

Notes to the Financial Statements

For the year ended December 31, 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 System for Business Enterprises” as promulgated by 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.

Notes to the Financial Statements

For the year ended December 31, 2003

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

4. Basis of accounting

The Company uses the accrual basis of accounting. Assets are initially recorded at actual cost and subsequently adjusted for impairment, if any.

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 expensed, 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 call deposits. Cash equivalents refer to short-term and highly-liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statements, restricted bank balances, including time deposits with maturities in excess of three months, or deposits that have been placed as collateral with banks, 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". Accounts receivable are presented at actual amounts net of provision for bad debts.

(a) Accounts receivable

Accounts receivable comprises related-party receivables and receivables from non-related parties.

Specific provisions for bad debts are made based on a detailed review of the collectability of the receivable balances.

Where evidence (including liquidation, bankruptcy, negative equity, and significant cash flow problems of debtors, etc.) exists that balances cannot be recovered, bad debts are recognized and the balances are written off against the provision for bad debts.

Where accounts receivable balances have been transferred, pledged or factored and the risks and rewards associated with the accounts receivable have been substantially transferred, the difference between proceeds derived from the transaction, net of relevant taxes, and the carrying amount of the accounts receivable is expensed in the period.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

7. Receivables and provision for bad debts (Cont'd)

(b) Other receivables

Specific provisions for other receivables are made based on a detailed review of the collectability of the other receivables.

8. Inventories

Inventories, which comprise raw materials, work in progress, finished goods, low value consumables and packing materials, are presented at the lower of cost and net realizable value.

Inventories are stated at cost. The cost of raw materials used and the sale of finished goods are accounted for using the weighted average method. 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.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and the estimated costs necessary to conclude the sale.

9. Long-term investments

Long-term equity investments comprise equity investments in subsidiaries, joint ventures and associates and other investments in companies that the Company intends to hold for more than one year.

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% of the voting rights, or otherwise has power to govern the investees' financial and operating policies. Joint ventures are investees that are under the joint control of the Company and other venturers. Associates generally represent investees in which the Company has an interest of between 20% to 50% of the voting rights or otherwise has significant influence over the financial and operating policies.

Long-term equity investments are recorded at the actual cost of acquisition. The Company accounts for long-term equity investments in subsidiaries, joint ventures and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17 March 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over 10 years. Where long-term equity investments acquired after 17 March 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over 10 years.

Notes to the Financial Statements

For the year ended December 31, 2003

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

9. Long-term investments (Cont'd)

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

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 include buildings, machinery and equipment used in production or rendering of services, or held for management purposes, which have useful lives of more than one year. Effective January 1, 2001, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

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.

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

The categories, estimated useful lives, residual values and annual depreciation rates are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings	10 to 45 years	3%	2.16 – 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%	8.08%

When fixed assets are sold, transferred, disposed of or destroyed, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

10. Fixed assets and depreciation (Cont'd)

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalized when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalized expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalized expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

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 fixed assets under construction or installation and is stated at cost. Cost comprises the original cost of machinery and equipment, installation costs, construction costs and other direct costs. Borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets are capitalized as part of the cost of the fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets and depreciation commences when the assets are ready for their intended use.

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. Intangible assets and amortization

Intangible assets include land use rights and technical know-how and are presented at cost net of accumulated amortization.

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.

From January 1, 2001, the cost of land use rights purchased or obtained by way of payment of a land use fee is stated at the actual amount paid and is recorded as intangible assets before developed for self-use projects. The carrying value of land use rights will be transferred to construction in progress if construction takes place on the Company's land held for own use.

Notes to the Financial Statements

For the year ended December 31, 2003

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

12. Intangible assets and amortization (Cont'd)

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.

13. Borrowing costs

Borrowings are initially recognized at the amount of the proceeds received. Ancillary costs incurred in connection with the borrowing arrangement are expensed as incurred.

Borrowing costs, including interest, amortization of discounts or premiums, ancillary costs and exchange differences, incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalized as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalization of borrowing costs ceases when the assets are ready for their intended use. 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.

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 prepaid expenses are amortized on the straight-line basis over the beneficial period and are presented at cost net of accumulated amortization.

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

15. Provisions

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

16. Employee social security and benefits

All Chinese employees of the Group participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized and administered by the governmental authorities. Other than the welfare benefits provided by these social security plans as disclosed, the Group has no material commitments to employees.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees, subject to a certain ceiling, and are paid to the labor and social welfare authorities. Contributions to the plans are capitalized as production costs or expensed as incurred.

17. Revenue recognition

(a) Sales

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods 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.

(b) 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.

(c) Other revenues are recognized on the following bases:

- Interest income – recognized on a time proportion basis taking into account deposit balances and the effective yield;
- Subsidy income – recognized when received.

Notes to the Financial Statements

For the year ended December 31, 2003

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

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

18. Operating leases

Leases of fixed assets where all the risks and rewards incident to ownership of the assets are in substance transferred to the lessees are classified as finance leases. All other leases are operating leases.

Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

19. Accounting for income tax

The Group accounts for enterprise and local income taxes using the liability method under the deferred tax method. The temporary difference arises from the timing difference of recognition of revenue, expense or profit and loss on tax and accounting basis. 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 (usually within 3 years).

20. 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 unrealised 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 cumulative profit-making 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 cumulative profit-making 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 Jihua Jinxiang Pressure Vessel Inspection Co., Ltd. (“Jinxiang”), a subsidiary of Jianxiu established in 2003, 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 cumulative profit-making 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 2003, accordingly no provision for income tax is required.

Notes to the Financial Statements

For the year ended December 31, 2003

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

III. TAXATION (Cont'd)

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	Type of enterprises	Registered/ paid-in capital	Business scope	Investment amount	Percentage of equity held	Consolidation
Subsidiaries						
Winsway	Transportation enterprises	51,454,000	Provision of transportation services for chemical materials and products	36,154,000	70%	Yes
Songmei	Manufacturing enterprises	72,000,000	Manufacturing of acetic acid	47,660,421	66%	Yes
Jianxiu	Construction enterprises	45,200,000	Machinery repair and installation	44,537,759	99%	Yes
Jilin Xinghua Nitrochlorobenzene Company Limited ("Xinghua")	Manufacturing enterprises	25,668,000	Manufacturing of Nitrochlorobenzene	19,250,000	75%	No (note i)
Jinxiang	Pressure vessels inspection enterprises	2,000,000	Inspection, research and consultation of pressure vessels	1,900,000	94%	Yes
Jointly controlled entity						
BASF	Manufacturing enterprises	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	No (note ii)

Notes to the Financial Statements

For the year ended December 31, 2003

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

IV. MAJOR SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES (Cont'd)

- (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 2002, 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 2003 and total assets as at December 31, 2003 of BSAF are less than 10% of the respective amounts of the Company, the financial statements of BSAF 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

	December 31, 2003	December 31, 2002
Cash on hand	11,156	6,902
Cash in bank	35,487,663	32,797,739
	<u>35,498,819</u>	<u>32,804,641</u>

Cash held in foreign currencies at December 31, 2003 is as follows:

Currency	Amount	Exchange rate	RMB equivalent
USD	119,261	8.2767	987,087
HK	143,013	1.0657	152,409
			<u>1,139,496</u>

2. Notes receivable

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

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

3. Accounts receivable

	December 31, 2003	December 31, 2002
Accounts receivable	1,021,539,822	1,543,784,437
Less: Specific provision	(868,271,165)	(865,214,765)
	<u>153,268,657</u>	<u>678,569,672</u>

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

	December 31, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	51,365,749	5	-	264,232,426	17	-
1-2 years	379,324	0	-	40,315,395	3	(18,149,672)
2-3 years	35,453,710	3	(30,098,105)	706,550,892	45	(314,379,369)
More than 3 years	934,341,039	92	(838,173,060)	532,685,724	35	(532,685,724)
	<u>1,021,539,822</u>	<u>100</u>	<u>(868,271,165)</u>	<u>1,543,784,437</u>	<u>100</u>	<u>(865,214,765)</u>

As certain customers have filed for bankruptcy in 2003, the Group has written off accounts receivable of RMB97,656,702, which had been fully provided during the year ended December 31, 2002.

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At December 31, 2003, the total balance of the five largest accounts receivable was RMB379,798,944, representing 37% 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 year end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At December 31, 2003, accounts receivable aged over 3 years mainly comprise receivables due from third party debtors of RMB79.12 million and JCGC of RMB17.05 million, respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at December 31, 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 necessary.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

4. Other receivables

	December 31, 2003	December 31, 2002
Other receivables	107,758,595	129,659,526
Less: Specific provision	(72,143,153)	(76,238,317)
	<u>35,615,442</u>	<u>53,421,209</u>

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

	December 31, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	3,582,261	3	(1,643,642)	12,383,063	10	-
1-2 years	4,632,416	5	(29,813)	21,214,364	16	(4,152,505)
2-3 years	14,528,019	13	(2,554,706)	71,820,950	55	(47,844,663)
More than 3 years	85,015,899	79	(67,914,992)	24,241,149	19	(24,241,149)
	<u>107,758,595</u>	<u>100</u>	<u>(72,143,153)</u>	<u>129,659,526</u>	<u>100</u>	<u>(76,238,317)</u>

As certain customers have filed for bankruptcy in 2003, the Group has written off other receivables of RMB4,095,164, which had been fully provided during the year ended December 31, 2002.

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2003, the total balance of the five largest other receivables was RMB27,732,313, representing 26% of the total other receivables balance.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

5. Advances to suppliers

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

	December 31, 2003		December 31, 2002	
	Balance	%	Balance	%
Ageing:				
Within 1 year	205,951,053	94	165,512,391	91
1-2 years	6,950,557	3	5,590,195	3
2-3 years	309,509	0	7,107,879	4
More than 3 years	6,320,427	3	3,426,036	2
	<u>219,531,546</u>	<u>100</u>	<u>181,636,501</u>	<u>100</u>

Advances to suppliers aged over one year mainly include advance payments to acquire plant and machinery.

(b) There are no balances included in advances to suppliers which are due from shareholders who hold more than 5% (including 5%) of the shares of the Company.

6. Inventories

	December 31, 2002			December 31, 2003
Cost:				
Raw materials	545,795,573			749,200,037
Work in progress	256,221,000			268,921,978
Finished goods	326,050,136			309,593,221
Spare parts	436,587,400			412,354,385
Low value consumables and packing materials	8,337,412			6,776,048
	<u>1,572,991,521</u>			<u>1,746,845,669</u>
		Additions	Deductions	
Provision for diminution in value of inventories:				
Raw materials	(46,670,167)	(11,908,852)	–	(58,579,019)
Work in progress	(8,360,704)	–	1,210,772	(7,149,932)
Finished goods	(27,515,961)	–	5,801,726	(21,714,235)
Spare parts	(96,216,728)	–	5,854,084	(90,362,644)
Low value consumables and packing materials	–	(947,006)	–	(947,006)
	<u>(178,763,560)</u>	<u>(12,855,858)</u>	<u>12,866,582</u>	<u>(178,752,836)</u>
	<u>1,394,227,961</u>			<u>1,568,092,833</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

7. Prepaid expenses

	January 1, 2003	Additions	Amortization	December 31, 2003
Catalyst	7,688,911	58,910,836	(56,380,156)	10,219,591
Insurance premium	2,219,339	3,020,767	(4,190,487)	1,049,619
Other	7,483,959	14,068,237	(20,426,143)	1,126,053
	<u>17,392,209</u>	<u>75,999,840</u>	<u>(80,996,786)</u>	<u>12,395,263</u>

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

8. Long-term equity investments

	January 1, 2003	Additions	Decrease	December 31, 2003
Jointly controlled entity	44,058,852	9,663,769	–	53,722,621
Associated company	18,908,478	–	(14,000,808)	4,907,670
	<u>62,967,330</u>	<u>9,663,769</u>	<u>(14,000,808)</u>	<u>58,630,291</u>

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

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

8. Long-term equity investments (Cont'd)

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held			Original investment		December 31, 2003
		January 1, 2003 %	December 31, 2003 %	January 1, 2003	Additions	Decrease	
Unconsolidated subsidiary Xinghua (Note IV (i))		-	-	-	-	-	-
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	December 31, 2003 book value
Jointly controlled entity BASF	44,058,852	-	-	9,663,769	-	53,722,621
Associated company Lianli	18,908,478	-	-	(14,000,808)	-	4,907,670
	62,967,330	-	-	(4,337,039)	-	58,630,291

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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
Transfer from CIP (Note V 10)	52,235,567	1,461,830,579	65,777,215	4,360,039	1,584,203,400
Other additions	46,894,467	4,260,440	99,642,883	-	150,797,790
Disposals	(11,006,198)	(37,243,045)	(17,439,469)	(3,019,088)	(68,707,800)
December 31, 2003	1,738,961,157	11,574,319,743	2,465,535,711	144,000,942	15,922,817,553
Accumulated depreciation					
January 1, 2003	567,645,469	2,810,099,346	1,585,998,968	81,036,036	5,044,779,819
Depreciation	83,830,083	585,940,091	178,612,016	15,190,084	863,572,274
Disposals	(2,490,038)	(14,093,584)	(12,299,979)	(110,052)	(28,993,653)
December 31, 2003	648,985,514	3,381,945,853	1,752,311,005	96,116,068	5,879,358,440
Net book value					
December 31, 2003	1,089,975,643	8,192,373,890	713,224,706	47,884,874	10,043,459,113
December 31, 2002	1,083,191,852	7,335,372,423	731,556,114	61,623,955	9,211,744,344
Provision for impairment					
January 1, 2003	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
Additions	-	-	-	-	-
December 31, 2003	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
Net book amount					
December 31, 2003	1,031,822,269	7,984,129,968	660,316,246	43,346,698	9,719,615,181
December 31, 2002	1,025,038,478	7,127,128,501	678,647,654	57,085,779	8,887,900,412

As at December 31, 2003, the cost of fully depreciated fixed assets still in use amounted to RMB503,372,354.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

10. Construction in progress

Name of project	Budget	January 1, 2003	Additions	Transfer out to fixed assets	Transfer out to intangible assets	December 31, 2003	Source of funds	Additions as a % of budget
Synthetic ammonia facilities(a)	1,612,640,000	1,471,035,453	128,689,649	(1,331,795,375)	(267,929,727)	-	Borrowings/ Working capital	99%
AES facilities	86,308,900	76,746,828	14,958,866	(91,705,694)	-	-	Working capital	106%
Nitric acid facilities	28,790,000	212,629	26,544,418	(26,757,047)	-	-	Working capital	93%
Boiler facilities	42,704,000	-	17,029,121	(17,029,121)	-	-	Working capital	40%
other(b)		42,677,350	106,600,633	(116,916,163)	-	32,361,820		
		1,590,672,260	293,822,687	(1,584,203,400)	(267,929,727)	32,361,820		
Including: Interest capitalized			121,891,984	23,435,183	(145,327,167)	-		
		1,590,672,260				32,361,820		

- (a) The major part of synthetic ammonia facilities was completed in June 2003. The Company transferred it out to the fixed assets and began depreciation according to estimation cost. In the second half-year of 2003, the synthetic ammonia supporting facilities were subsequently completed. The Company therefore adjusted its estimation cost according to the total completion cost amounted to RMB1,599,725,102, including technical know-how of the project.
- (b) Other projects represent construction in progress with individual cost of less than RMB15 million.
- (c) The annual capitalization rate used for determining the amount of interest capitalized as construction in progress in 2003 is 5.50% (2002: 5.52%).
- (d) At December 31, 2003, there was no significant impairment for construction in progress (2002: nil).

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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	–	274,324,540	274,324,540
December 31, 2003	1,149,201,148	914,208,066	2,063,409,214
Accumulated amortization			
January 1, 2003	189,972,278	295,900,010	485,872,288
Amortization	23,160,331	90,857,706	114,018,037
December 31, 2003	213,132,609	386,757,716	599,890,325
Net book value			
December 31, 2003	936,068,539	527,450,350	1,463,518,889
December 31, 2002	959,228,870	343,983,516	1,303,212,386
Remaining years of amortization	41-48 years	4-10 years	

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

12. Long-term deferred expenses

	Cost	Accumulated amortization	January 1, 2003	Additions	Amortization	December 31, 2003	Remaining years of amortization
Catalyst	245,839,943	144,165,857	121,559,812	37,235,092	(57,120,818)	101,674,086	1-5
Other	11,322,461	11,244,905	986,412	–	(908,856)	77,556	1-2
	<u>257,162,404</u>	<u>155,410,762</u>	<u>122,546,224</u>	<u>37,235,092</u>	<u>(58,029,674)</u>	<u>101,751,642</u>	

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

13. Short-term loans

	December 31, 2003	December 31, 2002
Guaranteed loans – RMB	49,600,000	64,600,000
Secured loans – RMB	–	120,000,000
Unsecured loans – RMB	<u>3,155,000,000</u>	<u>3,691,860,000</u>
	<u>3,204,600,000</u>	<u>3,876,460,000</u>

At December 31, 2003, guaranteed loans totalling RMB49.6 million were guaranteed by Jilin Merchandise Group.

Pursuant to the loan facility commitment letter of February 6, 2004, CP Finance has confirmed to extend period of RMB8 billion credit facilities to the Company to December 31, 2005. At December 31, 2003, total borrowings from CP Finance amounted to RMB3,155 million.

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

15. Taxes payable

	December 31, 2003	December 31, 2002
Value added tax	77,129,821	(101,830,461)
Business tax	926,463	1,525,313
City construction and maintenance tax	6,416,947	(5,123,248)
Consumption tax	86,463,775	14,955,219
Income tax	1,149,626	2,809,745
Property tax	203,902	40,019
Land use tax	–	65,808
Other	2,628,934	1,441,257
	<u>174,919,468</u>	<u>(86,116,348)</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

16. Accrued expenses

	December 31, 2003	December 31, 2002
Interest expense on loans	<u>53,728,325</u>	<u>28,397,947</u>

17. Long-term liabilities due within one year

	December 31, 2003	December 31, 2002
Long-term loans due within one year (Note V 18)		
Guaranteed loans – USD	136,449,730	156,866,458
Unsecured loans – RMB	646,400,000	1,195,950,000
– USD	<u>3,082,097</u>	<u>12,413,447</u>
	<u>785,931,827</u>	<u>1,365,229,905</u>
Other long-term liabilities due within one year (Note V 19)		
Guaranteed loans – USD	46,283,713	202,819,359
– JPY	52,686,606	55,687,083
– EUR	<u>12,497,131</u>	<u>36,488,431</u>
	<u>111,467,450</u>	<u>294,994,873</u>
	<u>897,399,277</u>	<u>1,660,224,778</u>

18. Long-term loans

	December 31, 2003	December 31, 2002
Guaranteed loans	1,003,669,968	1,094,950,298
Unsecured loans	<u>1,073,970,338</u>	<u>1,840,958,021</u>
	<u>2,077,640,306</u>	<u>2,935,908,319</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

18. Long-term loans (Cont'd)

Name of lender	Balance at December 31, 2003	Currency	Foreign currency amount	Exchange rate	Interest rate (%)	Due date	Conditions
CP Finance	163,000,000	RMB			5.42	December 18, 2006	Unsecured
CP Finance	1,000,000,000	RMB			5.18	March 8, 2007	Unsecured
CP Finance	185,900,000	RMB			5.18	July 10, 2004	Unsecured
CP Finance	200,000,000	RMB			5.18	July 26, 2004	Unsecured
CP Finance	88,000,000	RMB			5.18	September 20, 2004	Unsecured
Industrial and commercial Bank of China, Jihua sub-branch	9,500,000	RMB			6.03	December 29, 2004	Unsecured
Construction Bank of China, Jilin Branch	161,680,501	USD	19,534,416	8.2767	8.66	September 30, 2009	Guaranteed by JCGC
Construction Bank of China, Jilin Branch	121,734,720	USD	14,708,123	8.2767	8.42	July 31, 2010	Guaranteed by JCGC
Development Bank of China	756,152,587	USD	91,359,187	8.2767	5.50	April 1, 2012	Guaranteed by PetroChina
Development Bank of China	100,551,890	USD	12,148,790	8.2767	5.50	December 17, 2006	Guaranteed by PetroChina
Bank of China, Changchun sub-branch	77,052,435	USD	9,309,560	8.2767	-	September 29, 2029	Unsecured
	<u>2,863,572,133</u>						
Current portion of long-term loans (Note V 17)	<u>(785,931,827)</u>						
	<u><u>2,077,640,306</u></u>						

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

19. Other long-term liabilities

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

	December 31, 2003	December 31, 2002	Interest rate
Payables to JCGC – Ethylene Project loans	441,725,544	1,185,891,420	4.1%–8.3%
Other long-term liabilities due within one year (Note V 17)	(111,467,450)	(294,994,873)	
	<u>330,258,094</u>	<u>890,896,547</u>	

As at December 31, 2003, the payables to JCGC of RMB441,725,544 (2002: RMB1,185,891,420) are bank loans borrowed through JCGC and Guaranteed by PetroChina.

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

	December 31, 2003		December 31, 2002	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	22,185,978	183,626,680	100,959,548	835,672,463
Japanese Yen	2,661,137,500	205,607,466	3,592,525,000	248,009,963
Euro	5,077,372	52,491,398	11,835,224	102,208,994
		<u>441,725,544</u>		<u>1,185,891,420</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

20. Share capital

	December 31, 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.
- (c) Pursuant to the approval of China Securities Regulatory Commission Zhengjianfazi [1996] No. 234, the Company issued 50,000,000 A shares, with a par value of RMB1.00 each, of which 30,000,000 shares were issued to the public at RMB3.5 per share and the remaining 20,000,000 shares were issued to the Company’s employees at the same price. The 30,000,000 A shares issued to the public were traded on the Shenzhen Stock Exchange on October 15, 1996 and the 20,000,000 A shares issued to the employees were traded on the Shenzhen Stock Exchange on April 15, 1997.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

20. Share capital (Cont'd)

- (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 totalled 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	December 31, 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
	<u>2,293,618,886</u>	<u>—</u>	<u>—</u>	<u>2,293,618,886</u>

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	—	—	—	—
December 31, 2003	<u>160,154,718</u>	<u>126,834,279</u>	<u>414,453,720</u>	<u>701,442,717</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

22. Common reserve funds (Cont'd)

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 year	423,995,152
	<hr/>
Accumulated losses at December 31, 2003	<u>(3,276,275,225)</u>

In accordance with the PRC Company Law and the Articles of Association of the Company, the Company is required to appropriate net profit after taxation in the following order:

- to offset accumulated losses
- to transfer 10% of profit after taxation to the statutory common reserve fund;
- to transfer 5% to 10% of profit after taxation to the statutory common welfare fund;
- to transfer to discretionary common reserve fund according to the approval of the shareholders' general meeting;
- to distribute common stock dividend.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

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.

	2003	2002
Petroleum products	9,948,167,788	5,602,601,377
Petrochemical and organic chemical products	7,814,273,582	5,793,474,653
Synthetic rubber products	1,136,993,183	782,559,373
Chemical fertilizers and inorganic chemical products	165,437,299	123,325,127
Other products and services	—	17,178,958
	<u>19,064,871,852</u>	<u>12,319,139,488</u>

The sales to the five largest customers of the Group in 2003 amounted to RMB12,559,404,622, representing 66% of Group's total sales.

25. Cost of sales

	2003	2002
Petroleum products	9,160,272,525	4,931,891,303
Petrochemical and organic chemical products	6,715,182,861	5,305,580,290
Synthetic rubber products	756,766,621	630,422,633
Chemical fertilizers and inorganic chemical products	179,132,220	190,181,151
Other products and services	—	16,328,822
	<u>16,811,354,227</u>	<u>11,074,404,199</u>

26. Sales tax and other levies

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

27. Other operating (loss)/profit

Other operating (loss)/profit mainly include sales of material and utilities, repairment and transportation fee.

Notes to the Financial Statements

For the year ended December 31, 2003

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

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

28. Financial expenses, net

	2003	2002
Interest expense	429,782,134	474,370,460
Less: Interest income	(1,531,084)	(1,364,376)
Exchange loss	37,152,525	48,724,978
Less: Exchange gain	(546,325)	(7,674,703)
Other	136,886	591,127
	<u>464,994,136</u>	<u>514,647,486</u>

29. Investment loss

	2003	2002
Share of profit/(loss) of jointly controlled entities	9,663,769	(8,432,952)
Share of (loss)/profit of an associated company	(14,000,808)	124,709
	<u>(4,337,039)</u>	<u>(8,308,243)</u>

30. Non-operating expenses

	2003	2002
Loss on impairment of fixed assets	–	323,843,932
Loss on disposal of fixed assets	39,714,147	286,682,529
Loss on temporary shutdown	13,777,231	26,723,972
Flood fund	11,296,447	11,908,759
Other	183,148	12,458,604
	<u>64,970,973</u>	<u>661,617,796</u>

31. Income tax

	2003	2002
Income tax:		
– Company	–	–
– Subsidiaries	270,108	351,996
Deferred tax	–	–
	<u>270,108</u>	<u>351,996</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

I. Accounts receivable

	December 31, 2003	December 31, 2002
Accounts receivable	1,096,788,839	1,568,910,289
Less: Specific provision	(868,267,608)	(865,211,208)
	<u>228,521,231</u>	<u>703,699,081</u>

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

	December 31, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	127,281,124	9	-	290,024,637	18	-
1-2 years	379,324	0	-	40,315,395	3	(18,149,672)
2-3 years	35,453,710	3	(30,098,105)	705,884,533	45	(314,375,812)
More than 3 years	933,674,681	88	(838,169,503)	532,685,724	34	(532,685,724)
	<u>1,096,788,839</u>	<u>100</u>	<u>(868,267,608)</u>	<u>1,568,910,289</u>	<u>100</u>	<u>(865,211,208)</u>

As certain customers have filed for bankruptcy in 2003, the Company has written off accounts receivable of RMB97,656,702, which had been fully provided during the year ended December 31, 2002.

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At December 31, 2003, the total balance of the five largest accounts receivable was RMB379,798,944, representing 35% 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 year end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At December 31, 2003, accounts receivable aged over 3 years which have not been provided provision mainly comprise receivables due from third party debtors of RMB78.46 million and JCGC of RMB17.05 million, respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at December 31, 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 necessary.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Cont'd)

2. Other receivables

	December 31, 2003	December 31, 2002
Other receivables	87,169,819	110,559,284
Less: Specific provision	(72,143,153)	(76,238,317)
	<u>15,026,666</u>	<u>34,320,967</u>

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

	December 31, 2003			December 31, 2002		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	2,078,625	1	(1,643,642)	11,722,821	11	-
1-2 years	3,520,589	5	(29,813)	4,774,364	4	(4,152,505)
2-3 years	2,554,706	3	(2,554,706)	69,820,950	63	(47,844,663)
More than 3 years	79,015,899	91	(67,914,992)	24,241,149	22	(24,241,149)
	<u>87,169,819</u>	<u>100</u>	<u>(72,143,153)</u>	<u>110,559,284</u>	<u>100</u>	<u>(76,238,317)</u>

As certain customers have filed for bankruptcy in 2003, the Company has written off other receivables of RMB4,095,164, which had been fully provided during the year ended December 31, 2002.

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2003, the total balance of the five largest other receivables was RMB10,299,416, representing 12% of the total other receivables balance.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Cont'd)

3. Long-term equity investments

	January 1, 2003	Additions	Decrease	December 31, 2003
Subsidiaries (Note (1))	110,751,579	-	(8,354,010)	102,397,569
Jointly controlled entity (Note (2))	44,058,852	9,663,769	-	53,722,621
Associated company (Note (2))	18,908,478	-	(14,000,808)	4,907,670
	<u>173,718,909</u>	<u>9,663,769</u>	<u>(22,354,818)</u>	<u>161,027,860</u>

(1) Subsidiaries

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		January 1, 2003 %	December 31, 2003 %	January 1, 2003	Additions	December 31, 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
				<u>147,602,180</u>	<u>-</u>	<u>147,602,180</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Cont'd)

3. Long-term equity investments (Cont'd)

(1) Subsidiaries (Cont'd)

- (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 profit/ (loss)	Dividend received	December 31, 2003 book value
Winsway	36,390,766	–	10,465	–	36,401,231
Songmei	45,195,204	–	(3,660,558)	–	41,534,646
Jianxiu	29,165,609	–	(4,703,917)	–	24,461,692
Xinghua					
(Note IV (i))	–	–	–	–	–
	<u>110,751,579</u>	<u>–</u>	<u>(8,354,010)</u>	<u>–</u>	<u>102,397,569</u>

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

4. Sales revenue

	2003	2002
Petroleum products	9,948,167,788	5,602,601,377
Petrochemical and organic chemical products	7,736,757,773	5,696,241,055
Synthetic rubber products	1,136,993,183	782,559,373
Chemical fertilizers and inorganic chemical products	165,437,299	123,325,127
Other products and services	–	17,178,958
	<u>18,987,356,043</u>	<u>12,221,905,890</u>

5. Cost of sales

	2003	2002
Petroleum products	9,160,272,525	4,931,891,303
Petrochemical and organic chemical products	6,670,615,479	5,230,451,525
Synthetic rubber products	756,766,621	630,422,633
Chemical fertilizers and inorganic chemical products	179,132,220	190,181,151
Other products and services	–	16,328,822
	<u>16,766,786,845</u>	<u>10,999,275,434</u>

Notes to the Financial Statements

For the year ended December 31, 2003

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

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Cont'd)

6. Investment loss

	2003	2002
Share of profit/(loss) of jointly controlled entities	9,663,769	(8,432,952)
Share of (loss)/profit of an associated company	(14,000,808)	124,709
Share of loss of subsidiaries	(8,354,010)	(25,926,572)
	<u>(12,691,049)</u>	<u>(34,234,815)</u>

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS

(a) Related companies in which control exists:

Name of enterprise	Place of registration	Principal activities	Relationship with the Company	Nature of the enterprise	Legal representative
CNPC	PRC	Exploration, development, production and sale of natural resources	Ultimate holding company	State-owned enterprise	Ma Fucai
PetroChina	PRC	Exploration, manufacture and sale of petroleum and natural gas; pipeline transportation, manufacture and sale of petrochemical products	Immediate holding company	Joint stock limited company	Ma Fucai
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
Jinxiang(1)	PRC	Inspection, research and consultation of pressure vessels	Indirect subsidiary	Limited company	Li Jiangqiang

(1) Jinxiang is a subsidiary of Jianxiu established in 2003.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Cont'd)

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

Name	January 1, 2003	Additions	Decrease	December
	RMB'000			RMB'000
CNPC	114,900,000	-	-	114,900,000
PetroChina	175,824,180	-	-	175,824,180
Winsway	51,450	-	-	51,450
Songmei	72,000	-	-	72,000
Jianxiu	45,200	-	-	45,200
Jinxiang	-	2,000	-	2,000

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

Name	January 1, 2003		Additions		Decrease		December 31, 2003	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PetroChina	2,396,300	67	-	-	-	-	2,396,300	67

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

	Capital or equity held at January 1, 2003		Additions		Reduction		Capital or equity held at December 31, 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
Jixiang	-	-	1,881,000	94	-	-	1,881,000	94

Notes to the Financial Statements

For the year ended December 31, 2003

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

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(e) Related companies in which no control exists:

Name	Nature of the enterprise	Date of registration	Place of registration	Registered capital RMB'000	Currency	Equity percentage held at December 31, 2003	Principal activities
Jointly controlled entity – BASF	Sino-foreign joint venture	November 18, 1995	Jilin	150,000	RMB	40%	Manufacturing of petrochemical products
Associated company – Lianli	State-owned	March 22, 2001	Jilin	42,210	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.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) Significant related party transactions

	2003	2002
CNPC Group Companies		
Loans drawn	5,308,460,000	4,579,050,000
Interest expenses	305,319,225	373,664,547
Purchase of raw materials and spare parts	66,788,969	30,641,101
JCGC Group Companies		
Sale of goods	908,009,024	658,700,010
Sub-contracting fees	16,694,354	23,880,008
Construction of fixed assets	65,653,277	165,560,300
Purchase of raw materials and spare parts	290,001,898	269,780,110
Fees for welfare and support services	228,827,631	114,749,571
Purchase of fixed assets (1)	159,500,000	–
PetroChina Group Companies		
Purchase of crude oil	8,067,989,222	5,883,507,068
Purchase of raw materials	1,266,922,960	694,206,291
Sale of gasoline	2,656,296,028	1,759,816,373
Sale of diesel oil	5,615,330,749	2,981,183,764
Sale of petrochemical goods	4,083,317,845	2,190,492,331
Expenses paid on behalf	2,397,842	20,978,886
Property safe and insurance fund (2)	35,278,452	35,985,017
Lianli		
Sale of goods	40,922,202	39,112,158
Jilian (Jilin) Petrochemicals Limited (3)		
Sale of petrochemical goods	–	258,870,391

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

- (1) As at December 31, 2003, the Group purchased certain equipments such as water filtering system and ammonia liquefier system from JCGC for a consideration of RMB159.50 million based on a revaluation conducted by a professional valuer, China United Appraisal Limited. The consideration was settled by offsetting against the Company's accounts receivable from JCGC of RMB159.50 million. The transaction had been approved by board of directors and minority shareholders.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(f) Significant related party transactions (Cont'd)

- (2) The Group participates in the property safe and insurance fund plan established and organized by CNPC under which it is required to make annual contribution to the plan at the 0.4% of the average cost of fixed assets and inventory. The fund is mainly used to compensate for the accidental property loss.
- (3) Before December 2002, Jilian (Jilin) Petrochemicals Limited ("Jilian") was jointly controlled by the Company and the other joint venture partner and the Company owned 65% interest. 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

	December 31, 2003	December 31, 2002
Accounts receivable from		
– PetroChina Group Companies	41,663,413	242,923,710
– JCGC Group Companies	171,926,626	346,502,613
– Lianli	23,759,065	24,131,819
<i>Accounts receivable due from related parties are for goods sold to these companies.</i>		
Other receivables from		
– JCGC Group Companies	8,650,856	8,320,638
<i>Other receivables due from related parties are mainly for expenses paid on their behalf.</i>		
Advances to suppliers to		
– JCGC Group Companies	24,599,505	2,772,794

The balance mainly represents advance payments for import of machinery through JCGC.

Notes to the Financial Statements

For the year ended December 31, 2003

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

VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Cont'd)

(g) Related party balances (Cont'd)

	December 31, 2003	December 31, 2002
Accounts payable to		
– CNPC Group Companies	(3,763,947)	(1,526,853)
– PetroChina Group Companies	(155,824,055)	(58,086,005)
– JCGC Group Companies	(88,345,816)	(121,904,421)
Advances from		
– PetroChina Group Companies	(801,480,000)	–
– JCGC Group Companies	(9,325,875)	(5,382,817)
Other payables to		
– JCGC Group Companies	(42,893,478)	(182,970,214)
Short-term loans from		
– CP Finance	(3,155,000,000)	(3,577,860,000)
Long-term loans from		
– CP Finance	(1,636,900,000)	(2,932,700,000)
Other long-term liabilities from		
– JCGC Group Companies	(441,725,544)	(1,185,891,420)

(h) Loans guaranteed by related parties

	December 31, 2003	December 31, 2002
Guaranteed by		
– PetroChina Group Companies (Note V 18, 19)	(1,298,430,021)	(2,124,936,345)
– JCGC Group Companies (Note V 18)	(283,415,221)	(327,771,831)

Notes to the Financial Statements

For the year ended December 31, 2003

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

VIII. CAPITAL COMMITMENTS

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

	December 31, 2003	December 31, 2002
Property, plant and equipment	<u>8,680,000</u>	<u>94,256,000</u>

IX. NET PROFIT BEFORE NON-OPERATING LOSS

	2003
Net profit	423,995,152
Add/(Deduct): non-operating (profit)/loss	
– Net loss from disposal of fixed assets	26,378,799
– Non-seasonal shutdown	13,777,231
– reversal of assets impairment provision	(12,866,582)
– Subsidy income	(502,000)
– Others	(1,041,678)
	<u>449,740,922</u>
Net impact on income tax	–
Net profit before non-operating loss	<u>449,740,922</u>