JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
吉林化學工業股份有限公司

Interim Report **2003**

IMPORTANT NOTICE

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

The Company's financial statements for the first six months of 2003 prepared under the People's Republic of China (the "PRC") GAAP have been audited by PricewaterhouseCoopers Zhong Tian CPAs Company Limited, and the financial statements for the first six months of 2003 prepared under IFRS are unaudited.

The Company's director Mr. Xu Fengli and independent directors Mr. Wang Baifeng, Mr. Lü Yanfeng and Mr. Rupert Li did not attend the board meeting. Mr. Xu Fengli appointed chairman Mr. Yu Li, and each of Mr. Wang Baifeng, Mr. Lü Yanfeng and Mr. Rupert Li appointed independent director Mr. Wang Peirong to attend and vote on his behalf at the meeting.

The Company's chairman Mr. Yu Li, chief financial officer Mr. Lan Yunsheng and chief of the finance department Mr. Liao Hongwei accept full responsibility for the truthfulness and completeness of the financial statements contained in this interim report.

Contents

Company Profile

Chinese Name	:	吉林化學工業股份有限公司
English Name	:	JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
Chinese Abbreviation	:	吉林化工
English Initials	:	JCIC
Registered Address	:	No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
Postal Code	:	132021
Web Site	:	http://www.jcic.com.cn
E-mail of the Company	:	jcic@jcic.com.cn
Legal Representative	:	Yu Li
Company Secretary	:	Zhang Liyan
Contact Address	:	No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
Telephone Number	:	(86432) 3903651 3903652
Facsimile Number	:	(86432) 3028126
E-mail	:	zly@jcic.com.cn
Newspapers Designated by the Company for Information Disclosure	:	《China Securities》《Securities Times》; Hong Kong《Wen Wei Po》《The Standard》
Internet Website Designated by the China Securities Regulatory Commission ("CSRC") for the Company to Disclose its Interim Report	:	http://www.cninfo.com.cn
Internet Website Designated by the Hong Kong Stock Exchange	:	http://www.hkex.com.hk
Address for Inspection of the Company's Interim Report	:	Jilin Chemical Industrial Company Limited The Secretary's Office to the Board of Directors Hong Kong: Fortune China Public Relations Ltd. 2nd Floor, Xinhua News Agency Building 5 Sharp Street West, Wanchai, Hong Kong
Stock Exchanges Listings	:	A shares : Shenzhen Stock Exchange Abbreviation : ST Jihua Stock Code : 000618 H shares : Hong Kong Stock Exchange Abbreviation : Jilin Chemical Stock Code : 0368 ADR : New York Stock Exchange Stock Code : JCC Ratio : 1ADR=100H shares

Other Information

Business Registration Number	:	2200001000906
Taxation Registration Number	:	Ji Shi Guo Shui: 220203123975078 Ji Di Shui: 220203123975078
Domestic Auditor	:	PricewaterhouseCoopers Zhong Tian CPAs Company Limited Certified Public Accountants in the PRC 12th Floor, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, PRC
International Auditor	:	PricewaterhouseCoopers 22nd Floor, Prince's Building, Central, Hong Kong

Financial Summary

Prepared in Accordance with PRC GAAP

	For the six months ended 30th June,		
	2003 ***RMB*** **(audited)**	2002 *RMB* (unaudited)	Increase *(%)*
Net profit/(loss)	**240,972,838**	(352,531,041)	+168%
Net profit/(loss) before non-operating loss	**286,004,192**	(237,227,445)	+221%
Earnings/(loss) per share	**0.07**	(0.10)	+170%
Return on net assets (%)	**7.8%**	(10.0%)	+105%
Net cash flow from operating activities	**1,912,198,933**	522,521,613	+266%

	As at 30th June, 2003 ***RMB*** **(audited)**	As at 31st December, 2002 *RMB* (audited)	Increase/ Decrease *(%)*
Current assets	**2,197,011,472**	2,364,407,202	-7%
Current liabilities	**7,777,307,533**	7,621,101,602	+2%
Total assets	**13,888,466,267**	14,336,230,911	-3%
Shareholders' equity (excluding minority interests)	**3,096,842,064**	2,855,869,226	+8%
Net assets per share	**0.87**	0.80	+9%
Adjusted net assets per share	**0.76**	0.76	–

Note: Non-operating loss of RMB45,031,354 refers to doubtful debt expenses of RMB31,859,025, reversal of diminution in value of inventories of RMB(393,373), loss of RMB1,199,780 on disposal of fixed assets, loss of RMB6,434,901 from unscheduled plant shutdown, and other loss of RMB5,931,021.

Company Profile

Prepared in Accordance with International Financial Reporting Standards ("IFRS")

	For the six months ended 30th June, 2003 RMB'000 (unaudited)	For the six months ended 30th June, 2002 RMB'000 (unaudited)
Net profit/(loss)	**242,843**	(350,068)
Earnings/(loss) per share	**RMB0.07**	RMB(0.10)
Return on net assets (%)	**10.4%**	(12.7%)

	As at 30th June, 2003 RMB'000 (unaudited)	As at 31st December, 2002 RMB'000 (audited)
Shareholders' equity	**2,325,790**	2,082,947
Net assets per share	**RMB0.65**	RMB0.58

Significant Differences under IFRS and PRC GAAP

Under IFRS and PRC GAAP, net profit for the six months ended 30th June, 2003 were RMB242.8 million and RMB241.0 million, respectively. The significant differences between IFRS and PRC GAAP are set out in the "Supplementary Information" section to this report.

Changes in Share Capital and Substantial Shareholders

Changes in Share Capital Structure

During the reporting period, there was no change in the Company's share capital structure.

Total Number of Shareholders

As at 30th June, 2003, the Company had a total of 59,668 shareholders.

Substantial Shareholders

As at 30th June, 2003, the ten major shareholders of the Company were as follows:

	Name of shareholders	Class	Number of shares held *(share)*	Increase/ Decrease amount *(share)*	Percentage of holding *(%)*
1.	PetroChina Company Limited ("PetroChina")	A shares	**2,396,300,000**	–	67.2914
2.	HKSCC Nominees Limited	H shares	**807,106,699**	+4,274,000	22.6646
3.	Hong Kong & Shanghai Banking Corporation (Nominees) Limited	H shares	**135,105,300**	+10,000	3.7939
4.	LIU WU RONG	A share	**2,575,609**	–	0.0723
5.	CHEN YU	A share	**1,700,000**	+500,000	0.0477
6.	ZHANG LI	A share	**1,500,000**	-100,000	0.0421
7.	Northwest Securities Company Limited	A share	**1,458,317**	-1,892,757	0.0410
8.	QIAO LIANG	A share	**1,400,000**	-80,000	0.0393
9.	QIAO HONG	A share	**988,000**	+988,000	0.0277
10.	ZHAO YING	A share	**950,000**	+950,000	0.0267

Notes:

(1) The Company is not aware of any relationship between the ten largest shareholders of the Company.

(2) As at 30th June, 2003, PetroChina held 2,396,300,000 state-owned legal person shares issued by the Company, representing approximately 67.29 per cent of the Company's total share capital. Shares held by PetroChina in the Company were not pledged, locked up or held in trust during the six months ended 30th June, 2003.

(3) HKSCC Nominees Limited acted as nominee, of which there was no participant, as at 30th June, 2003, whose shareholding accounted for 10 per cent or more of the total number of shares issued by the Company.

Shares Held by the Directors, Supervisors and Senior Management

As at 30th June, 2003, each of the directors Mr. Shi Jianxun and Mr. Ni Muhua and supervisor Mr. Zou Haifeng held 3,550 shares of the Company, respectively, and there was no change during the reporting period. None of the other directors, supervisors and senior management held any shares of the Company.

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

Appointment and Removal of Directors and Senior Management

On 24th April, 2003, the Board approved the resignation of Mr. Xu Yuanxiang from his position as a director of the Company due to work changes. At the annual general meeting of the Company held on 24th June, 2003, Mr. Wang Peirong was elected as an independent director of the Company.

Operations During the Reporting Period

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

1. Results of operations

Under PRC GAAP, revenue from principal operations of the Company and its subsidiaries (together, the "Group") during the six months ended 30th June, 2003 was RMB8,885.1 million, representing an increase of 108 per cent as compared with the same period of 2002. The Group achieved its goal of turnaround with a net profit of RMB241 million during the reporting period.

2. Operations during the reporting period

During the first half of 2003, with the objective of achieving a turnaround from loss making to profitability, the Company introduced various measures to meet the criteria of "Act Promptly, Review Carefully, Commence Early and Begin Effectively" and set out various economic and technological targets. The Company enhanced its internal management through continuous strengthening of the supply, production and marketing of its products according to market demands, and made every effort to offset the adverse impact of SARS and price decrease in gasoline, diesel oil and petrochemical products in the second quarter. Through strengthening its production management and making timely decisions, the Company's major production facilities operated at full utilization rate and most of its products were sold at higher prices. During the reporting period, the Company made significant achievements such that the turnover, processing volume of crude oil and sales volume achieved the best results since the establishment of the Company. During the first half of 2003, the Company processed 2.76 million tons of crude oil and produced 290,000 tons of ethylene, representing an increase of 52 per cent and 32 per cent, respectively, as compared with the same period of 2002. Total sales volume was 2.95 million tons, representing an increase of 66 per cent as compared with the same period of 2002, including 540,000 tons of gasoline and 950,000 tons of diesel oil, which were up by 86 per cent and 296 per cent, respectively, as compared with the same period of 2002. Sales volume for petroleum products, petrochemical and organic chemical products and synthetic rubber increased by 92 per cent, 41 per cent and 37 per cent, respectively, and weighted average prices increased by 37 per cent, 31 per cent and 13 per cent, respectively, as compared with the same period of 2002.

3. Revenue and profit from principal operations

During the six months ended 30th June, 2003, under PRC GAAP, turnover for petroleum products, which represented more than 10 per cent of the Group's turnover from its principal activities, was RMB4,324.8 million, accounting for 49 per cent of the Group's total turnover from its principal business. Cost of goods sold in respect of petroleum products was RMB3,943.9 million and the gross margin rate for petroleum products was 9 per cent. Turnover for petrochemical and organic chemical products was RMB3,957 million, accounting for 45 per cent of the Group's total turnover from its principal business. Cost of goods sold in respect of petrochemical and organic chemical products was RMB3,392.3 million and the gross margin rate for petrochemical and organic chemical products was 14 per cent.

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

During the reporting period, there was no entity that contributed more than 10 per cent to the Group's net profits.

Investment (Projects not Funded Through Share Issue)

During the six months ended 30th June, 2003, the 300,000t/a synthetic ammonia unit was put into production. As at 30th June, 2003, the total investment in the project was RMB207.8 million.

Results of Operations and Analysis of Financial Conditions

1. Under PRC GAAP

Unit: RMB

Items	For the six months ended 30th June, 2003 (audited)	For the six months ended 30th June, 2002 (unaudited)	Increase/ Decrease (%)	Reason of changes
Income from principal business	**8,885,128,786**	4,270,057,757	+108	Increase in the sales price and sales volume
Profit from principal business	**756,315,388**	258,734,720	+192	Increase in the sales price and processing volume of crude oil
Net profit/(loss)	**240,972,838**	(352,531,041)	+168	Increase in the gross profit of petrochemical products
Decrease in cash and cash equivalents	**16,434,800**	5,754,159	+186	Increase in the repayment of loans
	As at 30th June, 2003 (audited)	As at 31st December, 2002 (audited)		
Total assets	13,888,466,267	14,336,230,911	-3	Decrease in inventory and increase in provision for bad debt
Shareholders' equity	3,096,842,064	2,855,869,226	+8	Profit in the reporting period

2. Under IFRS

During the first half of 2003, the Group's turnover was approximately RMB9,282.9 million, representing an increase of 105 per cent as compared with the same period of 2002. The increase was mainly due to the increase in the production volume, sales volume and weighted average prices of the Group's major products.

1) Segment analysis

(1) Petroleum products

During the first six months ended 30th June, 2003, turnover for petroleum products increased by 167 per cent to RMB4,021.3 million from RMB1,505.5 million for the same period in 2002, and accounted for 43 percent of the Company's turnover as compared with 33 per cent in the first half of 2002. Due to factors including increases in international crude oil price, the Company's crude oil processing capability and purchase of crude oil from Russia, the processing volume of crude oil, sales volume and weighted average prices of the Company increased by 52 per cent, 92 per cent and 39 per cent, respectively, as compared with the same period of 2002 (during which a once-every-two-years overhaul was carried out) .

(2) Petrochemical and organic chemical products

Turnover for petrochemical and organic chemical products increased by 81 per cent to RMB3,939.2 million from RMB2,173.5 million for the same period in 2002, and accounted for 42 per cent of the Company's turnover. The increase of turnover was mainly due to the increasing demands for the raw materials of petrochemical products by downstream users, increase in market price and the higher utilization rate of the Company's production facilities. Compared with the corresponding period of 2002 (during which a once-every-two-years overhaul was carried out), the sales volume and weighted average prices of these products increased by 41 per cent and 29 per cent, respectively.

(3) Synthetic rubber

Turnover for synthetic rubber products increased by 54 per cent to RMB533.8 million from RMB345.8 million for the same period in 2002, and accounted for 6 percent of the Company's turnover. The increase in turnover was mainly due to the growth of the sales volume and weighted average price of these products by 37 per cent and 13 per cent respectively as compared with the same period of 2002.

2) Cost and expenses

Cost of sales increased by 100 per cent to RMB8,527.4 million in the first half of 2003 from RMB4,260 million for the same period in 2002. The increase in the cost of sales was mainly due to the increase in the sale volume of products, processing volume of crude oil and prices of crude oil and other raw materials, as well as the turnaround from loss by the Company and the increase in staff's salaries. In the first half of 2003, the Company was affected by an increase in the price of crude oil internationally to RMB1,898 per ton, representing an increase of 39 per cent from the same period in 2002. The processing volume of crude oil increased by 52 per cent as compared with the same period of 2002.

Despite the increase of cost of sales, the Group's gross profit increased by 184 per cent as compared with the same period of 2002. This increase was mainly due to the significant increase of the Group's turnover.

Selling expenses, administrative expenses and other expenses decreased by 10 per cent to RMB274.7 million in the first half of 2003 from RMB304.9 million for the same period in 2002. This decrease was mainly due to the loss from the retirement of fixed assets of RMB110 million in the first half of 2002 and the provision for bad debts of RMB31.9 million during the reporting period.

As a result of the above factors, the Group's operating profit increased to RMB480.8 million in the first half of 2003 from a loss of RMB39.1 million in the same period of 2002.

Interest expense decreased by 13 per cent from RMB272.1 million in the first half of 2002 to RMB236.6 million in the first half of 2003. The decrease was mainly due to a refinancing of higher interest rate loans with lower interest rate loans.

During the first half of 2003, the Group's net exchange loss was RMB8.1 million, as compared with a net exchange loss of RMB34.9 million for the same period in 2002. The loss was mainly due to changes in exchange rate of the Company's foreign currency loans during the reporting period.

The income from a jointly controlled entity and an associated company before taxation was RMB2.6 million in the first half of 2003, as compared with a loss of RMB4.9 million in the first half of 2002. This change was mainly due to profits generated by the jointly controlled entity.

In accordance with PRC tax law, the Company has no income taxable so far as a result of the losses accumulated before the reporting period.

3) *Liquidity and capital resources*

The Group depends upon the cash flow from its operations and bank loans to satisfy its ongoing liquidity and capital requirement.

During the first half of 2003, net cash inflow from operating activities increased to RMB1,692.6 million from RMB261.4 million for the same period in 2002. The increase in net cash inflow was primarily due to profit generated in the first half of 2003 and strengthening funds control.

Net cash outflow from investing activities decreased to RMB261.9 million in the first half of 2003 from RMB502.3 million in the same period of 2002. The decrease was primarily due to reduced capital expenditures during the reporting period.

Net cash outflow from financing activities in the first half of 2003 was RMB1,447.2 million compared with a net cash inflow from financing activities of RMB235.1 million for the same period in 2002. The change was primarily due to the increase in the repayment of bank loans during the reporting period.

As at 30th June, 2003, the Group's current assets were RMB2,197 million, current liabilities were RMB7,777.3 million, and negative working capital was RMB5,580.3 million. The Group reviews its working capital and liquidity position on a regular basis and has always been able to satisfy its short term obligations through the refinancing of its indebtedness and other measures. China Petroleum Finance Company Limited, a subsidiary of the Company's ultimate holding company, has provided the Company with a loan facility of RMB8 billion for up to 31st December, 2004. As a result, the Company believes that it has sufficient resources to meet its foreseeable working capital requirement. As at 30th June, 2003, the Group's gearing ratio was 56 per cent, compared with 65 per cent as at 31st December, 2002. (Gearing ratio is the ratio between long term debt and the sum of shareholders' equity and long term debt).

As at 30th June, 2003, the Group's liquidity ratio was 28 per cent, quick ratio was 13 per cent and inventory turnover was 578 per cent.

As at 30th June, 2003, the borrowings of the Group decreased by RMB1,447.2 million to RMB7,916.3 million as compared with 31st December, 2002, among which short-term borrowings were RMB4,933.1 million, representing a decrease of RMB603.6 million as compared with 31st December, 2002; long-term borrowings were RMB2,983.2 million, representing a decrease of RMB843.6 million as compared with 31st December, 2002. These changes reflected the Group's stronger ability to repay bank loans to reduce the debt ratio as a result of profit generated during the reporting period and further improvement in its financial condition.

The Group did not experience seasonal fluctuations in the demand of capital.

4) *Exchange rate risk*

As at 30th June, 2003, the Group's short-term loans were all Renminbi-denominated. Foreign currency-denominated long-term loans amounted to approximately RMB1,773 million, which were mainly related to the loan for the ethylene project. Foreign currencies include US dollar, Japanese Yen, and Euro. The Group's exchange rate risks also include exchange of foreign currencies to Renminbi for the payment of imported materials and equipment. Dividends of H shares shall be paid in foreign currency. The Company believes that the fluctuations in foreign exchange rates will have a significant impact on the Company. During the six months ended 30th June, 2003, the Group's foreign exchange loss was RMB8.08 million.

5) *Employees*

As at 30th June, 2003, the number of employees of the Company was 22,340. The employees' remuneration for the reporting period was RMB310.8 million.

6) *Pledge on assets*

The Group did not have charges over its principal assets as at 30th June, 2003.

7) *Contingent liability*

The Group did not have any contingent liability as at 30th June, 2003.

Prospectus

The Board expects the price of petrochemical products to remain at the current level in the second half of 2003 and the price of crude oil not to experience significant fluctuation. The Company will focus on the maintenance of safe and stable production operations; the improvement in the sourcing of major resources including domestic crude oil, Russian crude oil, residue and ethylene; the adjustment of product mix to ensure high utilization rate and sustained profitability; the speeding up in the implementation of plants upgrade so as to achieve cost and energy consumption reduction (for water, gas and electricity) to meet production targets. The Company will combine the business concepts where "sales shall be dependent on profitability; production shall be dependent on sales; efficient sales and profitability through sales". The Company will further strengthen its marketing and sales development of certain products such as EPR, AES, alcohol, ether and liquid ammonia with the aim of obtaining maximum economic benefits. The Company will enhance its materials purchasing system for crude oil and naphtha to ensure that materials are supplied in bulk at favourable rates and in a timely manner for production purposes. The Company will also strengthen the management of its funds through strict control over expenses and focus on adjusting and restructuring its loans and repay loans which bear higher interest rates. The Company will also seek to improve its financial budget and the economic analysis of its activities, and further control its costs through management at the work shifts, production plants and factories level.

In the second half of 2003, on the premise that the price of crude oil will not increase significantly and the petrochemical market will not experience significant fluctuation, the Company, bearing in mind its tasks of turning around loss to achieve sustained profit and cost control, will make every effort to achieve profitability for the full year of 2003.

1. Corporate Governance Structure

The Company's corporate governance structure was in compliance with the requirements of the Listed Company Governance Guidelines.

2. Proposed Interim Distribution and Transfer From Common Reserve to Share Capital

The Directors resolved not to declare any interim dividend and did not make any transfer from the common reserves to the Company's share capital during the first six months ended 30th June, 2003.

3. Previous Year's Profit Distribution

According to the Company's 2002 annual general meeting of the Company, no dividend was declared and no transfer was made from the common reserve to the Company's share capital for 2002.

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

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

6. Significant Connected Transactions

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

7. Material Contracts and its Performance

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

(2) The Company did not enter into any material guarantees during the reporting period and there were no material guarantees previously entered into which were subsisting during the reporting period.

(3) During the reporting period, the Company did not entrust any third party with the administration of its cash assets.

8. The Company and its shareholders with shareholding of 5 per cent or more had not made any undertakings that will have significant impact on the Company's operating results and financial condition.

9. Auditors

The financial statements prepared under the PRC GAAP have been audited by PricewaterhouseCoopers Zhong Tian CPAs Company Limited. The certified public accountants are Mr. Zhou Zhonghui and Mr. Li Dan.

It is estimated that the audit fee for the full year of 2003 will be approximately RMB4 million.

10. During the reporting period, neither the Company, the Board nor the directors of the Company had been investigated, received administrative punishment or press censure by the China Securities Regulatory Commission, nor had it or he been publicly reprimanded by other government administrative departments or the stock exchanges.

11. Purchase, Sale and Redemption of Shares

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

12. Code of Best Practice

To the knowledge of directors, the Company had complied with the requirements of the Code of Best Practice during the reporting period. The code of Best Practice is set out in Appendix 14 to the Listing Rules published by the HK Stock Exchange.

13. Trust Deposits and Trust Loans

As at 30th June, 2003, the Company did not have any trust deposits and trust loans with any financial institutions which were due but had not been recovered and did not encounter any difficulty in making withdrawal.

14. Housing Reforms

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

In accordance with IFRS, the loss was capitalized. The staff cost associated with the Company's employee housing reform programs was amortized on a straight-line basis over the remaining expected average employment period of the relevant employees.

From 1st January, 1998 to 30th June, 2003, the total amount amortized was RMB35.91 million. The amount amortized in the first half of 2003 was RMB4.6 million. As at 30th June, 2003, the above remaining deferred staff cost was approximately RMB48.18 million. In the opinion of the Board, if the aforesaid deferred staff cost was completely written off in the first half of 2003, the net assets of the Company as at 30th June, 2003 would be reduced by approximately RMB48.18 million. Other than the employees' housing reform programme mentioned above, the Company has not implemented any employees' housing plan.

15. Application for the Resumption of Trading of A Shares

After the announcement of the interim results for the six months ended 30th June, 2003, the Company will have satisfied the requirements for resumption of trading as stipulated in the Listing Rules of the Shenzhen Stock Exchange and the Board has resolved to apply for the resumption of trading of its A shares. Once approved, the Company's A shares will resume trading on the Shenzhen Stock Exchange.

16. Other Events

An announcement regarding the suspension of the shares of the Company was published in the China Securities and the Securities Times on April 30, 2003, and posted on the website of *http://www.cninfo.com.cn* which can be viewed after the input of the Company's stock code.

Financial Statements

The Board hereby announces the audited interim results of the Company and the Group for the six months ended 30th June, 2003 prepared under the PRC GAAP and the unaudited interim results prepared under the IFRS. The Company's Audit Committee and management have reviewed the accounting principles, accounting standards and measures adopted by the Group, and have reviewed the relevant auditing affairs, internal supervision and financial reports, including the audited financial statement prepared under the PRC GAAP and the unaudited financial statement prepared under IFRS and the additional information in respect thereof for the six months ended 30th June, 2003.

Unaudited Consolidated Interim Condensed Profit and Loss Account For the Six Months Ended 30th June, 2003

(Prepared under IFRS)

(Amounts in thousands except for per share data)

		Six months ended 30th June,	
		2003	2002
	Notes	***RMB***	*RMB*
Turnover	*2*	**9,282,866**	4,525,618
Cost of sales		**(8,527,355)**	(4,259,866)
Gross profit		**755,511**	265,752
Distribution costs		**(14,910)**	(13,453)
Administrative expenses		**(253,128)**	(181,886)
Shut down of manufacturing assets	*4*	**–**	(110,040)
Other operating expenses, net		**(6,629)**	517
Operating profit(loss)	*3*	**480,844**	(39,110)
Interest expense	*5*	**(236,587)**	(272,064)
Interest income		**2,606**	412
Exchange loss		**(8,632)**	(38,031)
Exchange gain		**548**	3,112
Share of profit/(loss) of jointly controlled entities		**2,825**	(4,766)
Share of loss of an associated company		**(223)**	(149)
Profit/(loss) before taxation		**241,381**	(350,596)
Taxation	*6*	**–**	(352)
Profit/(loss) before minority interests		**241,381**	(350,948)
Minority interests		**1,462**	880
Profit/(loss) attributable to shareholders		**242,843**	(350,068)
Basic and diluted earnings per share	*7*	**RMB0.07**	(RMB0.10)
Dividend	*8*	**–**	–

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

Unaudited Consolidated Interim Condensed Balance Sheet

As of June 30, 2003

(Prepared under IFRS)

(Amounts in thousands)

	Notes	**June 30, 2003 RMB**	December 31, 2002 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	9	**10,177,100**	10,687,084
Interests in jointly controlled entities		**46,883**	44,058
Investment in an associated company		**18,686**	18,909
Intangible assets	9	**677,734**	448,852
		10,920,403	11,198,903
CURRENT ASSETS			
Inventories		**1,198,083**	1,394,228
Value added tax recoverable		**–**	101,830
Accounts receivable	10	**594,975**	684,925
Prepaid expenses and other current assets		**387,584**	252,450
Cash and cash equivalents		**16,370**	32,805
		2,197,012	2,466,238
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	11	**2,844,255**	2,186,248
Short-term borrowings	12	**4,933,054**	5,536,685
		7,777,309	7,722,933
NET CURRENT LIABILITIES		**(5,580,297)**	(5,256,695)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,340,106**	5,942,208
FINANCED BY:			
Share capital		**3,561,078**	3,561,078
Reserves		**2,101,318**	2,101,804
Accumulated losses		**(3,336,606)**	(3,579,935)
Shareholders' equity		**2,325,790**	2,082,947
Minority interests		**31,093**	32,456
NON-CURRENT LIABILITIES			
Long-term borrowings	12	**2,983,223**	3,826,805
		5,340,106	5,942,208

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

Unaudited Consolidated Interim Condensed Cash Flow Statement
For the Six Months Ended June 30, 2003

(Prepared under IFRS)
(Amounts in thousands)

	Six months ended June 30, 2003 RMB	Six months ended June 30, 2002 RMB
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the period	**242,843**	(350,068)
Depreciation and amortisation	**488,684**	466,380
Provision for impairment of accounts receivables	**31,859**	-
Loss on disposal of property, plant and equipment	**1,200**	107,417
(Increase)/decrease in receivables	**(27,213)**	169,967
Decrease/(increase) in inventories	**196,538**	(200,865)
Increase in payables	**710,006**	153,810
Other, net	**48,714**	(85,258)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,692,631**	261,383
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(207,853)**	(507,202)
Acquisition of Jilian (a)	**(54,000)**	-
Proceeds from disposal of property, plant and equipment	**–**	3,088
Dividends received	**–**	1,860
NET CASH USED FOR INVESTING ACTIVITIES	**(261,853)**	(502,254)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	**2,605,947**	1,951,685
Repayments of borrowings	**(4,053,160)**	(1,715,985)
Dividends paid to minority interests	**–**	(583)
NET CASH (USED FOR)/PROVIDED BY FINANCING ACTIVITIES	**(1,447,213)**	235,117
Decrease in cash and cash equivalents	**(16,435)**	(5,754)
Cash and cash equivalents at beginning of period	**32,805**	36,917
Cash and cash equivalents at end of period	**16,370**	31,163

(a) Prior to December 2002, the Company had a 65% equity interest in Jilian (Jilin) Petrochemicals Limited ("Jilian"). 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. RMB54,000 of the consideration which had not been paid as of December 31, 2002 was paid during the six months ended June 30, 2003.

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

Unaudited Consolidated Interim Condensed Statement of Changes in Shareholders' Equity
For the Six Months Ended June 30, 2003

(Prepared under IFRS)
(Amounts in thousands)

	Share capital	Accumulated losses	Reserves	Total
	RMB	*RMB*	*RMB*	*RMB*
Balance at January 1, 2002	3,561,078	(2,558,558)	2,103,526	3,106,046
Net loss for the period	–	(350,068)	–	(350,068)
Transfer to accumulated losses on realisation of revaluation reserve	–	486	(486)	–
Transfer from accumulated losses to reserves	–	(378)	378	–
Balance at June 30, 2002	**3,561,078**	**(2,908,518)**	**2,103,418**	**2,755,978**
Balance at January 1, 2003	3,561,078	(3,579,935)	2,101,804	2,082,947
Net profit for the period	–	242,843	–	242,843
Transfer to accumulated losses on realisation of revaluation reserve	–	486	(486)	–
Balance at June 30, 2003	**3,561,078**	**(3,336,606)**	**2,101,318**	**2,325,790**

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

Notes to the Unaudited Consolidated Interim Condensed Financial Statements For the Six Months Ended 30th June, 2003

(Amounts in thousands unless otherwise stated)

1. Accounting Policies

The unaudited consolidated interim condensed financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the consolidated interim condensed financial statements are consistent with those used in the preparation of the financial statements for the year ended 31st December, 2002.

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

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual tax rate used for the six-month period from 1st January, 2003 to 30th June, 2003 is 33 per cent (the estimated weighted average tax rate used for the six-month period from 1st January, 2002 to 30th June, 2002 was 33 per cent).

These unaudited consolidated interim condensed financial statements should be read in conjunction with the 2002 annual financial statements.

The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003.

2. Segment Information

Six months ended 30th June, 2003

	Petroleum products *RMB*	Petro-chemical and organic chemical products *RMB*	Chemical fertilisers and inorganic products *RMB*	Synthetic rubber products *RMB*	Other products and services *RMB*	Total *RMB*
Revenues	**4,021,317**	**3,939,206**	**67,166**	**533,830**	**721,347**	**9,282,866**
Segment results	**26,321**	**369,918**	**(37,652)**	**137,885**	**(15,628)**	**480,844**
Finance costs, net						**(242,065)**
Share of profit of a jointly controlled entity	**–**	**2,825**	**–**	**–**	**–**	**2,825**
Share of loss of an associated company	**–**	**–**	**–**	**–**	**(223)**	**(223)**
Profit before taxation						**241,381**

Six months ended 30th June, 2002

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

All assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns. Accordingly, no geographic segment information is presented.

3. Operating Profit/(loss)

The following items have been charged/(credited) to operating profit/(loss) during the period:

	Six months ended 30th June,	
	2003	2002
	RMB	*RMB*
Depreciation of property, plant and equipment	**449,636**	430,973
Loss on disposal of property, plant and equipment	**1,200**	107,417
Provision for impairment of receivables (included in "administrative expenses")	**31,859**	–
Reversal of diminution in value of inventories	**(393)**	–
Amortisation of intangible assets	**39,048**	35,407
Research and development expenditure	**1,200**	3,246
Employee compensation costs	**310,800**	190,170

4. Shut Down Of Manufacturing Assets

During the period ended June 30, 2002 the Group recorded direct charges totalling RMB110,040 representing property, plant and equipment permanently withdrawn from use as a result of management decisions to shut down certain less efficient manufacturing facilities. The costs to dismantle or to remove the related shut-down facilities were minimal and have been included in the profit and loss account.

5. Interest Expense

	Six months ended 30th June,	
	2003	2002
	RMB	*RMB*
Interest expense	**260,022**	295,117
Less: Amount capitalised	**(23,435)**	(23,053)
	236,587	272,064

6. Taxation

	Six months ended 30th June,	
	2003	2002
	RMB	*RMB*
PRC income tax	**–**	352
	–	352

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

There is no taxation charge as the Group has sufficient tax losses brought forward to offset against any current taxable income for the period.

7. Basic And Diluted Earnings Per Share

Basic and diluted earnings per share for the six months ended 30th June, 2003 have been computed by dividing the profit attributable to shareholders of RMB242,843 (2002: loss attributable to shareholders of RMB350,068) by the number of 3,561,078,000 shares issued and outstanding for the period.

8. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (2002: nil).

9. Property, Plant And Equipment And Intangible Assets

	Property, plant and equipment *RMB*	Intangible assets *RMB*
Net book value:		
At January 1, 2003	**10,687,084**	**448,852**
Additions	208,782	–
Transfers (a)	(267,930)	267,930
Disposals	(1,200)	–
Depreciation/amortisation	(449,636)	(39,048)
At June 30, 2003	**10,177,100**	**677,734**
Capital commitments contracted but not provided for:		
At June 30, 2003	**10,240**	**–**
At December 31, 2002	94,256	–

(a) The intangible asset is the technical know-how relating to the synthetic ammonia facilities. The synthetic ammonia facilities were acquired from a German supplier and the construction costs include an identifiable know-how of USD32,370,000. When the Group paid the construction cost to the supplier in prior years, the total amount was recorded in construction in progress (included in property, plant and equipment), When the facilities were completed and reached their usable condition in June 2003, the Group transferred the amount from construction in progress to equipment and intangible assets, respectively, based on the construction contract.

10. Accounts Receivable

	June 30, 2003 RMB	December 31, 2002 RMB
Due from third parties	914,979	935,890
Due from related parties		
– PetroChina Group Companies	210,588	242,924
– CNPC Group Companies	–	691
– JCGC Group Companies	342,598	346,503
– Associated company	23,884	24,132
	1,492,049	1,550,140
Less: Provision for impairment loss	(897,074)	(865,215)
	594,975	684,925

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

The ageing analysis of accounts receivable at June 30, 2003 is as follows:

	June 30, 2003 RMB	December 31, 2002 RMB
Within 1 year	231,918	270,587
Between 1 to 2 years	26,041	40,315
Between 2 to 3 years	116,224	706,552
Over 3 years	1,117,866	532,686
	1,492,049	1,550,140

Commencing 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.

11. Accounts Payable And Accrued Liabilities

	June 30, 2003 RMB	December 31, 2002 RMB
Trade payables	**1,302,008**	1,226,079
Advances from customers	**163,858**	251,377
Salaries and welfare payable	**164,758**	95,411
Other payables and accrued liabilities	**339,233**	243,511
Amounts due to related parties		
– PetroChina Group Companies	**643,530**	58,086
– CNPC Group Companies	**62**	1,527
– JCGC Group Companies	**229,157**	310,257
– Associated company	**1,649**	–
	2,844,255	2,186,248

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

The ageing analysis of trade payables at June 30, 2003 is as follows:

	June 30, 2003 RMB	December 31, 2002 RMB
Within 1 year	**1,210,382**	1,029,725
Between 1 to 2 years	**53,688**	126,373
Between 2 to 3 years	**9,518**	22,784
Over 3 years	**28,420**	47,197
	1,302,008	1,226,079

12. **Borrowings**

	June 30, 2003 RMB	December 31, 2002 RMB
Short-term borrowings	**4,933,054**	5,536,685
Long-term borrowings	**2,983,223**	3,826,805
	7,916,277	9,363,490

The movements in borrowings can be analysed as follows:

	RMB
Balance at January 1, 2003	**9,363,490**
New borrowings	2,605,947
Repayments of borrowings	(4,053,160)
Balance at June 30, 2003	**7,916,277**

	June 30, 2003 RMB	December 31, 2002 RMB
Unsecured long-term borrowings	**4,532,897**	5,487,030
Current portion of long-term borrowings	**(1,549,674)**	(1,660,225)
	2,983,223	3,826,805
The analysis of the above long-term borrowings is as follows:		
Wholly repayable within five years	**3,971,178**	4,891,143
Not wholly repayable within five years	**561,719**	595,887
	4,532,897	5,487,030
Current portion of long-term borrowings	**(1,549,674)**	(1,660,225)
	2,983,223	3,826,805

Details of long-term borrowings are as follows:

	Interest rate and final maturity	June 30, 2003 RMB	December 31, 2002 RMB
Renminbi denominated loans	Floating interest rate at 5.42% to 6.03% per annum as of June 30, 2003, with maturities through 2007	**2,759,850**	2,959,850
US dollar denominated loans	Floating interest rate at 0% to 8.66% per annum as of June 30, 2003, with maturities through 2012	**1,508,996**	2,176,960
Japanese Yen denominated loans	Floating interest rate at 4.10% to 5.30% per annum as of June 30, 2003, with maturities through 2008	**207,985**	248,010
EURO denominated loans	Floating interest rate at 2.00% to 8.30% per annum as of June 30, 2003, with maturities through 2006	**56,066**	102,210
		4,532,897	5,487,030

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

	June 30, 2003 RMB	December 31, 2002 RMB
Within one year	**1,549,674**	1,660,225
In the second year	**751,958**	1,215,761
In the third to fifth year	**1,669,546**	2,015,157
After the fifth year	**561,719**	595,887
	4,532,897	5,487,030

13. Related Party Transactions

	Six months ended June 30,	
	2003	2002
	RMB	*RMB*
CNPC Group Companies		
Interest expense	**162,656**	194,110
JCGC Group Companies		
Sale of goods	**436,180**	258,500
Sub-contracting fees	**2,420**	5,550
Construction of fixed assets	**22,609**	46,641
Purchase of raw materials and spare parts	**59,371**	73,431
Fees for welfare and support services	**98,200**	49,421
PetroChina Group Companies		
Purchase of crude oil	**4,132,060**	2,444,808
Purchase of materials	**641,224**	297,304
Sale of gasoline	**1,350,858**	530,276
Sale of diesel oil	**2,344,456**	784,842
Sale of petrochemical goods	**1,614,840**	817,313
Jilian (Jilin) Petrochemicals Limited		
Sale of petrochemical goods	**–**	133,103

Report of the PRC Auditors

PwC Shen Zi (2003) No. 1557

TO THE SHAREHOLDERS OF
JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED

We have accepted the appointment to audit the balance sheets of Jilin Chemical Industrial Company Limited (the "Company") and its subsidiaries (the "Group") as at 30th June, 2003 and the profit and loss accounts, profit appropriation statements and cash flow statements of the Company and the Group, respectively, for the six months then ended. The Company's management is responsible for the preparation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements of the Group and Company present fairly, in all material respects, the financial position of the Company and the Group at 30th June, 2003 and their results of operations and cash flows for the six months then ended in accordance with the Accounting Standards for Business Enterprises and the Accounting Systems for Business Enterprises of the People's Republic of China.

PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.
31st July, 2003

Balance Sheets as at June 30, 2003

(Prepared under PRC GAAP)

In Rmb Yuan

	June 30, 2003 Group	December 31, 2002 Group	**June 30, 2003 Company**	December 31, 2002 Company
ASSETS				
CURRENT ASSETS				
Cash and bank (Note V-1)	**16,369,841**	32,804,641	**12,758,582**	29,575,296
Short-term investments				
Notes receivable (Note V-2)	**5,670,368**	6,355,009	**4,574,368**	6,355,009
Dividend receivable				
Interest receivable				
Accounts receivable (Note V-3)	**589,304,946**	678,569,672	**659,495,170**	703,699,081
Other receivables (Note V-4)	**58,438,146**	53,421,209	**36,080,752**	34,320,967
Advances to suppliers (Note V-5)	**316,986,864**	181,636,501	**316,756,119**	181,392,379
Subsidy receivable				
Inventories (Note V-6)	**1,198,082,667**	1,394,227,961	**1,182,350,205**	1,385,901,762
Prepaid expenses (Note V-7)	**12,158,640**	17,392,209	**11,854,938**	16,749,750
Long-term bond investments maturing within one year				
Other current assets				
Total current assets	**2,197,011,472**	2,364,407,202	**2,223,870,134**	2,357,994,244
LONG-TERM INVESTMENTS				
Long-term equity investments (Note V-8)	**65,568,959**	62,967,330	**172,483,876**	173,718,909
Long-term bond investments				
Total long-term investments	**65,568,959**	62,967,330	**172,483,876**	173,718,909
Including: Consolidation difference				
FIXED ASSETS				
Fixed assets-cost	**15,708,268,556**	14,256,524,163	15,339,511,602	13,888,213,906
Less: Accumulated depreciation	**(5,467,509,076)**	(5,044,779,819)	**(5,318,803,360)**	(4,907,349,217)
Fixed assets-net book value	**10,240,759,480**	9,211,744,344	**10,020,708,242**	8,980,864,689
Less: Impairment of fixed assets	**(323,843,932)**	(323,843,932)	**(309,861,188)**	(309,861,188)
Fixed assets-net book amount (Note V-9)	**9,916,915,548**	8,887,900,412	**9,710,847,054**	8,671,003,501
Construction materials	**2,362,490**	4,525,097	**2,362,490**	4,525,097
Construction in progress (Note V-10)	**79,161,926**	1,590,672,260	**79,161,926**	1,590,672,260
Fixed assets pending disposal				
Total fixed assets	**9,998,439,964**	10,483,097,769	**9,792,371,470**	10,266,200,858
INTANGIBLE AND OTHER ASSETS				
Intangible assets (Note V-11)	**1,525,843,758**	1,303,212,386	**1,524,739,674**	1,302,048,855
Long-term deferred expenses (Note V-12)	**101,602,114**	122,546,224	**101,602,114**	122,546,224
Other long-term assets				
Total intangible and other assets	**1,627,445,872**	1,425,758,610	**1,626,341,788**	1,424,595,079
DEFERRED TAXES				
Deferred tax assets				
TOTAL ASSETS	**13,888,466,267**	14,336,230,911	**13,815,067,268**	14,222,509,090

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

Balance Sheets as at June 30, 2003 (Cont'd)

(Prepared under PRC GAAP)

In Rmb Yuan

	June 30, 2003 Group	December 31, 2002 Group	June 30, 2003 Company	December 31, 2002 Company
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note V-13)	**3,383,380,000**	3,876,460,000	**3,333,780,000**	3,792,860,000
Notes payable				
Accounts payable (Note V-14)	**1,498,613,355**	1,424,133,274	**1,507,515,328**	1,422,262,548
Advances from customers (Note V-14)	**695,039,324**	257,236,354	**688,310,448**	246,439,988
Salaries payable	**128,293,801**	73,643,339	**114,500,243**	64,289,563
Welfare payable	**36,464,268**	21,767,283	**28,219,563**	15,227,441
Dividend payable				
Taxes payable (Note V-15)	**131,981,409**	(86,116,348)	**131,247,303**	(86,999,589)
Other levies payable				
Other payables (Note V-14)	**204,544,172**	365,354,975	**236,174,744**	396,753,167
Accrued expenses (Note V-16)	**149,317,308**	28,397,947	**145,580,208**	28,397,947
Provisions				
Long-term liabilities due within one year (Note V-17)	**1,549,673,896**	1,660,224,778	**1,549,673,896**	1,660,224,778
Other current liabilities				
Total current liabilities	**7,777,307,533**	7,621,101,602	**7,735,001,733**	7,539,455,843
LONG-TERM LIABILITIES				
Long-term loans (Note V-18)	**2,621,935,627**	2,935,908,319	**2,621,935,627**	2,935,908,319
Debentures payable				
Payables due after one year				
Special project payables				
Other long-term liabilities (Note V-19)	**361,287,844**	890,896,547	**361,287,844**	890,896,547
Total long-term liabilities	**2,983,223,471**	3,826,804,866	**2,983,223,471**	3,826,804,866
DEFERRED TAXES				
Deferred tax liabilities				
TOTAL LIABILITIES	**10,760,531,004**	11,447,906,468	**10,718,225,204**	11,366,260,709
MINORITY INTERESTS	**31,093,199**	32,455,217	**–**	–
SHAREHOLDERS' EQUITY				
Share capital (Note V-20)	**3,561,078,000**	3,561,078,000	**3,561,078,000**	3,561,078,000
Capital surplus (Note V-21)	**2,293,618,886**	2,293,618,886	**2,293,618,886**	2,293,618,886
Statutory common reserve fund (Note V-22)	**701,442,717**	701,442,717	**693,730,248**	693,730,248
Including: Statutory common welfare fund	**126,834,279**	126,834,279	**125,287,623**	125,287,623
Accumulated losses (Note V-23)	**(3,459,297,539)**	(3,700,270,377)	**(3,451,585,070)**	(3,692,178,753)
Foreign exchange difference reserve				
Total shareholders' equity	**3,096,842,064**	2,855,869,226	**3,096,842,064**	2,856,248,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,888,466,267**	14,336,230,911	**13,815,067,268**	14,222,509,090

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

Legal representative:	General manager:	Person in charge of accounting function (Chief accountant):	Person in charge of accounting department:
Yu Li	Shi Jianxun	Lan Yunsheng	Liao Hongwei

Profit and Loss Accounts for the Six Months Ended June 30, 2003

(Prepared under PRC GAAP)

In Rmb Yuan

Items	**2003 (1-6) Group**	2002 (1-6) Group (Unaudited)	**2003 (1-6) Company**	2002 (1-6) Company (Unaudited)
1. SALES REVENUE (Note V-24)	**8,885,128,786**	4,270,057,757	**8,835,299,367**	4,229,890,817
Less: Cost of sales (Note V-25)	**(7,802,301,759)**	(3,848,482,144)	**(7,770,491,789)**	(3,823,707,081)
Sales tax and other levies (Note V-26)	**(326,511,639)**	(162,840,893)	**(326,511,639)**	(162,840,893)
2. GROSS PROFIT ON SALES	**756,315,388**	258,734,720	**738,295,939**	243,342,843
Add: Other operating profit	**3,182,806**	11,398,269	**11,927,329**	15,758,290
Less: Selling expenses	**(14,910,036)**	(13,452,431)	**(14,847,499)**	(10,677,016)
General and administrative expenses	**(244,546,602)**	(176,934,371)	**(233,908,546)**	(168,890,091)
Financial expenses, net (Note V-27)	**(244,032,163)**	(306,570,325)	**(240,776,916)**	(303,058,952)
3. OPERATING PROFIT/(LOSS)	**256,009,393**	(226,824,138)	**260,690,307**	(223,524,926)
Add: Investment income/(loss) (Note V-28)	**2,601,629**	(4,915,624)	**(1,235,033)**	(7,792,288)
Subsidy income	**502,000**	–	**502,000**	–
Non-operating income	**284,874**	2,649,230	**224,556**	2,649,230
Less: Non-operating expenses (Note V-29)	**(19,887,076)**	(123,968,075)	**(19,588,147)**	(123,657,612)
4. TOTAL PROFIT/(LOSS)	**239,510,820**	(353,058,607)	**240,593,683**	(352,325,596)
Less: Income tax (Note V-30)	**–**	(351,996)	**–**	–
Minority interests	**1,462,018**	879,562	**–**	–
5. NET PROFIT/(LOSS)	**240,972,838**	(352,531,041)	**240,593,683**	(352,325,596)

Supplementary Information

	2003 (1-6) Group	**2003 (1-6) Company**	2002 (1-6) **Group** (Unaudited)	2002 (1-6) **Company** (Unaudited)
1. Income from sale and disposal of departments or investees	**–**	**–**	–	–
2. Loss from natural catastrophe	**–**	**–**	–	–
3. Increase in total profit resulting from change in accounting policies	**–**	**–**	–	–
4. Increase in total profit resulting from change in accounting estimates	**–**	**–**	–	–
5. Loss from debt restructuring	**–**	**–**	–	–
6. Other	**–**	**–**	–	–

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

Legal representative:	General manager:	Person in charge of accounting function (Chief accountant):	Person in charge of accounting department:
Yu Li	Shi Jianxun	Lan Yunsheng	Liao Hongwei

Profit Appropriation Statements for the Six Months Ended June 30, 2003

(Prepared under PRC GAAP)

In Rmb Yuan

Items	**2003 (1-6) Group**	2002 (1-6) Group (Unaudited)	**2003 (1-6) Company**	2002 (1-6) Company (Unaudited)
1. NET PROFIT/(LOSS)	**240,972,838**	(352,531,041)	**240,593,683**	(352,325,596)
Add: Accumulated losses at the beginning of the period	**(3,700,270,377)**	(2,674,016,796)	**(3,692,178,753)**	(2,666,061,079)
Transfer from other sources				
2. ACCUMULATED LOSSES	**(3,459,297,539)**	(3,026,547,837)	**(3,451,585,070)**	(3,018,386,675)
Less: Transfer to statutory common reserve fund	**–**	(378,181)	**–**	–
Transfer to statutory common welfare fund				
Transfer to staff and workers' bonus and welfare fund	**–**	(142,839)	**–**	–
3. ACCUMULATED LOSSES	**(3,459,297,539)**	(3,027,068,857)	**(3,451,585,070)**	(3,018,386,675)
Less: Dividend for preference stocks				
Transfer to discretionary common reserve fund				
Dividend for common stocks				
Dividend for common stocks transferred to capital				
4. ACCUMULATED LOSSES AT THE END OF THE PERIOD	**(3,459,297,539)**	(3,027,068,857)	**(3,451,585,070)**	(3,018,386,675)

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

Legal representative:	General manager:	Person in charge of accounting function (Chief accountant):	Person in charge of accounting department:
Yu Li	Shi Jianxun	Lan Yunsheng	Liao Hongwei

Cash Flow Statements for the Six Months Ended June 30, 2003

(Prepared under PRC GAAP)

In Rmb Yuan

Items	2003 (1-6) Group	2002 (1-6) Group (Unaudited)	2003 (1-6) Company	2002 (1-6) Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	**11,908,843,011**	5,845,413,644	**11,786,033,145**	5,759,160,611
Refund of tax	**502,000**	–	**502,000**	–
Cash received relating to other operating activities	**2,649,983**	798,065	**2,019,502**	228,726
Sub-total of cash inflows	**11,911,994,994**	5,846,211,709	**11,788,554,647**	5,759,389,337
Cash paid for goods and services	**(9,051,827,111)**	(4,673,956,744)	**(9,005,453,099)**	(4,651,109,717)
Cash paid to and on behalf of employees	**(150,202,553)**	(190,173,535)	**(131,067,198)**	(184,363,533)
Payment of all types of taxes	**(593,663,007)**	(393,120,719)	**(582,892,448)**	(383,599,238)
Cash paid relating to other operating activities	**(204,103,390)**	(66,439,098)	**(193,439,296)**	(50,660,596)
Sub-total of cash outflows	**(9,999,796,061)**	(5,323,690,096)	**(9,912,852,041)**	(5,269,733,084)
Net cash flows from operating activities	**1,912,198,933**	522,521,613	**1,875,702,606**	489,656,253
2. Cash flows from investing activities				
Cash received from sale of investments				
Cash received from return of investments	**–**	1,860,000	**–**	23,160,296
Net cash received from disposal of fixed assets	**240,713**	3,088,147	**220,320**	3,088,147
Cash received relating to other investing activities				
Sub-total of cash inflows	**240,713**	4,948,147	**220,320**	26,248,443
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(207,853,068)**	(507,202,221)	**(207,656,498)**	(495,883,377)
Cash paid to acquire investments	**(54,000,000)**	–	**(54,000,000)**	–
Cash paid relating to other investing activities				
Sub-total of cash outflows	**(261,853,068)**	(507,202,221)	**(261,656,498)**	(495,883,377)
Net cash flows from investing activities	**(261,612,355)**	(502,254,074)	**(261,436,178)**	(469,634,934)

Cash Flow Statements for the Six Months Ended June 30, 2003 (Cont'd)

(Prepared under PRC GAAP)

In Rmb Yuan

Items	**2003 (1-6) Group**	2002 (1-6) Group (Unaudited)	**2003 (1-6) Company**	2002 (1-6) Company (Unaudited)
3. Cash flows from financing activities				
Proceeds from issuing shares				
Including: Cash received from minority shareholders				
Proceeds from borrowings	**2,605,946,898**	1,951,685,139	**2,566,346,898**	1,937,685,139
Cash received relating to other financing activities				
Sub-total of cash inflows	**2,605,946,898**	1,951,685,139	**2,566,346,898**	1,937,685,139
Repayment of borrowings	**(4,053,159,175)**	(1,715,985,498)	**(3,979,559,175)**	(1,701,985,498)
Cash paid for interest expense and distribution of dividends	**(219,809,101)**	(261,721,339)	**(217,870,865)**	(257,062,871)
Including: Dividends paid to minority shareholders	**–**	(582,591)	**–**	–
Cash paid relating to other financing activities				
Including: Cash paid to minority shareholders due to reduction of capital of subsidiaries				
Sub-total of cash outflows	**(4,272,968,276)**	(1,977,706,837)	**(4,197,430,040)**	(1,959,048,369)
Net cash flows from financing activities	**(1,667,021,378)**	(26,021,698)	**(1,631,083,142)**	(21,363,230)
4. Effect of foreign exchange rate changes on cash				
5. Net decrease in cash and cash equivalents	(16,434,800)	(5,754,159)	(16,816,714)	(1,341,911)

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

Legal representative:	General manager:	Person in charge of accounting function (Chief accountant):	Person in charge of accounting department:
Yu Li	Shi Jianxun	Lan Yunsheng	Liao Hongwei

Cash Flow Statements for the Six Months Ended June 30, 2003 (Cont'd)

Supplementary Information

In Rmb Yuan

Items	**2003 (1-6) Group**	2002 (1-6) Group (Unaudited)	**2003 (1-6) Company**	2002 (1-6) Company (Unaudited)
1. Reconciliation of net profit/(loss) to cash flows from operating activities				
Net profit/(loss)	**240,972,838**	(352,531,041)	**240,593,683**	(352,325,596)
Add: Minority interests	**(1,462,018)**	(879,562)	**-**	-
Provision for impairment of assets	**31,465,652**	-	**31,228,655**	-
Depreciation of fixed assets	**423,148,242**	341,885,084	**411,693,390**	331,677,158
Amortization of intangible assets	**45,298,355**	42,394,092	**45,238,908**	42,347,157
Amortization of long-term deferred expenses	**22,107,234**	84,704,139	**22,107,234**	84,704,139
Decrease in prepaid expenses	**5,233,569**	6,055,436	**4,894,812**	6,490,447
Increase in accrued expenses	**104,141,778**	34,006,926	**100,404,678**	32,305,604
Gain on disposal of fixed assets	**(240,713)**	(2,623,190)	**(220,320)**	(2,623,190)
Loss on scrapping of fixed assets	**1,199,780**	110,040,000	**1,179,632**	110,040,000
Financial expenses	**236,586,684**	272,063,883	**234,648,448**	267,983,171
Investment loss/(income)	**(2,601,629)**	4,915,624	**1,235,033**	7,792,288
Deferred tax debit				
Decrease/(Increase) in inventories	**196,538,667**	(200,864,914)	**204,181,927**	(182,366,848)
Increase/(Decrease) in operating receivables	**(82,486,958)**	116,320,706	**(122,757,985)**	81,008,341
Increase in operating payables	**692,297,452**	67,034,430	**701,274,511**	62,623,582
Net cash flows from operating activities	**1,912,198,933**	522,521,613	**1,875,702,606**	489,656,253
2. Investing and financing activities that do not involve cash receipts and payments				
Investments in the form of fixed assets				
Convertible bonds maturing within one year				
Finance lease of fixed assets				
3. Net decreases in cash and cash equivalents				
Cash at the end of the period	**16,369,841**	31,162,843	**12,758,582**	23,819,438
Less: Cash at the beginning of the period	**(32,804,641)**	(36,917,002)	**(29,575,296)**	(25,161,349)
Cash equivalents at the end of the period				
Less: Cash equivalents at the beginning of the period				
Net decreases in cash and cash equivalents	**(16,434,800)**	(5,754,159)	**(16,816,714)**	(1,341,911)

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

Legal representative:	General manager:	Person in charge of accounting function (Chief accountant):	Person in charge of accounting department:
Yu Li	Shi Jianxun	Lan Yunsheng	Liao Hongwei

Notes to the Financial Statements
For the Six Months Ended June 30, 2003

(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 V 13).

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.

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 capitalized.

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 recognized 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.

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 realizable value. Provision for loss on realization of inventories is made based on the excess of their original costs over their net realizable value. Net realizable 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 more than 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 recognized 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.

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 capitalized. 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 life, residual value and annual depreciation rate of fixed assets are as follows:

	Estimated useful life	Estimated value residual	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.

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 capitalized 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 recognized as expenses in the period in which they are incurred.

The amount of interest costs capitalized 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 specific borrowings are capitalized based on the actual amounts incurred.

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

13. Intangible assets and amortization

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 amortized using the straight-line method over a period of 50 years.

Commencing 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 amortized 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.

14. Long-term deferred expenses

Long-term deferred expenses refer to those expenses which have been paid and should be amortized over one year (not including one year) and mainly include catalyst. Long-term deferred expenses are amortized on the straight-line basis over the beneficial period.

The unamortized balance of deferred expenses is expensed when the project can no longer bring any 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 Group participates in employee social security plans, including pension, medical, housing and other welfare benefits, organized by government authorities in accordance with relevant regulations. Except for the above social security benefits, the Group 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 recognized when the significant risk and rewards of ownership of products are transferred to the buyer; the Group retains neither continuing managerial involvement nor effective control over the products; the economic benefits arising from the transaction can flow into the Group; and the related cost and revenue can be reliably measured.

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

Service income –

Service income is recognized 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 recognized using the percentage of completion method at the balance sheet date if the outcome of the service transaction can be reliably estimated.

Other revenues are recognized on the following bases:

Interest income –

recognized on a time proportion basis based on the amounts deposited and the effective yield;

Subsidy income –

recognized 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 recognized to the extent that it is probable that taxable income will be available against which timing differences can be utilized 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 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 and 2003, 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%.

Jilin Province BASF JCIC NPG Co., Ltd. ("BASF"), a jointly controlled entity 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 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 June 2003, 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
Subsidiaries					
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)*
Jointly controlled entities					
BASF	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	Unconsolidated entity *(note ii)*

(i) Xinghua has ceased its production and started liquidation in 2000 as it incurred substantial losses and had a negative equity. By the end of 2000, the assets and liabilities of Xinghua have been written down to nil. In accordance with circular (1995) No. 11 promulgated by the Ministry of Finance of the People's Republic of China, the financial statements of Xinghua are not consolidated, and the long-term investment in Xinghua was written off.

(ii) According to BSAF's articles of association, BSAF is jointly controlled by the Company and the other joint venture partner. Therefore, BSAF is a jointly controlled entity of the Company. As the amounts of revenue and total profit for the six months ended June 30, 2003 and total assets as at June 30, 2003 of BSAF are less than 10% of the respective amounts of the Company, the financial statements of BASF are not consolidated and are accounted for using the equity method of accounting in accordance with circular (1996) No. 2 "Comments on the Consolidation Scope for the Purpose of Consolidated Financial Statements".

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank

	June 30, 2003	December 31, 2002
Cash on hand	**49,873**	6,902
Cash in bank	**16,319,968**	32,797,739
	16,369,841	32,804,641

Cash held in foreign currencies at June 30, 2003 is as follows:

Currency	Amount	Exchange rate	Rmb equivalent
USD	119,135	8.2774	986,128
HK	143,599	1.0612	152,387
			1,138,515

2. Notes receivable

Notes receivable represent bank acceptances generated from sales transactions. At June 30, 2003, no notes receivable were pledged (December 31, 2002: nil).

3. Accounts receivable

	June 30, 2003	December 31, 2002
Accounts receivable	**1,486,378,736**	1,543,784,437
Less: Provision for bad debts	**(897,073,790)**	(865,214,765)
	589,304,946	678,569,672

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

	June 30, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**226,246,880**	**15**	**–**	264,232,426	17	–
1-2 years	**26,041,077**	**2**	**(2,989,204)**	40,315,395	3	(18,149,672)
2-3 years	**116,224,281**	**8**	**(50,004,131)**	706,550,892	45	(314,379,369)
More than 3 years	**1,117,866,498**	**75**	**(844,080,455)**	532,685,724	35	(532,685,724)
	1,486,378,736	**100**	**(897,073,790)**	1,543,784,437	100	(865,214,765)

There was no significant write-off of accounts receivable for the six months ended June 30, 2003 (six months ended June 30, 2002: nil).

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

(c) At June 30, 2003, the total balance of the five largest accounts receivable was RMB681,345,191, representing 46% of the total accounts receivable balance.

(d) The Group's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at period end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At June 30, 2003, accounts receivable aged over 3 years which have not been provided for mainly comprise receivables due from JCGC of RMB146.79 million and third party debtors of RMB127 million, respectively. Based on a detailed review of the collectibility of the above unprovided receivable balances at June 30, 2003, management considers that there has been no change in the assessment results from prior years as these debtors are under stable operation status, have good historical repayment records and have complied with the debt repayment schedules as agreed with the Group. Accordingly, no provision is required.

4. Other receivables

	June 30, 2003	December 31, 2002
Other receivables	**134,676,463**	129,659,526
Less: Provision for bad debts	**(76,238,317)**	(76,238,317)
	58,438,146	53,421,209

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

	June 30, 2003			December 31, 2002		
	Balance	**%**	**Provision for bad debts**	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**19,226,120**	**14**	**–**	12,383,063	10	–
1-2 years	**17,557,830**	**13**	**(2,332,782)**	21,214,364	16	(4,152,505)
2-3 years	**31,453,435**	**24**	**(7,466,457)**	71,820,950	55	(47,844,663)
More than 3 years	**66,439,078**	**49**	**(66,439,078)**	24,241,149	19	(24,241,149)
	134,676,463	**100**	**(76,238,317)**	129,659,526	100	(76,238,317)

There was no significant write-off of other receivables for the six months ended June 30, 2003 (six months ended June 30, 2002: 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 June 30, 2003, the total balance of the five largest other receivables was RMB32,011,142, representing 24% of the total other receivables balance.

5. Advances to suppliers

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

	June 30, 2003		December 31, 2002	
	Balance	**%**	Balance	%
Ageing:				
Within 1 year	**313,310,654**	**99**	165,512,391	91
1-2 years	**2,410,875**	**1**	5,590,195	3
2-3 years	**640,265**	**–**	7,107,879	4
More than 3 years	**625,070**	**–**	3,426,036	2
	316,986,864	**100**	181,636,501	100

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.

6. Inventories

	December 31, 2002	Additions	Deduction	June 30, 2003
Cost:				
Raw materials	545,795,573			**464,344,993**
Work in progress	256,221,000			**278,134,569**
Finished goods	326,050,136			**194,332,874**
Spare parts	436,587,400			**432,073,017**
Low value consumables and packing materials	8,337,412			**7,567,401**
	1,572,991,521			**1,376,452,854**
Provision for diminution in value of inventories:				
Raw materials	(46,670,167)	(8,204,868)	–	**(54,875,035)**
Work in progress	(8,360,704)	–	5,261,110	**(3,099,594)**
Finished goods	(27,515,961)	(3,092,698)	–	**(30,608,659)**
Spare parts	(96,216,728)	–	6,957,180	**(89,259,548)**
Low value consumables and packing materials	–	(527,351)	–	**(527,351)**
	(178,763,560)	(11,824,917)	12,218,290	**(178,370,187)**
	1,394,227,961			**1,198,082,667**

7. Prepaid expenses

	January 1, 2003	Additions	Amortization	June 30, 2003
Catalyst	7,688,911	23,256,856	(20,917,704)	**10,028,063**
Insurance premium	2,219,339	1,051,347	(1,979,069)	**1,291,617**
Other	7,483,959	8,119,089	(14,764,088)	**838,960**
	17,392,209	32,427,292	(37,660,861)	**12,158,640**

The useful lives of above catalyst are all within one year.

8. Long-term equity investments

	January 1, 2003	Additions	Decrease	June 30, 2003
Jointly controlled entity	44,058,852	2,824,155	–	**46,883,007**
Associated company	18,908,478	–	(222,526)	**18,685,952**
	62,967,330	2,824,155	(222,526)	**65,568,959**

There is no problem on the realization 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, 2003 %	Percentage of equity held June 30, 2003 %	Original investment January 1, 2003	Original investment Additions	Original investment Decrease	Original investment June 30, 2003
Jointly controlled entity							
BASF	November 18, 1995 to March 30, 2005	40	**40**	60,066,150	–	–	**60,066,150**
Associated company							
Lianli	March 22, 2001 to March 22, 2006	47	**47**	20,042,147	–	–	**20,042,147**
				80,108,297	–	–	**80,108,297**

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

	January 1, 2003 book value	Additional investment	Reduction in investment	Share of net profit/(loss)	Dividend received	June 30, 2003 book value
Jointly controlled entity						
BASF	44,058,852	–	–	2,824,155	–	**46,883,007**
Associated company						
Lianli	18,908,478	–	–	(222,526)	–	**18,685,952**
	62,967,330	–	–	2,601,629	–	**65,568,959**

9. Fixed assets and accumulated depreciation

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
Cost					
January 1, 2003	1,650,837,321	10,145,471,769	2,317,555,082	142,659,991	14,256,524,163
Additions (Note V 10)	–	1,452,752,024	611,134	–	1,453,363,158
Disposals	–	(1,178,403)	(440,362)	–	(1,618,765)
June 30, 2003	**1,650,837,321**	**11,597,045,390**	**2,317,725,854**	**142,659,991**	**15,708,268,556**
Accumulated depreciation					
January 1, 2003	567,645,469	2,810,099,346	1,585,998,968	81,036,036	5,044,779,819
Depreciation	41,532,003	286,701,577	87,453,834	7,460,828	423,148,242
Disposals	–	–	(418,985)	–	(418,985)
June 30, 2003	**609,177,472**	**3,096,800,923**	**1,673,033,817**	**88,496,864**	**5,467,509,076**
Net book value					
June 30, 2003	**1,041,659,849**	**8,500,244,467**	**644,692,037**	**54,163,127**	**10,240,759,480**
December 31, 2002	1,083,191,852	7,335,372,423	731,556,114	61,623,955	9,211,744,344
Impairment of fixed assets					
January 1, 2003	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
Additions	–	–	–	–	–
June 30, 2003	**58,153,374**	**208,243,922**	**52,908,460**	**4,538,176**	**323,843,932**
Net book amount					
June 30, 2003	**983,506,475**	**8,292,000,545**	**591,783,577**	**49,624,951**	**9,916,915,548**
December 31, 2002	1,025,038,478	7,127,128,501	678,647,654	57,085,779	8,887,900,412

As at June 30, 2003, the cost of fully depreciated fixed assets still in use amounted to RMB519,370,075.

10. Construction in progress

Name of project	Budget	January 1, 2003	Additions	Transfer to fixed assets	Transfer to intangible assets	June 30, 2003	Source of funds	Total additions as a % of budget
Synthetic ammonia facilities	1,612,640,000	1,463,206,434	154,654,225	(1,349,930,932)	(267,929,727)	-	Borrowings/ working capital	100%
AES facilities	86,308,900	76,746,828	12,384,643	(89,131,471)	–	-	Working capital	103%
Other (b)	81,841,000	50,718,998	42,743,683	(14,300,755)	–	79,161,926		
	1,780,789,900	1,590,672,260	209,782,551	(1,453,363,158)	(267,929,727)	79,161,926		
Including: Interest capitalized		121,891,984	23,435,183	(145,327,167)	–	-		
		1,590,672,260				79,161,926		

(a) The annual capitalization rate used for determining the amount of interest capitalized as construction in progress for the six months ended June 30, 2003 is 5.50% (six months ended June 30, 2002: 5.50%).

(b) Other projects represent construction in progress with individual cost of less than RMB15 million.

(c) At June 30, 2003, there was no significant impairment for construction in progress (December 31, 2002: nil).

11. Intangible assets

	Land use rights	Technical know– how	Total
Cost			
January 1, 2003	1,149,201,148	639,883,526	1,789,084,674
Additions (Note V 10)	–	267,929,727	267,929,727
June 30, 2003	**1,149,201,148**	**907,813,253**	**2,057,014,401**
Accumulated amortization			
January 1, 2003	189,972,278	295,900,010	485,872,288
Amortization	11,644,665	33,653,690	45,298,355
June 30, 2003	**201,616,943**	**329,553,700**	**531,170,643**
Net book value			
June 30, 2003	**947,584,205**	**578,259,553**	**1,525,843,758**
December 31, 2002	959,228,870	343,983,516	1,303,212,386
Remaining years of amortization	42 – 49 years	5 – 10 years	

Pursuant to an approval document dated November 23, 1994 issued by the State Land Administration Bureau, the Company was granted the right to use the land and erect buildings on the land for a period of 50 years commencing October 1, 1994.

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

At June 30, 2003, there was no significant impairment for intangible assets (December 31, 2002: nil).

12. Long-term deferred expenses

	Cost	Accumulated amortization	January 1, 2003	Additions	Amortization	June 30, 2003	Remaining years of amortization
Catalyst	209,767,975	108,653,023	121,559,812	1,163,124	(21,607,984)	**101,114,952**	1–5
Other	11,322,461	10,835,299	986,412	–	(499,250)	**487,162**	1–2
	221,090,436	119,488,322	122,546,224	1,163,124	(22,107,234)	**101,602,114**	

13. Short-term loans

	June 30, 2003	December 31, 2002
Guaranteed loans – RMB	**49,600,000**	64,600,000
Secured loans – RMB	**–**	120,000,000
Unsecured loans – RMB	**3,333,780,000**	3,691,860,000
	3,383,380,000	3,876,460,000

At June 30, 2003, guaranteed loans totaling RMB49.6 million were guaranteed by Jilin Merchandise Group. At December 31, 2002, guaranteed loans totaling RMB49.6 million were guaranteed by Jilin Merchandise Group, the remaining guaranteed loans were guaranteed by JCGC.

Pursuant to the loan facility commitment letter of April 11, 2003, CP Finance has confirmed to provide RMB8 billion credit facilities to the Company for a period up to December 31, 2004. At June 30, 2003, total borrowings from CP Finance amounted to RMB3.33 billion.

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 certain payables in respect of 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 period end. There were no balances included in advances from customers of which the age exceeded 1 year at the period end.

15. Taxes payable

	June 30, 2003	December 31, 2002
Value added tax	**78,897,210**	(101,830,461)
Business tax	**574,905**	1,525,313
City construction and maintenance tax	**(3,419,291)**	(5,123,248)
Consumption tax	**52,444,242**	14,955,219
Income tax	**2,809,745**	2,809,745
Property tax	**18,527**	40,019
Land use tax	**936,266**	65,808
Other	**(280,195)**	1,441,257
	131,981,409	(86,116,348)

16. Accrued expenses

	June 30, 2003	December 31, 2002
Interest expense on loans	**45,175,530**	28,397,947
Repair and maintenance expenses	**56,193,056**	–
Public administration expenses	**25,860,000**	–
Other	**22,088,722**	–
	149,317,308	28,397,947

17. Long-term liabilities due within one year

	June 30, 2003	December 31, 2002
Long-term loans due within one year *(Note V 18)*		
Guaranteed loans – USD	**157,467,498**	156,866,458
Unsecured loans – RMB	**1,276,450,000**	1,195,950,000
– USD	**6,206,799**	12,413,447
	1,440,124,297	1,365,229,905
Other long-term liabilities due within one year *(Note V 19)*		
Guaranteed loans – USD	**46,287,759**	202,819,359
– JPY	**47,242,898**	55,687,083
– EUR	**16,018,942**	36,488,431
	109,549,599	294,994,873
	1,549,673,896	1,660,224,778

18. Long-term loans

	June 30, 2003	December 31, 2002
Guaranteed loans	**1,061,476,675**	1,094,950,298
Unsecured loans	**1,560,458,952**	1,840,958,021
	2,621,935,627	2,935,908,319

Details of long-term loans at June 30, 2003 are as follows:

Name of lender	Balance at June 30, 2003	Currency	Foreign currency amount	Exchange rate	Interest rate%	Due date	Conditions
Commercial and Industrial Bank of China, Jihua sub-branch	17,650,000	RMB			6.03	July 15, 2003	Unsecured
Commercial and Industrial Bank of China, Jihua sub-branch	9,500,000	RMB			6.03	December 29, 2004	Unsecured
CP Finance	405,800,000	RMB			5.59	November 15, 2003	Unsecured
CP Finance	100,000,000	RMB			5.67	October 30, 2003	Unsecured
CP Finance	90,000,000	RMB			5.59	March 15, 2004	Unsecured
CP Finance	663,000,000	RMB			5.59	December 18, 2003	Unsecured
CP Finance	1,000,000,000	RMB			5.42	March 8, 2007	Unsecured
CP Finance	185,900,000	RMB			5.59	July 10, 2004	Unsecured
CP Finance	200,000,000	RMB			5.59	July 26, 2004	Unsecured
CP Finance	88,000,000	RMB			5.59	September 20, 2004	Unsecured
Construction Bank of China, Jilin Branch	175,155,992	USD	21,160,750	8.2774	8.66	September 30, 2009	Guaranteed by JCGC
Construction Bank of China, Jilin Branch	130,441,226	USD	15,758,720	8.2774	8.42	July 31, 2010	Guaranteed by JCGC
Development Bank of China	117,413,421	USD	14,184,819	8.2774	5.50	December 27, 2006	Guaranteed by PetroChina
Development Bank of China	795,933,534	USD	96,157,432	8.2774	5.50	April 1, 2012	Guaranteed by PetroChina
Bank of China, Changchun sub-branch	6,206,799	USD	749,849	8.2774	8.30	August 28, 2003	Unsecured
Bank of China, Changchun sub-branch	77,058,952	USD	9,309,560	8.2774	–	September 9, 2029	Unsecured
	4,062,059,924						
Current portion of long-term loans *(Note V 17)*	(1,440,124,297)						
	2,621,935,627						

19. Other long-term liabilities

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

	June 30, 2003	December 31, 2002	Interest rate
Payables to JCGC			
– Ethylene Project loans	470,837,443	1,185,891,420	2.00% – 8.38%
Other long-term liabilities due within one year (Note V 17)	(109,549,599)	(294,994,873)	
	361,287,844	890,896,547	

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

	June 30, 2003		December 31, 2002	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	24,982,010	206,786,090	100,959,548	835,672,463
Japanese Yen	3,002,093,750	207,985,055	3,592,525,000	248,009,963
Euro	5,923,602	56,066,298	11,835,224	102,208,994
		470,837,443		1,185,891,420

20. Share capital

	June 30, 2003 (Shares in thousand)	December 31, 2002 (Shares in thousand)
Non-listed shares:		
– State-owned shares	2,396,300	2,396,300
Listed shares:		
– H shares and ADSs	964,778	964,778
– A shares	200,000	200,000
	1,164,778	1,164,778
Total	3,561,078	3,561,078
Total share capital (Rmb)	3,561,078,000	3,561,078,000

(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 were H shares and 8,037,243 shares were American Depositary Shares ("ADSs") (1 ADS = 100 H shares). The issue prices for the H shares and ADSs were 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.

(b) 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, 2003	Additions	Decrease	**June 30, 2003**
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**
	2,293,618,886	–	–	**2,293,618,886**

22. Common reserve funds

	Statutory common reserve fund	Statutory common welfare fund	Discretionary common reserve fund	Total
January 1, 2003	160,154,718	126,834,279	414,453,720	701,442,717
Additions	–	–	–	–
June 30, 2003	**160,154,718**	**126,834,279**	**414,453,720**	**701,442,717**

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 and is not available for distribution to shareholders. When the funds from the statutory common welfare fund are utilized, the amount utilized is transferred from this fund to the discretionary common reserve fund. The amount utilized is either capitalized 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 January 1, 2003	(3,700,270,377)
Add: Net profit for the period	240,972,828
Accumulated losses at June 30, 2003	**(3,459,297,539)**

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 profit after taxation to the statutory common reserve fund;

(iii) to transfer 5% to 10% of 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.

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 fertilizers and inorganic chemical products for sale in the PRC.

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Petroleum products	**4,324,838,536**	1,645,651,456
Petrochemical and organic chemical products	**3,956,956,173**	2,193,178,739
Synthetic rubber products	**535,906,626**	348,246,471
Chemical fertilizers and inorganic chemical products	**67,427,451**	78,099,432
Other products and services	**–**	4,881,659
	8,885,128,786	4,270,057,757

The sales to the five largest customers of the Group for the period ended June 30, 2003 amounted to RMB5,860,474,177, representing 66% of Group's total sales.

25. Cost of sales

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Petroleum products	**3,943,879,309**	1,454,961,867
Petrochemical and organic chemical products	**3,392,251,735**	1,962,327,329
Synthetic rubber products	**387,096,479**	254,703,327
Chemical fertilizers and inorganic chemical products	**79,074,236**	172,877,338
Other products and services	**–**	3,612,283
	7,802,301,759	3,848,482,144

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

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Interest expense	**236,586,684**	272,063,883
Less: Interest income	**(2,605,822)**	(412,025)
Exchange loss	**8,631,734**	38,030,062
Less: Exchange gain	**(548,284)**	(3,111,595)
Other	**1,967,851**	–
	244,032,163	306,570,325

28. Investment income/(loss)

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Share of profit/(loss) of a jointly controlled entity	**2,824,155**	(4,766,492)
Share of loss of an associated company	**(222,526)**	(149,132)
	2,601,629	(4,915,624)

29. Non-operating expenses

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Loss on disposal of fixed assets	**1,199,780**	110,040,000
Loss on temporary shutdown	**6,434,901**	5,780,656
Flood fund	**6,036,500**	6,015,249
Other	**6,215,895**	2,132,170
	19,887,076	123,968,075

30. Income tax

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Income tax:		
– Company	**–**	–
– Subsidiaries	**–**	351,996
Deferred tax	**–**	–
	–	351,996

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts receivable

	June 30, 2003	December 31, 2002
Accounts receivable	**1,556,565,403**	1,568,910,289
Less: Provision for bad debts	**(897,070,233)**	(865,211,208)
	659,495,170	703,699,081

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

	June 30, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**299,232,013**	**19**	**–**	290,024,637	18	–
1–2 years	**23,908,970**	**2**	**(2,989,204)**	40,315,395	3	(18,149,672)
2–3 years	**115,557,922**	**7**	**(50,000,574)**	705,884,533	45	(314,375,812)
More than 3 years	**1,117,866,498**	**72**	**(844,080,455)**	532,685,724	34	(532,685,724)
	1,556,565,403	**100**	**(897,070,233)**	1,568,910,289	100	(865,211,208)

There was no significant write-off of accounts receivable for the six months ended June 30, 2003 (six months ended June 30, 2002: nil).

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

(c) At June 30, 2003, the total balance of the five largest accounts receivable was RMB681,345,191, representing 44% of the total accounts receivable balance.

(d) The Company's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at period end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At June 30, 2003, accounts receivable aged over 3 years which have not been provided for mainly comprise receivables due from JCGC of RMB146.79 million and third party debtors of RMB127 million, respectively. Based on a detailed review of the collectibility of the above unprovided receivable balances at June 30, 2003, management considers that there has been no change in the assessment results from prior years as these debtors are under stable operation status, have good historical repayment records and have complied with the debt repayment schedules as agreed with the Company. Accordingly, no provision is required.

2. Other receivables

	June 30, 2003	December 31, 2002
Other receivables	**112,319,069**	110,559,284
Less: Provision for bad debts	**(76,238,317)**	(76,238,317)
	36,080,752	34,320,967

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

	June 30, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**14,806,120**	**13**	**–**	11,722,821	11	–
1–2 years	**4,487,830**	**4**	**(2,332,782)**	4,774,364	4	(4,152,505)
2–3 years	**26,586,041**	**24**	**(7,466,457)**	69,820,950	63	(47,844,663)
More than 3 years	**66,439,078**	**59**	**(66,439,078)**	24,241,149	22	(24,241,149)
	112,319,069	**100**	**(76,238,317)**	110,559,284	100	(76,238,317)

There was no significant write-off of other receivables for the six months ended June 30, 2003 (six months ended June 30, 2002: 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 June 30, 2003, the total balance of the five largest other receivables was RMB13,581,691, representing 12% of the total other receivables balance.

3. Long-term equity investments

	January 1, 2003	Additions	Decrease	June 30, 2003
Subsidiaries *(Note (1))*	110,751,579	–	(3,836,662)	**106,914,917**
Jointly controlled entity *(Note (2))*	44,058,852	2,824,155	–	**46,883,007**
Associated company *(Note (2))*	18,908,478	–	(222,526)	**18,685,952**
	173,718,909	2,824,155	(4,059,188)	**172,483,876**

(1) Subsidiaries

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held January 1, 2003 %	Percentage of equity held June 30, 2003 %	Original investment January 1, 2003	Additions	Original investment June 30, 2003
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, 2003 book value	Additional investment	Share of net loss	Dividend received	June 30, 2003 book value
Winsway	36,390,766	–	(1,086,865)	–	**35,303,901**
Songmei	45,195,204	–	(2,385,729)	–	**42,809,475**
Jianxiu	29,165,609	–	(364,068)	–	**28,801,541**
Xinghua	–	–	–	–	**–**
	110,751,579	–	(3,836,662)	–	**106,914,917**

The status of Xinghua is described in Note IV 1.

(2) See Note V 8 for investments in jointly controlled entity and associated company.

4. Sales revenue

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Petroleum products	**4,324,838,536**	1,645,651,456
Petrochemical and organic chemical products	**3,907,126,754**	2,153,011,799
Synthetic rubber products	**535,906,626**	348,246,471
Chemical fertilizers and inorganic chemical products	**67,427,451**	78,099,432
Other products and services	**–**	4,881,659
	8,835,299,367	4,229,890,817

5. Cost of sales

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Petroleum products	**3,943,879,309**	1,454,961,867
Petrochemical and organic chemical products	**3,360,468,765**	1,937,552,266
Synthetic rubber products	**387,096,479**	254,703,327
Chemical fertilizers and inorganic chemical products	**79,047,236**	172,877,338
Other products and services	**–**	3,612,283
	7,770,491,789	3,823,707,081

6. Investment income/(loss)

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
Share of profit/(loss) of a jointly controlled entity	**2,824,155**	(4,766,492)
Share of loss of an associated company	**(222,526)**	(149,132)
Share of loss of subsidiaries	**(3,836,662)**	(2,876,664)
	(1,235,033)	(7,792,288)

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS

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

Name of enterprise	Place of registration	Principal activities	Relationship with the Company	Nature of the enterprise	Legal representative
CNPC	PRC	Exploration, development, production and sale of natural resources	Ultimate holding company	State-owned enterprise	Ma Fucai
PetroChina	PRC	Exploration, manufacture and sale of petroleum and natural gas; pipeline transportation, manufacture and sale of petrochemical products	Immediate holding company	Joint stock limited company	Ma Fucai
Winsway	PRC	Transportation of petrochemical products	Subsidiary	Sino-foreign equity joint venture	Ni Muhua
Songmei	PRC	Manufacture of acetic acid	Subsidiary	Sino-foreign co-operative joint venture	Ni Muhua
Jianxiu	PRC	Machinery repair and installation	Subsidiary	Joint venture	Zhang Xingfu

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

Name	January 1, 2003 RMB'0000	Additions RMB'0000	Decrease RMB'0000	June 30, 2003 RMB'0000
CNPC	11,490,000	–	–	**11,490,000**
PetroChina	17,582,418	–	–	**17,582,418**
Winsway	5,145	–	–	**5,145**
Songmei	7,200	–	–	**7,200**
Jianxiu	4,520	–	–	**4,520**

(c) *Registered capital of the Company held by the related company which controls the Company:*

Name	January 1, 2003		Additions		Decrease		June 30, 2003	
	RMB'0000	%	*RMB'0000*	%	*RMB'0000*	%	*RMB'0000*	%
PetroChina	239,630	67	–	–	–	–	**239,630**	**67**

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

	Capital or equity held at January 1, 2003	%	Additions	%	Reduction	%	Capital or equity held at June 30, 2003	%
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 June 30, 2003	Principal activities
Jointly controlled entity							
– BASF	Sino-foreign joint venture	1995.11.18	Jilin	15,000	RMB	**40%**	Manufacturing of petrochemical products
Associated company							
– Lianli	State-owned	2001.3.22	Jilin	4,221	RMB	**47%**	Wholesale and 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.

(f) Significant related party transactions

	Six months ended June 30, 2003	Six months ended June 30, 2002 (Unaudited)
CNPC Group Companies		
Interest expense	**162,656,186**	194,110,000
Loan	**2,552,040,000**	1,733,370,000
Insurance program	**19,333,263**	17,215,017
Purchase of raw materials	**8,126,000**	838,297
JCGC Group Companies		
Sale of goods	**436,180,413**	258,500,010
Sub-contracting fees	**2,420,171**	5,550,311
Construction of fixed assets	**22,609,016**	46,641,020
Purchase of raw materials and spare parts	**59,370,609**	73,431,030
Fees for welfare and support services	**98,199,791**	49,420,793
Expenses paid on behalf	**1,029,800**	785,000
PetroChina Group Companies		
Purchase of crude oil	**4,132,059,694**	2,444,807,804
Purchase of raw materials	**641,223,966**	297,304,280
Sale of gasoline	**1,350,858,001**	530,275,790
Sale of diesel oil	**2,344,455,610**	784,842,019
Sale of petrochemical goods	**1,614,840,153**	817,312,876
Expenses paid on behalf	**–**	2,200,000
Lianli		
Sale of goods	**20,094,310**	8,107,814
Jilian (Jilin) Petrochemicals Limited *(1)*		
Sale of petrochemical goods	**–**	133,102,564

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

(1) Before December 2002, Jilian (Jilin) Petrochemicals Limited ("Jilian") was jointly controlled by the Company and the other joint venture partner. Therefore, Jilian was 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 Company 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.

(g) *Related party balances*

	June 30, 2003	December 31, 2002
Accounts receivable from		
– PetroChina Group Companies	**210,587,906**	242,923,710
– JCGC Group Companies	**342,597,749**	346,502,613
– Lianli	**23,883,602**	24,131,819
Accounts receivable due from related parties are for goods sold to these companies.		
Other receivables from		
– JCGC Group Companies	**7,797,805**	8,320,638
Other receivables due from related parties are mainly for expenses paid on their behalf.		
Advances to suppliers to		
– JCGC Group Companies	**5,786,899**	2,772,794
The balance mainly represents advance payments for import of machinery through JCGC.		
Accounts payable to		
– CNPC Group Companies	**(61,565)**	(1,526,853)
– PetroChina Group Companies	**(116,752,880)**	(58,086,005)
– JCGC Group Companies	**(78,396,654)**	(121,904,421)
Advances from customers from		
– PetroChina Group Companies	**(526,777,102)**	–
– JCGC Group Companies	**(4,151,166)**	(5,382,817)
Other payables to		
– JCGC Group Companies	**(146,608,756)**	(182,970,214)
Short-term loans from		
– CP Finance	**(3,333,780,000)**	(3,577,860,000)
Long-term loans from		
– CP Finance	**(2,732,700,000)**	(2,932,700,000)
Other long-term liabilities from		
– JCGC Group Companies	**(470,837,443)**	(1,185,891,420)

VIII. CAPITAL COMMITMENTS

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

	June 30, 2003	December 31, 2002
Property, plant and equipment	**10,240,000**	94,256,000

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 were 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.

Significant Differences between IFRS and PRC GAAP

(Amounts in thousands unless otherwise stated)

Effect of significant differences between PRC GAAP and IFRS on net profit/(loss) and shareholders' equity is summarised below.

Net profit/(loss)

	Notes	Six months ended June 30, **2003** ***RMB***	2002 *RMB*
Net profit/(loss) as reported under PRC GAAP		**240,973**	(352,531)
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at February 28, 1995	*(i)*	**(726)**	(726)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	*(iii)*	**(3,655)**	(3,655)
– Appropriation to staff bonus and welfare fund	*(iv)*	**–**	(143)
– Amortisation of housing subsidy cost	*(v)*	**(4,660)**	(4,660)
– Reversal of amortisation of land use rights	*(vi)*	**10,911**	11,647
Net profit/(loss) as reported under IFRS		**242,843**	(350,068)

Shareholders' equity

	Notes	**June 30, 2003** ***RMB***	December 31, 2002 *RMB*
Shareholders' equity as reported under PRC GAAP		**3,096,842**	2,855,869
Adjustments to conform with IFRS:			
– Surplus on revaluation of fixed assets at February 28, 1995	*(i)*	**29,033**	29,033
– Deferred tax effect on revaluation surplus on revaluation of fixed assets at February 28, 1995	*(i)*	**(9,580)**	(9,580)
– Depreciation expense due to revaluation at February 28, 1995	*(i)*	**(12,099)**	(11,373)
– Difference in loss on write-off of fixed assets due to revaluation at February 28, 1995	*(ii)*	**(6,309)**	(6,309)
– Exchange gains in respect of funds borrowed for fixed assets	*(iii)*	**112,471**	112,471
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	*(iii)*	**(46,039)**	(42,384)
– Housing subsidy cost	*(v)*	**48,180**	52,840
– Deferred tax effect on housing subsidy cost	*(v)*	**(23,587)**	(23,587)
– Adjustment of land use rights at January 1, 2001	*(vi)*	**(896,289)**	(907,200)
– Tax adjustment	*(vii)*	**33,167**	33,167
Shareholders' equity as reported under IFRS		**2,325,790**	2,082,947

(i) 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 resulted in a surplus of RMB29,033. The surplus arising from the valuation was credited to revaluation reserve. Depreciation expense under IFRS includes the effect of revaluation of fixed assets at February 28, 1995. Under PRC GAAP, this revaluation, which was not officially approved as part of the 1994 Restructuring, was not recognised. Accordingly, depreciation charge calculated under PRC GAAP is lower than that under IFRS.

(ii) In prior years, certain fixed assets including those revalued at February 28, 1995 were written off in connection with the shut down of manufacturing assets. As the effect of the February 28, 1995 has not been recognised under PRC GAAP, additional loss on write-off of fixed assets relating to the surplus arising from the February 28, 1995 revaluation was recorded in the IFRS financial statements.

(iii) Under IFRS, foreign currency translation differences relating to borrowings to the extent that they are adjustments to the interest costs of funds used to finance the construction of fixed assets are capitalised. Under PRC GAAP, all foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. Accordingly, the cost of the underlying fixed assets as reported in the IFRS financial statements is greater than that as determined under PRC GAAP, and thus resulted in additional depreciation charge.

(iv) In 2002, a subsidiary of the Company (a Sino-foreign joint venture) made an appropriation from retained earnings to the staff and workers' bonus and welfare fund in accordance with the relevant rules and regulations in the PRC. Under IFRS, such appropriation is charged to the profit and loss account.

(v) As a result of the reorganisation of CNPC and PetroChina, PetroChina agreed to bear the cost of housing subsidy and accordingly the relevant payable to JCGC of RMB84,089, after netting off deferred tax of RMB23,587, was credited to capital reserve under IFRS. Under PRC GAAP, the payable of RMB84,089 was offset against housing subsidy cost brought forward of RMB75,681 and the balance of RMB8,408 was credited to capital reserve. Consequently, there is no amortisation of housing subsidy cost under PRC GAAP.

(vi) Under PRC GAAP, land use rights are recognised at the appraised value and amortised over 50 years. With effect from January 1, 2001, the Company has applied IAS 17 " Leases", as clarified by IAS 40 "Investment Property", to the accounting for land use rights. The Company has therefore reclassified land use rights as operating leases and is now reflecting the carrying value of land use rights at historical cost of RMB nil. Consequently, there is no amortisation of land use rights under IFRS commencing 2001.

(vii) Adjustment of deferred tax effect in (i) and (v) above.

Significant Differences between IFRS and US GAAP

(Amounts in thousands unless otherwise stated)

Effect of significant differences between IFRS and US GAAP on net profit/(loss) and shareholders' equity is summarised below:

Net profit/(loss)

		Six months ended June 30,			
	Notes	**2003** **RMB**	2002 *RMB*	**2003** **US$**	2002 *US$*
Net profit/(loss) under IFRS		**242,843**	(350,068)	**29,338**	(42,292)
US GAAP adjustments:					
– Depreciation charge on fixed asset revaluation surplus on Restructuring and at February 28, 1995	*(i)*	**5,611**	4,886	**678**	590
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**765**	765	**92**	92
– Depreciation charge on fixed assets revaluation surplus of Jilian	*(iii)*	**–**	3,815	**–**	462
Net profit/(loss) under US GAAP		**249,219**	(340,602)	**30,108**	(41,148)
Basic and diluted earnings per share		**RMB0.07**	(RMB0.10)	**US$0.01**	(US$0.01)

Shareholders' equity

	Notes	**June 30, 2003 RMB**	December 31, 2002 RMB	**June 30, 2003 US$**	December 31, 2002 US$
Shareholders' equity as reported under IFRS		**2,325,790**	2,082,947	**280,981**	251,643
US GAAP adjustments:					
– Fixed asset revaluation on Restructuring and at February 28, 1995	*(i)*	**(744,007)**	(744,007)	**(89,884)**	(89,884)
– Deferred tax asset on fixed asset revaluation surplus on Restructuring	*(i)*	**235,941**	235,941	**28,504**	28,504
– Depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995	*(i)*	**659,849**	591,426	**79,717**	71,451
– Reversal of deferred tax liability on fixed asset revaluation surplus at February 28, 1995	*(i)*	**9,580**	9,580	**1,157**	1,157
– Reduction in loss on write-off of fixed assets	*(i)*	**11,532**	11,532	**1,393**	1,393
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets	*(i)*	**322,240**	322,240	**38,930**	38,930
– Foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**(30,616)**	(30,616)	**(3,699)**	(3,699)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**9,951**	9,186	**1,202**	1,110
– Gain on transfer of fixed assets to Jilian	*(iii)*	**(65,320)**	(65,320)	**(7,891)**	(7,891)
– Depreciation charge on fixed asset revaluation surplus of Jilian	*(iii)*	**–**	62,812	**–**	7,588
– Tax adjustment	*(iv)*	**(245,521)**	(245,521)	**(29,661)**	(29,661)
Shareholders' equity as reported under US GAAP		**2,489,419**	2,240,200	**300,749**	270,641

(i) Revaluation of fixed assets

On September 30, 1994, the fixed assets transferred to the Company by Jilin Chemical Industrial Corporation as part of the Restructuring were appraised, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC. The revaluation of the fixed assets transferred resulted in RMB714,974 in excess of the prior carrying value and was recorded in share capital and capital reserve and not as a revaluation reserve. The depreciation charge on the revaluation surplus for the six months ended June 30, 2003 was RMB4,885 (2002: RMB4,160), including the depreciation charge of RMB3,815 on the revaluation surplus of Jilian (previously a jointly controlled entity of the Company) reclassified since 2003 as a result of the Company's acquisition of the remaining 35% equity interest in Jilian in December 2002. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charge is reversed. A deferred tax asset of RMB235,941 (2002: RMB235,941) relating to the reversal of the revaluation effect was established, together with a corresponding increase in shareholders' equity.

On February 28, 1995, the Group's fixed assets were further revalued by a firm of independent valuers registered in Hong Kong to satisfy the Hong Kong Stock Exchange listing requirements. This revaluation, which resulted in an additional revaluation surplus of RMB29,033, was not recognised by the PRC authorities and was therefore not recorded in the statutory accounting books. A deferred tax liability of RMB9,580 was created under IFRS with a corresponding decrease in revaluation surplus. The depreciation charge on the revaluation surplus for the six months ended June 30, 2003 was RMB726 (2002: RMB726). For purposes of reconciling to the US GAAP financial data, the revaluation surplus, the related depreciation charge and the tax effect are reversed.

In prior years, certain fixed assets with a net book value of RMB283,418 (RMB2,526 related to revaluation surplus recorded in share capital and capital reserve) were written off as a charge to the income statement in connection with the shut down of manufacturing assets. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation relating to the write-off of fixed assets is reversed.

As 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 its fair value, and on the basis of this review, made an adjustment to reduce the carrying amount by RMB323,844. Under IFRS, the adjustment arising from the comparison, net of minority interests of RMB1,604, amounting to RMB322,240 was charged to the income statement. For purposes of reconciling to the US GAAP financial data, the write-down adjustment is reversed since the related undiscounted cash flows adequately recover the carrying value of these assets despite a decrease in fair value.

(ii) Foreign exchange losses

Under US GAAP, foreign exchange losses are expensed in the period in which they occur.

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

(iii) Fixed assets transferred to Jilian

During the period ended December 31, 1994, certain fixed assets of the Company were appraised and transferred to Jilian, which was 65% owned and jointly controlled by the Company prior to December 2002 when the Company acquired the 35% minority interest. At the time of the 1994 transfer, the Company retained 65% of revaluation surplus arising from the appraisal of these assets which amounted to RMB121,309 within the revaluation reserve and recognized a gain of RMB65,320, representing 35% of revaluation surplus, from the transfer to the other joint venture partner of a 35% interest in the fixed assets. The depreciation charge on the revaluation surplus related to these assets for the six months ended June 30, 2003 was RMB3,815 (2002: RMB3,815). For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charge and the gain on the transfer is reversed. In addition, as the Company acquired the remaining 35% equity interest in Jilian in December 2002, Jilian has become a branch of the Company. Therefore, since 2003, the reversed depreciation charge on the revaluation surplus for Jilian's fixed assets has been included in the Company's depreciation charge on fixed assets due to revaluation on Restructuring and at February 28, 1995 for the reconciliation to US GAAP.

(iv) Tax adjustment

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

(v) Amounts in Renminbi have been converted into United States dollars at the respective rates of US$1.00: RMB8.2774 announced by the People's Bank of China as at June 30, 2003. No representation is made that the Renminbi amounts could have been, or could be converted into US dollars at that rate.

Asset Impairment Provision as at June 30, 2003

Items	As at January 1, 2003 Group	As at January 1, 2003 Company	Current period addition Group	Current period addition Company	Current period reduction Group	Current period reduction Company	As at June 30, 2003 Group	As at June 30, 2003 Company
1. **Bad debt provision**	941,453,082	941,449,525	31,859,025	31,859,025	–	–	**973,312,107**	**973,308,550**
Including: Accounts receivable	865,214,765	865,211,208	31,859,025	31,859,025	–	–	**897,073,790**	**897,070,233**
Other receivables	76,238,317	76,238,317	–	–	–	–	**76,238,317**	**76,238,317**
2. **Provision for impairment of short-term investments**								
Including: Equity investments								
Bond investments								
3. **Inventory provision**	178,763,560	178,763,560	11,824,917	11,587,920	(12,218,290)	(12,218,290)	**178,370,187**	**178,133,190**
Including: Raw materials	46,670,167	46,670,167	8,204,868	8,204,868	–	–	**54,875,035**	**54,875,035**
Work in progress	8,360,704	8,360,704	–	–	(5,261,110)	(5,261,110)	**3,099,594**	**3,099,594**
Finished goods	27,515,961	27,515,961	3,092,698	2,855,701	–	–	**30,608,659**	**30,371,662**
Spare parts	96,216,728	96,216,728	–	–	(6,957,180)	(6,957,180)	**89,259,548**	**89,259,548**
Low value consumables and packing materials	–	–	527,351	527,351	–	–	**527,351**	**527,351**
4. **Provision for impairment of long-term investments**								
Including: Long-term equity investments								
Long-term bond investments								
5. **Provision for impairment of fixed assets**	323,843,932	309,861,188	–	–	–	–	**323,843,932**	**309,861,188**
Including: Buildings	58,153,374	57,553,374	–	–	–	–	**58,153,374**	**57,553,374**
Machinery	208,243,922	206,691,178	–	–	–	–	**208,243,922**	**206,691,178**
Equipment	52,908,460	44,378,460	–	–	–	–	**52,908,460**	**44,378,460**
Motor vehicles	4,538,176	1,238,176	–	–	–	–	**4,538,176**	**1,238,176**
6. **Provision for impairment of intangible assets**								
Including: Technical know-how								
Patent								
7. **Provision for impairment of construction in progress**								
8. **Provision for trust loan**								

Documents Available for Inspection and Address for Inspection of Documents

1. The original 2003 interim report of the Company duly signed by the Chairman of the Board;

2. The original financial statements for the six months ended 30th June, 2003 prepared in accordance with PRC GAAP and IFRS respectively duly signed by the legal representative, the financial controller and the chief of the Financial Department of the Company;

3. Original copy of the auditors' report duly executed under the seal of PricewaterhouseCoopers Zhong Tian CPAs Company Limited by a PRC registered accountant;

4. The original announcements and all other documents disclosed by the Company in the newspapers designated by CSRC during the reporting period;

5. The articles of association of the Company;

6. The interim report published in Hong Kong.

Address for inspection of the above documents:
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The Secretary's Office to the Board of Directors
No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, the PRC
Tel : (86432) 3903651
Fax : (86432) 3028126

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