

1. Material litigation

The Group was not involved in any material litigation or arbitration during the year ended December 31, 2003.

2. Merger, acquisition or restructuring

During 2003, the purchase of assets including the Water Filtering System and Ammonia Liquefaction Facilities from JCGC at aggregate consideration of RMB159.50 million by way of set off against accounts receivables of the Company from JCGC was approved at the extraordinary general meeting held on December 30, 2003. The above event had no impact on the Group's business continuity, management stability, financial position and operation results.

3. Material contracts

During 2003, the Group did not enter into any material contracts, incur material guarantee events, entrust any party with cash assets administration, and the Group does not have any plans for entrusting the administration of its assets to a third party for the future.

4. Related party transactions

The fees paid by the Company for the welfare and support services rendered by JCGC were based on state regulated prices, market prices or cost prices as provided for in a service agreement entered into between the Company and JCGC. The fees paid for the other related party transactions between the Company and JCGC were based on normal commercial terms on terms that were fair and reasonable so far as the shareholders of the Company are concerned. Transactions entered into with subsidiaries of CNPC were based on conditions approved at the extraordinary general meetings held on December 30, 2001. The money relating to connected transactions was paid through the Company's bank deposit. The aforesaid connected transaction was part of the normal production and operation of the Company and has increased profits of the Company. Details of all related party transactions are set out in note 31 to the financial statements prepared in accordance with IFRS and note VII to the financial statements prepared in accordance with PRC GAAP.

(1) *Purchase and sale of goods, provision of services and financial assistance*

A. PetroChina

Category of connected transaction	For the year ended December 31, 2003 <i>(RMB thousand)</i>	Percentage of the same type of transactions <i>(%)</i>
Purchase of crude oil	8,067,989	77.6%
Purchase of materials	1,266,922	90%
Sale of gasoline	2,656,296	100%
Sale of diesel oil	5,615,331	100%
Sale of petrochemical products	4,083,318	35.7%
Property safe and insurance fund	35,278	100%

Disclosure of Significant Events

B. JCGC

Category of connected transaction	For the year ended December 31, 2003 (RMB thousand)	Percentage of the same type of transactions (%)
Sale of products	908,009	13.5%
Engineering construction	65,653	22.3%
Purchase of materials and spare parts	290,002	49.4%
Sub-contracting services	16,694	6.3%
Welfare and support services	228,828	30.8%
Purchase of property, plant and equipment	159,500	33.2%

C. CNPC

Category of connected transaction	For the year ended December 31, 2003 (RMB thousand)	Percentage of the same type of transactions (%)
Loans	5,308,460	77.6%
Interest expense	305,319	87.8%
Purchase of materials	66,789	0.6%

(2) Purchase of assets

During 2003, the Company purchased the Water Filtering System and Ammonia Liquefaction Facilities from JCGC at aggregate consideration RMB159.50 million, the original book value of the above assets was RMB224.65 million and its revaluation value was RMB159.50 million. The consideration was paid by way of set off against accounts receivables of the Company from JCGC.

(3) Information relating to the rights, debts and guarantees of related parties are set out in note VII to the financial statements prepared under PRC GAAP.

5. The Company, the Board and directors of the Company have not received any reprimand, penalties or complaints from or faced investigation by the China Securities Regulatory Commission, or any public reprimand from any other stock exchange during the year.
6. During 2003, the Company has not entered into any trust arrangement, sub-contracting or leasing of assets belonging to a third party and no third party has entered into any trust arrangement, sub-contracting or leased assets of the Company.
7. No matters relating to undertakings were disclosed in designated newspapers or websites by the Company or shareholders holding more than 5% of the Company's registered share capital.

8. Auditors

During 2003, PricewaterhouseCoopers (certified public accountants in Hong Kong) and PricewaterhouseCoopers Zhong Tian CPAs Company Limited (registered accountants in the PRC) were re-appointed as the Company's international and domestic auditors. Up to the year ended December 31, 2003, PricewaterhouseCoopers Zhong Tian CPAs Company Limited has provided audit services to the Company for three years. The remuneration paid to PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Company Limited was RMB4.25 million during 2003.

9. Medical Insurance of Employees

The Company has paid medical insurance for its employees from welfare expenditure since January 1, 1997 in compliance with the Implementation Rules of Medical Treatment System Reform and Eight Provisions of Administration of JCGC. Such payments have no material adverse impact on the profits of the Company.

10. Other Events

- (1) Due to losses incurred by the Company for three consecutive years from 2000 to 2002, the Company's listing status on the Shenzhen Stock Exchange was suspended on April 30, 2003. As a result of the Company achieving profitability for the first half of 2003, its A shares resumed its listing status with effect from September 25, 2003 in accordance with the laws and regulations of the PRC. In accordance with the audited financial statements of the Company, the Company achieved profitability for the full year of 2003, however, its net assets per share of RMB0.92 as at December 31, 2003 was under the par value of RMB1.00 per share. According to the "Circular Concerning Issues Relevant to the Strengthening of Risk Warning With Regards to Companies Under the Risk of De-listing Status" of the Shenzhen Stock Exchange, the Company applied to the Shenzhen Stock Exchange for withdrawal of the special treatment regarding the warning of risks of de-listing against the Company's A shares, such that the abbreviation of the Company's A shares will change from "* ST Jihua" to "ST Jihua", but a 5% restriction will still be imposed on the price movement of the Company's A shares.
- (2) The Company held a directors' meeting on April 20, 2004, in which Yu Li was elected as chairman of the Board and Xu Fengli was elected as deputy chairman of the Board. The Board also re-appointed Shi Jianxun as the Company's general manager; Zhang Xingfu and Li Chongjie as the Company's deputy general managers; Zhang Liyan as deputy chief accountant and secretary to the Board; and approved the appointment of Shi Jianxun and Zhang Liyan as the Company's authorized representatives. The Board also approved the setting up of the strategic committee, the nomination committee, the remuneration and examination committee and the auditing committee.
- (3) The Company held a meeting on April 20, 2004, in which Zou Haifeng was elected as the chairman of the board of supervisors.