
Within 1 year	165,512,391	91	155,834,230	75
1–2 years	5,590,195	3	36,187,814	17
2–3 years	7,107,879	4	5,438,475	3
More than 3 years	3,426,036	2	11,073,598	5
	<u>181,636,501</u>	<u>100</u>	<u>208,534,117</u>	<u>100</u>

Advances to suppliers aged over one year 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.

## Notes to Financial Statements

For the year ended December 31, 2002

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

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. Inventories

	December 31, 2001				December 31, 2002
Cost:					
Raw materials	505,940,453				545,795,573
Work in progress	170,244,009				256,221,000
Finished goods	259,322,093				326,050,136
Spare parts	475,036,816				436,587,400
Low value consumables and packing materials	5,903,708				8,337,412
	<u>1,416,447,079</u>				<u>1,572,991,521</u>
		<b>Additions</b>	<b>Transfer from Jilian</b>	<b>Write-off</b>	
Provision for diminution in value of inventories:					
Raw materials	(35,691,091)	(6,333,244)	(4,645,832)	–	(46,670,167)
Work in progress	(24,439,710)	–	–	16,079,006	(8,360,704)
Finished goods	(21,833,438)	(2,367,513)	(3,315,010)	–	(27,515,961)
Spare parts	(154,666,866)	–	–	58,450,138	(96,216,728)
Low value consumables and packing materials	–	–	–	–	–
	<u>(236,631,105)</u>	<u>(8,700,757)</u>	<u>(7,960,842)</u>	<u>74,529,144</u>	<u>(178,763,560)</u>
	<u>1,179,815,974</u>				<u>1,394,227,961</u>

## 7. Prepaid expenses

	January 1, 2002	Additions	Transfer from Jilian	Amortisation	Transfer out	December 31, 2002
Catalyst	56,389,742	44,863,493	–	(49,442,979)	(44,121,345)	7,688,911
Insurance premium	1,441,195	41,320,686	997,582	(41,540,124)	–	2,219,339
Other	4,893,263	23,834,805	–	(21,244,109)	–	7,483,959
	<u>62,724,200</u>	<u>110,018,984</u>	<u>997,582</u>	<u>(112,227,212)</u>	<u>(44,121,345)</u>	<u>17,392,209</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Long-term investments

	January 1, 2002	Additions	Decrease	December 31, 2002
Jointly controlled entities	282,499,343	135,000,000	(373,440,491)	44,058,852
Associated company	18,783,769	124,709	–	18,908,478
	<u>301,283,112</u>	<u>135,124,709</u>	<u>(373,440,491)</u>	<u>62,967,330</u>

There is no problem on the realisation of these long-term investments or transferability of investment income to the Company.

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

Name of enterprise	Investment period	Percentage of equity held		January 1, 2002	Original investment		December 31, 2002
		January 1, 2002 %	December 31, 2002 %		Additions	Decrease	
<b>Jointly controlled entities</b>							
Jilian	March 15, 1994 to December 26, 2002 (Note IV (ii))	65	–	271,031,590	135,000,000	(406,031,590)	–
BASF	November 18, 1995 to March 30, 2005	40	40	60,066,150	–	–	60,066,150
<b>Associated company</b>							
Lianli	March 22, 2001 to March 22, 2006	47	47	20,042,147	–	–	20,042,147
				<u>351,139,887</u>	<u>135,000,000</u>	<u>(406,031,590)</u>	<u>80,108,297</u>

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

	January 1, 2002 book value	Additional investment	Reduction in investment	Share of net profit/(loss)	Dividend received	December 31, 2002 book value
<b>Jointly controlled entities</b>						
Jilian	237,177,307	135,000,000	(365,007,539)	(7,169,768)	–	–
BASF	45,322,036	–	–	(1,263,184)	–	44,058,852
	<u>282,499,343</u>	<u>135,000,000</u>	<u>(365,007,539)</u>	<u>(8,432,952)</u>	<u>–</u>	<u>44,058,852</u>
<b>Associated company</b>						
Lianli	18,783,769	–	–	124,709	–	18,908,478
	<u>301,283,112</u>	<u>135,000,000</u>	<u>(365,007,539)</u>	<u>(8,308,243)</u>	<u>–</u>	<u>62,967,330</u>

*Notes to Financial Statements**For the year ended December 31, 2002**(All amounts are stated in RMB Yuan unless otherwise stated)***V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Fixed assets and accumulated depreciation**

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
<b>Cost</b>					
January 1, 2002	1,544,371,221	9,083,293,549	2,226,548,928	178,083,004	13,032,296,702
Additions	6,207,321	422,613,758	28,652,655	7,475,365	464,949,099
Transfer from Jilian	167,656,975	964,424,032	71,263,025	83,756,213	1,287,100,245
Disposals	(67,398,196)	(324,859,570)	(8,909,526)	(126,654,591)	(527,821,883)
<b>December 31, 2002</b>	<b><u>1,650,837,321</u></b>	<b><u>10,145,471,769</u></b>	<b><u>2,317,555,082</u></b>	<b><u>142,659,991</u></b>	<b><u>14,256,524,163</u></b>
<b>Accumulated depreciation</b>					
January 1, 2002	464,410,410	2,039,218,413	1,379,033,256	99,099,891	3,981,761,970
Depreciation	82,683,921	481,721,725	174,516,295	15,032,156	753,954,097
Transfer from Jilian	43,473,057	436,491,625	37,882,705	32,355,719	550,203,106
Disposals	(22,921,919)	(147,332,417)	(5,433,288)	(65,451,730)	(241,139,354)
<b>December 31, 2002</b>	<b><u>567,645,469</u></b>	<b><u>2,810,099,346</u></b>	<b><u>1,585,998,968</u></b>	<b><u>81,036,036</u></b>	<b><u>5,044,779,819</u></b>
<b>Net book value</b>					
<b>December 31, 2002</b>	<b><u>1,083,191,852</u></b>	<b><u>7,335,372,423</u></b>	<b><u>731,556,114</u></b>	<b><u>61,623,955</u></b>	<b><u>9,211,744,344</u></b>
December 31, 2001	<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>
<b>Impairment of fixed assets</b>					
January 1, 2002	–	–	–	–	–
Additions	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
<b>December 31, 2002</b>	<b><u>58,153,374</u></b>	<b><u>208,243,922</u></b>	<b><u>52,908,460</u></b>	<b><u>4,538,176</u></b>	<b><u>323,843,932</u></b>
<b>Net book amount</b>					
<b>December 31, 2002</b>	<b><u>1,025,038,478</u></b>	<b><u>7,127,128,501</u></b>	<b><u>678,647,654</u></b>	<b><u>57,085,779</u></b>	<b><u>8,887,900,412</u></b>
December 31, 2001	<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>

As at December 31, 2002, the cost of fully depreciated fixed assets still in use amounted to RMB455,239,181.



## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Fixed assets and accumulated depreciation (Continued)

In 2002, the Group recorded direct charges totalling RMB283,418,082 related to management decisions to shut down certain less efficient manufacturing facilities. The loss on disposal of fixed assets was included in non-operating expenses (Note V29).

At the end of 2002, the Group reviewed its fixed assets and made an impairment provision of RMB323,843,932. The provision was included in non-operating expenses for the year (Note V29).

As at December 31, 2002, certain plant and machinery with cost of RMB453.29 million and net book value of RMB261.02 million was pledged for short-term bank borrowings of RMB120 million (Note V13).

### 10. Construction in progress

Name of project	Budget	January 1,	Additions	Transfer from Jilian	Transfer to fixed assets	December 31,	Source of funds	Total additions
		2002				2002		as a % of budget
Synthetic ammonia facilities	1,612,640,000	1,002,603,574	460,602,860	-	-	1,463,206,434	Borrowings/ Working capital	91%
Catalyst facilities	213,740,000	123,375,168	123,224,097	-	(246,599,265)	-	Borrowings/ Working capital	115%
AES facilities	86,308,900	-	-	76,746,828	-	76,746,828	Working capital	89%
Ethylene facilities	53,350,000	18,312,391	28,665,686	-	(46,978,077)	-	Working capital	88%
7000 T/A organic silicon project	49,640,000	14,485,149	27,628,205	-	(42,113,354)	-	Borrowings/ Working capital	85%
Phenylethylene facilities	44,790,000	-	22,544,484	-	(22,544,484)	-	Working capital	50%
Other (b)	283,210,000	18,666,626	92,847,197	2,993,907	(63,788,732)	50,718,998		
	<u>2,343,678,900</u>	1,177,442,908	755,512,529	79,740,735	(422,023,912)	1,590,672,260		
Including:								
Interest capitalised		71,870,005	50,021,979			121,891,984		
		<u>1,177,442,908</u>				<u>1,590,672,260</u>		

(a) The annual capitalisation rate for interest capitalised as construction in progress in 2002 is 5.50% (2001: 5.50%).

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Construction in progress (Continued)

- (b) Other projects represent construction in progress with individual cost of less than RMB15 million.
- (c) At December 31, 2002, there was no significant impairment for construction in progress (December 31, 2001: nil).

## 11. Intangible assets

	Land use rights	Technical know-how	Total
<b>Cost</b>			
January 1, 2002	1,087,358,104	631,772,471	1,719,130,575
Additions	–	7,541,055	7,541,055
Transfer from Jilian	61,843,044	570,000	62,413,044
<b>December 31, 2002</b>	<b>1,149,201,148</b>	<b>639,883,526</b>	<b>1,789,084,674</b>
<b>Accumulated amortisation</b>			
January 1, 2002	157,617,265	225,239,150	382,856,415
Amortisation	22,540,996	70,660,860	93,201,856
Transfer from Jilian	9,814,017	–	9,814,017
<b>December 31, 2002</b>	<b>189,972,278</b>	<b>295,900,010</b>	<b>485,872,288</b>
<b>Net book value</b>			
<b>December 31, 2002</b>	<b>959,228,870</b>	<b>343,983,516</b>	<b>1,303,212,386</b>
December 31, 2001	929,740,839	406,533,321	1,336,274,160
Remaining years of amortisation	42 – 49	5 – 10	

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 amortisation period of the land use right transferred from Jilian is 50 years starting from January 1, 1994.

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

At December 31, 2002, there was no significant impairment for intangible assets (December 31, 2001: nil).

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12. Long-term deferred expenses

	Accumulated Cost amortisation	January 1, 2002	Transfer in	Additions	Transfer from Jilian Amortisation	December 31, 2002	Remaining years of amortisation
Overhaul expenditures	-	61,097,062	-	-	(61,097,062)	-	-
Catalyst	208,604,851	36,474,062	44,121,345	60,063,593	12,945,674	121,559,812	1-3
Other	15,221,461	2,005,811	-	22,141,453	(23,160,852)	986,412	1-3
	<u>223,826,312</u>	<u>101,280,088</u>	<u>44,121,345</u>	<u>82,205,046</u>	<u>12,945,674</u>	<u>122,546,224</u>	

### 13. Short-term loans

	December 31, 2002	December 31, 2001
Guaranteed loans – RMB	64,600,000	118,600,000
Secured loans – RMB	120,000,000	-
Unsecured loans – RMB	3,691,860,000	3,020,000,000
	<u>3,876,460,000</u>	<u>3,138,600,000</u>

At December 31, 2002, guaranteed loans totalling RMB49.6 million were guaranteed by Jilin Merchandise Group, the remaining guaranteed loans were guaranteed by JCGC. At December 31, 2001, guaranteed loans totalling RMB20 million were guaranteed by Jilin Merchandise Group, the remaining guaranteed loans were guaranteed by Jilian.

Secured loans are secured by certain plant and machinery of the Company (Note V9).

Pursuant to the loan facility commitment letter of March 2001, CP Finance has confirmed to provide RMB5 billion credit facilities to the Company. At December 31, 2002, total borrowings from CP Finance were RMB3.58 billion. On April 11, 2003, CP Finance agreed to increase the credit facilities granted to the Company to RMB8 billion and extend the credit period to December 31, 2004.

### 14. 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.

Except for construction in progress, a portion of which was aged over 3 years, there were no balances included in other payables of which the age exceeded 3 years at the year end. There were no balances included in advances from customers of which the age exceeded 1 year at the year end.

## Notes to Financial Statements

For the year ended December 31, 2002

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

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 15. Dividend payable

	<b>December 31, 2002</b>	December 31, 2001
Goldliq B.V.B.A.	–	1,150,198

## 16. Taxes payable

	<b>December 31, 2002</b>	December 31, 2001
Value added tax	(101,830,461)	(73,582,515)
Business tax	1,525,313	2,166,801
City construction and maintenance tax	(5,123,248)	(3,430,426)
Consumption tax	14,955,219	11,201,197
Income tax	2,809,745	(438,451)
Property tax	40,019	604,572
Land use tax	65,808	–
Other	1,441,257	834,892
	<b><u>(86,116,348)</u></b>	<b><u>(62,643,930)</u></b>

## 17. Long-term liabilities due within one year

	<b>December 31, 2002</b>	December 31, 2001
Long-term loans due within one year (Note VI8)		
Guaranteed loans – USD	156,866,458	–
Unsecured loans – RMB	1,195,950,000	75,400,000
– USD	12,413,447	109,931,868
	<b><u>1,365,229,905</u></b>	<b><u>185,331,868</u></b>
Other long-term liabilities due within one year (Note VI9)		
Unsecured loans – USD	202,819,359	162,212,011
– JPY	55,687,083	42,960,600
– EUR	36,488,431	12,380,389
	<b><u>294,994,873</u></b>	<b><u>217,553,000</u></b>
	<b><u>1,660,224,778</u></b>	<b><u>402,884,868</u></b>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18. Long-term loans

	December 31, 2002	December 31, 2001
Guaranteed loans	1,094,950,298	190,000
Unsecured loans	1,840,958,021	4,836,783,714
	<u>2,935,908,319</u>	<u>4,836,973,714</u>

Details of long-term loans at December 31, 2002 are as follows:

Name of lender	Balance at December 31, 2002	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	Unsecured
	9,500,000	RMB			6.03	December 29, 2004	Unsecured
CP Finance	405,800,000	RMB			5.18	November 15, 2003	Unsecured
	100,000,000	RMB			5.18	October 30, 2003	Unsecured
	90,000,000	RMB			5.18	March 15, 2004	Unsecured
	663,000,000	RMB			5.18	December 18, 2003	Unsecured
	1,000,000,000	RMB			5.42	March 8, 2007	Unsecured
	200,000,000	RMB			5.18	June 26, 2004	Unsecured
	185,900,000	RMB			5.18	July 10, 2004	Unsecured
	200,000,000	RMB			5.18	July 26, 2004	Unsecured
	88,000,000	RMB			5.18	September 20, 2004	Unsecured
Construction Bank of China	188,627,251	USD	22,788,500	8.2773	8.66	September 30, 2009	Guaranteed by JCGC
	139,144,580	USD	16,810,383	8.2773	8.42	July 31, 2010	Guaranteed by JCGC
Development Bank of China	134,185,150	USD	16,211,222	8.2773	5.50	December 27, 2006	Guaranteed by PetroChina
	789,859,775	USD	95,424,809	8.2773	5.50	April 1, 2012	Guaranteed by PetroChina
Bank of China	12,413,447	USD	1,499,698	8.2773	8.60	August 28, 2003	Unsecured
	77,058,021	USD	9,309,560	8.2773	-	September 9, 2029	Unsecured
	<u>4,301,138,224</u>						
Current portion of long-term loans (Note V17)	<u>(1,365,229,905)</u>						
	<u>2,935,908,319</u>						

## Notes to Financial Statements

For the year ended December 31, 2002

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

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19. Other long-term liabilities

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

	December 31, 2002	December 31, 2001	Interest rate
Payables to JCGC			
– Ethylene Project loans	1,185,891,420	1,366,142,531	2.00%– 8.38%
Other long-term liabilities due within one year (Note V17)	<u>(294,994,873)</u>	<u>(217,553,000)</u>	
	<u>890,896,547</u>	<u>1,148,589,531</u>	

The Ethylene Project loans include loans denominated in US Dollar, Japanese Yen and Euro. These loans mature on September 30, 2008.

	December 31, 2002		December 31, 2001	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	100,959,548	835,672,463	120,558,121	997,811,344
Japanese Yen	3,592,525,000	248,009,963	4,274,558,064	269,320,421
Euro	11,835,224	102,208,994	13,530,127	99,010,766
		<u>1,185,891,420</u>		<u>1,366,142,531</u>

## 20. Share capital

	December 31, 2002 (Shares in thousand)	December 31, 2001 (Shares in thousand)
Non-listed shares:		
– State-owned shares	<u>2,396,300</u>	<u>2,396,300</u>
Listed shares:		
– H shares and ADSs	964,778	964,778
– A shares	<u>200,000</u>	<u>200,000</u>
	<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>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20. Share capital (Continued)

- (a) The Company issued 893,027,000 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 on the Shenzhen Stock Exchange on October 15, 1996 and the 20,000,000 A shares issued to the employees were traded on 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 RMB485,520,000. The Company’s total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

### 21. Capital surplus

	January 1, 2002	Additions	Decrease	December 31, 2002
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>



## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22. Common reserve funds

	Statutory common reserve fund	Statutory common welfare fund	Discretionary common reserve fund	Total
January 1, 2002	159,776,537	126,834,279	414,453,720	701,064,536
Additions	378,181	–	–	378,181
<b>December 31, 2002</b>	<b><u>160,154,718</u></b>	<b><u>126,834,279</u></b>	<b><u>414,453,720</u></b>	<b><u>701,442,717</u></b>

According to the Company Law of the People's Republic of China, the Company's Articles of Association and resolutions of the Board of Directors, the Company is required to transfer 10% of each year's net profit (after netting off prior years' losses) to the statutory common reserve fund until the fund balance reaches 50% of the registered share capital after which the transfer may cease. Upon approval by the relevant authorities, this reserve can be used to make up losses or to increase share capital. Other than using the reserve to make up losses, the balance remaining after the use of this reserve to increase capital should not be less than 25% of the registered share capital.

In addition, the Company is required to transfer 5% to 10% of each year's net profit (after netting off prior years' losses) to the statutory common welfare fund. This reserve can only be used for employees' collective welfare benefits. The statutory common welfare fund is not available for distribution to shareholders. When the funds from the statutory common welfare fund are utilised, the amount utilised is transferred from this fund to the discretionary common reserve fund. The amount utilized is either capitalised as assets or expensed.

The Board of Directors may propose, subject to the approval of the shareholders' general meeting, the transfer to the discretionary common reserve fund. Upon obtaining the relevant approvals, this reserve can be used to make up prior years' losses or to increase share capital.

## 23. Accumulated losses

Accumulated losses at December 31, 2001	(2,674,016,796)
Add: Net loss for the year	(1,025,732,561)
Less: Appropriation to statutory common reserve fund	(378,181)
Appropriation to staff and workers' bonus and welfare fund	(142,839)
Accumulated losses at the December 31, 2002	<u>(3,700,270,377)</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. Accumulated losses (Continued)

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 to the statutory common reserve fund;
- iii) to transfer 5% to 10% of net profit after taxation to the statutory common welfare fund;
- iv) to transfer to discretionary common reserve fund according to the approval of the shareholders' general meeting;
- v) to distribute common stock dividend.

The Company did not appropriate any statutory common reserve fund and statutory common welfare fund and discretionary common reserve fund in 2002 and 2001 as it incurred losses in these two years. 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:

	2002	2001
Statutory common reserve fund		
– Songmei	378,181	4,607,232
– Winsway	–	215,305
	<u>378,181</u>	<u>4,822,537</u>
Staff and workers' bonus and welfare fund		
– Songmei	142,839	1,740,154
– Winsway	–	218,887
	<u>142,839</u>	<u>1,959,041</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 24. 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 chemical products for sale in the PRC.

	2002	2001
Petroleum products	5,602,601,377	5,557,019,750
Petrochemical and organic chemical products	5,793,474,653	5,421,705,846
Synthetic rubber products	782,559,373	781,690,143
Chemical fertilisers and inorganic chemical products	123,325,127	107,049,841
Other products and services	17,178,958	46,616,900
	<u>12,319,139,488</u>	<u>11,914,082,480</u>

The sales to the five largest customers of the Group in 2002 amounted to RMB8,011,332,869, representing 65% of Group's total sales.

## 25. Cost of sales

	2002	2001
Petroleum products	4,931,891,303	4,934,014,078
Petrochemical and organic chemical products	5,305,580,290	5,368,524,419
Synthetic rubber products	630,422,633	670,464,190
Chemical fertilisers and inorganic chemical products	190,181,151	184,086,841
Other products and services	16,328,822	34,514,342
	<u>11,074,404,199</u>	<u>11,191,603,870</u>

## 26. Sales tax and other levies

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

## 27. Financial expenses, net

	2002	2001
Interest expense	474,370,460	598,881,797
Less: Interest income	(1,364,376)	(3,951,377)
Exchange loss	48,724,978	17,582,340
Less: Exchange gain	(7,674,703)	(67,043,545)
Other	591,127	-
	<u>514,647,486</u>	<u>545,469,215</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 28. Investment (loss)/income

	2002	2001
Share of (loss)/profit of jointly controlled entities	(8,432,952)	40,585,242
Share of profit/(loss) of an associated company	124,709	(1,258,378)
	<u>(8,308,243)</u>	<u>39,326,864</u>

## 29. Non-operating expenses

	2002	2001
Loss on impairment of fixed assets	323,843,932	-
Loss on disposal of fixed assets	286,682,529	167,519
Loss on temporary shutdown	26,723,972	26,416,296
Flood fund	11,908,759	13,901,477
Other	12,458,604	13,711,738
	<u>661,617,796</u>	<u>54,197,030</u>

## 30. Income tax

	2002	2001
Income tax:		
- Company	-	-
- Subsidiaries	351,996	812,482
Deferred tax	-	3,394,265
	<u>351,996</u>	<u>4,206,747</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 31 Cash paid to acquire investments

In December 2002, the Company acquired the remaining 35% equity interest in Jilian in Note IV(2), a jointly controlled entity, for a cash consideration of RMB135,000,000 and integrated its business into the Company's. The acquired business did not contribute significant revenues and operating profit to the Company for the year ended December 31, 2002.

Details of assets and liabilities acquired are as follows:

Cash and cash equivalents	7,913,986
Fixed assets	736,897,139
Construction in progress	79,740,735
Intangible assets	52,599,027
Inventories	157,259,894
Receivables	39,407,268
Prepaid expenses	997,582
Long-term deferred expenses	12,945,674
Payables	(397,575,551)
Loans	(304,471,468)
	<hr/>
Net assets acquired	<u>385,714,286</u>
	<hr/>
Equity interest acquired	<u>35%</u>
	<hr/>
Total purchase consideration	135,000,000
	<hr/>
Less: Consideration not yet settled	(54,000,000)
Cash and cash equivalents of Jilian acquired	(7,913,986)
	<hr/>
Cash paid to acquire investments	<u>73,086,014</u>

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

## 1. Accounts receivable

	<b>December 31, 2002</b>	December 31, 2001
Accounts receivable	<b>1,568,910,289</b>	1,567,121,950
Less: Provision for bad debts	<b>(865,211,208)</b>	(840,374,865)
	<b><u>703,699,081</u></b>	<u>726,747,085</u>

(a) Analysis of accounts receivable's ageing and provision for bad debts:

	December 31, 2002			December 31, 2001		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	290,024,637	18	–	220,080,134	14	(18,889,965)
1–2 years	40,315,395	3	(18,149,672)	793,925,550	51	(316,956,458)
2–3 years	705,884,533	45	(314,375,812)	295,704,949	19	(247,117,125)
More than 3 years	532,685,724	34	(532,685,724)	257,411,317	16	(257,411,317)
	<b><u>1,568,910,289</u></b>	<b><u>100</u></b>	<b><u>(865,211,208)</u></b>	<u>1,567,121,950</u>	<u>100</u>	<u>(840,374,865)</u>

There was no significant write-off of accounts receivable in 2002 (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 December 31, 2002, the total balance the five largest accounts receivable of the Company was RMB698,239,425, representing 45% of the total accounts receivable balance.

## 2. Other receivables

	<b>December 31, 2002</b>	December 31, 2001
Other receivables	<b>110,559,284</b>	285,236,161
Less: Provision for bad debts	<b>(76,238,317)</b>	(23,465,118)
	<b><u>34,320,967</u></b>	<u>261,771,043</u>

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

## 2. Other receivables (Continued)

(a) Analysis of other receivables' ageing and provision for bad debts:

	December 31, 2002			December 31, 2001		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	11,722,821	11	–	164,173,120	58	(8,005)
1–2 years	4,774,364	4	(4,152,505)	97,975,626	34	(2,763,832)
2–3 years	69,820,950	63	(47,844,663)	4,961,708	2	(2,567,574)
More than 3 years	24,241,149	22	(24,241,149)	18,125,707	6	(18,125,707)
	<u>110,559,284</u>	<u>100</u>	<u>(76,238,317)</u>	<u>285,236,161</u>	<u>100</u>	<u>(23,465,118)</u>

There was no significant write-off of other receivables for in 2002 (2001: nil).

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2002, the total balance of the five largest other receivables of the Company was RMB15,189,091, representing 14% of the total other receivables balance.

## 3. Long-term investments

	January 1, 2002	Additions	Decrease	December 31, 2002
Subsidiaries (Note (1))	138,238,152	–	(27,486,573)	110,751,579
Jointly controlled entities (Note (2))	282,499,343	135,000,000	(373,440,491)	44,058,852
Associated company (Note (2))	18,783,769	124,709	–	18,908,478
	<u>439,521,264</u>	<u>135,124,709</u>	<u>(400,927,064)</u>	<u>173,718,909</u>



## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

## 3. Long-term investments (Continued)

## (1) Subsidiaries

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

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		January 1, 2002	December 31, 2002	January 1, 2002	Additions	December 31, 2002
		%	%			
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, 2008	99	99	44,537,759	-	44,537,759
Xinghua	February 21, 1991 to February 20, 2011	75	75	19,250,000	-	19,250,000
				147,602,180	-	147,602,180

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

	January 1, 2002 book value	Additional investment	Share of net loss	Dividend received	December 31, 2002 book value
Winsway	39,365,866	-	(2,975,100)	-	36,390,766
Songmei	54,293,751	-	(7,538,546)	(1,560,001)	45,195,204
Jianxiu	44,578,535	-	(15,412,926)	-	29,165,609
Xinghua	-	-	-	-	-
	<u>138,238,152</u>	<u>-</u>	<u>(25,926,572)</u>	<u>(1,560,001)</u>	<u>110,751,579</u>

The status of Xinghua is explained in Note IV(i).

## (2) See Note V8 for investments in jointly controlled entities and associated company.

*Notes to Financial Statements**For the year ended December 31, 2002**(All amounts are stated in RMB Yuan unless otherwise stated)***VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)****4. Sales revenue**

	<b>2002</b>	2001
Petroleum products	<b>5,602,601,377</b>	5,557,019,750
Petrochemical and organic chemical products	<b>5,696,241,055</b>	5,332,873,426
Synthetic rubber products	<b>782,559,373</b>	781,690,143
Chemical fertilisers and inorganic chemical products	<b>123,325,127</b>	107,049,841
Other products and services	<b>17,178,958</b>	46,616,900
	<b><u>12,221,905,890</u></b>	<u>11,825,250,060</u>

**5. Cost of sales**

	<b>2002</b>	2001
Petroleum products	<b>4,931,891,303</b>	4,934,014,078
Petrochemical and organic chemical products	<b>5,230,451,525</b>	5,328,355,246
Synthetic rubber products	<b>630,422,633</b>	670,464,190
Chemical fertilisers and inorganic chemical products	<b>190,181,151</b>	184,086,841
Other products and services	<b>16,328,822</b>	34,514,342
	<b><u>10,999,275,434</u></b>	<u>11,151,434,697</u>

**6. Investment (loss)/income**

	<b>2002</b>	2001
Share of (loss)/profit of jointly controlled entities	<b>(8,432,952)</b>	40,585,242
Share of profit/(loss) of an associated company	<b>124,709</b>	(1,258,378)
Share of (loss)/profit of subsidiaries	<b>(25,926,572)</b>	3,908,078
	<b><u>(34,234,815)</u></b>	<u>43,234,942</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 Fucui
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 Fucui
Winsway	PRC	Railway transportation services	Subsidiary	Sino-foreign equity joint venture	Bi Daqing
Songmei	PRC	Manufacture of acetic acid	Subsidiary	Sino-foreign co-operative joint venture	Hou Yanming
Jianxiu	PRC	Machinery repair and installation	Subsidiary	Joint venture	Qu Jin
Jilian	PRC	Manufacture of petrochemical products	Jointly controlled entity	Sino-foreign equity joint venture	Hou Yanming

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

Name	January 1,	Additions	Decrease	December 31,
	2002			2002
	RMB'0000	RMB'0000	RMB'0000	RMB'0000
CNPC	11,490,000	—	—	<b>11,490,000</b>
PetroChina	17,582,418	—	—	<b>17,582,418</b>
Winsway	5,145	—	—	<b>5,145</b>
Songmei	7,200	—	—	<b>7,200</b>
Jianxiu	4,520	—	—	<b>4,520</b>
Jilian	41,697	—	(41,697)	—

**VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)****(c) Registered capital of the Company held by the related company which controls the Company:**

Name	January 1, 2002		Additions		Decrease		December 31, 2002	
	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:**

Name	Capital or equity held at January 1, 2002		Additions		Reduction		Capital or equity held at December 31, 2002	
	RMB'0000	%	RMB'0000	%	RMB'0000	%	RMB'0000	%
Winsway	36,154,000	70	–	–	–	–	36,154,000	70
Songmei	47,660,421	66	–	–	–	–	47,660,421	66
Jianxiu	44,537,759	99	–	–	–	–	44,537,759	99

**(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 December 31, 2002	Principle activities
<b>Jointly controlled entity</b>							
– BASF	Sino-foreign joint venture	1995.11.18	Jilin	15,000	RMB	40%	Manufacturing of petrochemical products
<b>Associated company</b>							
– Lianli	State-owned	2001.3.22	Jilin	4,221	RMB	47%	Wholesale or retail of petrochemical products

Besides the above jointly controlled entity and associated company, CP Finance, JCGC and its subsidiaries and the Company are subsidiaries of CNPC.

**VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)****(f) Significant related party transactions**

	<b>2002</b>	2001
CNPC Group Companies		
Interest expense	<b>373,664,547</b>	388,251,000
Loan	<b>4,579,050,000</b>	7,452,250,000
Purchase of raw materials	<b>30,641,101</b>	12,463,860
JCGC Group Companies		
Sale of goods	<b>658,700,010</b>	657,215,414
Sub-contracting fees	<b>23,880,008</b>	24,353,246
Construction of fixed assets	<b>165,560,300</b>	113,213,811
Purchase of raw materials and spare parts	<b>269,780,110</b>	148,957,265
Fees for welfare and support services	<b>114,749,571</b>	127,443,676
Loan	<b>45,465,875</b>	17,230,000
Expenses paid on behalf	–	5,708,145
PetroChina Group Companies		
Purchase of crude oil	<b>5,883,507,068</b>	6,738,177,016
Purchase of raw materials	<b>694,206,291</b>	751,840,079
Sale of gasoline	<b>1,759,816,373</b>	1,820,000,062
Sale of diesel oil	<b>2,981,183,764</b>	2,543,500,115
Sale of petrochemical goods	<b>2,190,492,331</b>	1,995,286,116
Expenses paid on behalf	<b>20,978,886</b>	15,299,965
Jilian		
Sale of goods	<b>258,870,391</b>	221,529,915
Lianli		
Sale of goods	<b>39,112,158</b>	25,606,174

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

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)

## (g) Related party balances

	December 31, 2002	December 31, 2001
Accounts receivable from		
– PetroChina Group Companies	242,923,710	184,290,549
– JCGC Group Companies	346,502,613	376,414,732
– Lianli	24,131,819	–
Accounts receivable due from related parties are for goods sold.		
Other receivables from		
– PetroChina Group Companies	–	40,234,452
– JCGC Group Companies	8,320,638	58,523,690
– Jilian	–	50,611,278
Other receivables due from related parties are mainly for expenses paid on their behalf.		
Advances to suppliers to		
– JCGC Group Companies	2,772,794	104,521,354
The balance mainly represents advance payments for import of machinery through JCGC.		
Accounts payable to		
– CNPC Group Companies	(1,526,853)	(3,302,453)
– PetroChina Group Companies	(58,086,005)	–
– JCGC Group Companies	(121,904,421)	(54,108,024)
Advances from customers from		
– JCGC Group Companies	(5,382,817)	(1,143,965)
Other payables to		
– JCGC Group Companies	(182,970,214)	(30,613,978)
Short-term loans from		
– CP Finance	(3,577,860,000)	(3,020,000,000)
Long-term loans from		
– CP Finance	(2,932,700,000)	(3,750,800,000)
Other long-term liabilities from		
– JCGC Group Companies	(1,185,891,420)	(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:

	<b>December 31, 2002</b>	December 31, 2001
Property, plant and equipment	<u><b>94,256,000</b></u>	<u>418,056,000</u>

**IX. OTHER IMPORTANT MATTER**

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 Shenzhen Stock Exchange (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.

**X. COMPARATIVE FIGURES**

Certain prior year figures have been reclassified to conform with the requirements of the Accounting Systems for Business Enterprises and the Disclosure Preparation Convention for Listed Companies No. 15 – General Requirements for Financial Statements.