2004

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

Interim Report 2004

CONTENTS

IMPORTANT NOTICE

The board of directors (the "Board") of Jilin Chemical Industrial Company Limited (the "Company") 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 2004 prepared under the People's Republic of China (the "PRC") Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS") are unaudited.

The directors Xu Fengli, Zhang Xingfu, Ni Muhua, Lan Yunsheng, Lü Yanfeng, Wang Peirong and Zhou Henglong did not attend the board meeting. The directors Xu Fengli, Zhang Xingfu, Ni Muhua and Lan Yunsheng appointed the chairman of the Board, Yu Li, and the independent non-executive directors, Lü Yanfeng, Wang Peirong and Zhou Henglong appointed the independent non-executive director, Fanny Li, to attend and vote on their behalf in respect of the resolutions considered at the meeting.

The chairman, Yu Li, the chief financial officer, Zhang Liyan, and the head of the finance department, Liao Hongwei, accept full responsibility for the truthfulness and completeness of the financial statements contained in this interim report.

	Pages
COMPANY PROFILE	2
CHANGES IN SHARE CAPITAL STRUCTURE AND SUBSTANTIAL SHAREHOLDERS	5
DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT	7
MANAGEMENT DISCUSSION AND ANALYSIS	8
REVIEW OF SIGNIFICANT EVENTS	14
FINANCIAL STATEMENTS	
Prepared Under International Financial Reporting Standards (unaudited)	
– Consolidated Interim Condensed Profit and Loss Account	18
– Consolidated Interim Condensed Balance Sheet	19
– Consolidated Interim Condensed Cash Flow Statement	20
– Consolidated Interim Condensed Statement of Changes in Shareholders' Equity	21
– Notes to the Consolidated Interim Condensed Financial Statements	22
Prepared Under PRC GAAP (unaudited)	
– Consolidated and Company Balance Sheets	32
– Consolidated and Company Profit and Loss Accounts	34
– Consolidated and Company Profit Appropriation Statements	35
– Consolidated and Company Cash Flow Statements	36
– Notes to the Financial Statements	39
SUPPLEMENTARY INFORMATION	
– Significant Differences between PRC GAAP and IFRS	73
– Significant Differences between IFRS and US GAAP	75
– Asset Impairment Provision	79
DOCUMENTS AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION OF DOCUMENTS	80

COMPANY PROFILE

Chinese Name	:	吉林化學工業股份有限公司
English Name	:	JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
Abbreviation	:	吉林化工
Initials	:	JCIC
Registered Address	:	No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
Postal Code	:	132021
Website	:	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
Facsimile Number	:	(86432) 3028126
E-mail	:	zly@jcic.com.cn
Newspapers Designated by the Company for Information Disclosure	:	《China Securities》, 《Securities Times》; 《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 : Suite 2003-5 Vicwood Plaza 199 Des Voeux Road Central, 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 11th Floor, PricewaterhouseCoopers Center, 202 Hu Bin 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,		
	2004 ***RMB*** **unaudited**	2003 *RMB* audited	Increase/ (decrease) *(%)*
Net profit	**605,087,927**	240,972,838	151
Net profit before non-operating loss	**644,854,087**	286,004,192	125
Earnings per share	**0.17**	0.07	143
Return on net assets *(%)*	**15.58**	7.8	99.7
Net cash flow from operating activities	**1,478,751,765**	1,912,198,933	(23)

	As at 30th June,	As at 31st December,	
	2004 ***RMB*** **unaudited**	2003 *RMB* audited	Increase/ (decrease) *(%)*
Current assets	**2,174,399,104**	2,055,890,015	6
Current liabilities	**7,529,678,696**	7,716,335,313	(2)
Total assets	**13,202,210,650**	13,434,897,838	(2)
Shareholders' equity (excluding minority interests)	**3,884,952,305**	3,279,864,378	18
Net assets per share	**1.09**	0.92	18
Adjusted net assets per share	**1.05**	0.86	22

Note: Non-operating loss was RMB39,766,160, of which reversal of assets impairment provision was RMB1,570,546, net loss from disposal of fixed assets was RMB34,157,624, loss on non-seasonal shutdown was RMB6,045,532 and other losses were RMB1,133,550.

Prepared in Accordance with IFRS

	For the six months ended 30th June, 2004 RMB'000 unaudited	2003 RMB'000 unaudited
Net profit	**606,354**	242,843
Earning per share	**RMB0.17**	RMB0.07
Return on net assets (%)	**19.45**	10.40

	As at 30th June, 2004 RMB'000 unaudited	As at 31st December, 2003 RMB'000 unaudited
Shareholders' equity	**3,116,910**	2,510,556
Net assets per share	**RMB0.88**	RMB0.70

SIGNIFICANT DIFFERENCES BETWEEN PRC GAAP AND IFRS

During the reporting period, net profit and net assets under PRC GAAP were RMB605.09 million and RMB3,884.95 million, respectively, net profit and net assets under IFRS were RMB606.35 million and RMB3,116.91 million, respectively. The significant differences between PRC GAAP and IFRS are set out in the "Supplementary Information" section to this interim report.

Return on net assets and profit per share were prepared in accordance with No. 9 Regulations regarding the Preparation of Information Announcement for Public Listed Companies Issued by CSRC:

Profit for the six months ended 30th June, 2004	Return on net assets (%) Fully diluted	Return on net assets (%) Weighted average	Profit per share (RMB) Fully diluted	Profit per share (RMB) Weighted average
Profit from principal operations	31.79	34.47	0.3468	0.3468
Operating profit	16.97	18.41	0.1852	0.1852
Net profit	15.58	16.89	0.1699	0.1699
Net profit before non-operating loss	16.60	18.00	0.1811	0.1811

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, 2004, the Company had a total of 61,583 shareholders.

SUBSTANTIAL SHAREHOLDERS

1. As at 30th June, 2004, the ten largest shareholders of the Company were as follows:

Name of shareholders	Class	Number of shares held *(shares)*	Increase/ (decrease) of shares during the reporting period *(shares)*	Percentage of holding *(%)*
1. PetroChina Company Limited	A shares	2,396,300,000	–	67.2914
2. HKSCC Nominees Limited	H shares	815,734,699	3,414,000	22.9070
3. HSBC Nominees (Hong Kong) Limited	H shares	135,487,300	200,000	3.8047
4. Industrial and Commercial Bank of China-Buo Shi Shares and Securities Investment Funds	A shares	2,928,262	2,928,262	0.0822
5. Chen Yu	A shares	1,870,000	180,000	0.0525
6. Zhang Li	A shares	1,510,000	20,000	0.0424
7. Qiao Liang	A shares	1,450,000	1,450,000	0.0407
8. Shanghai Hao Duo Network Information Technology Company Limited	A shares	1,391,000	1,391,000	0.0391
9. Zhao Ying	A shares	1,070,000	1,070,000	0.0300
10. Huang Sujie	A shares	1,060,000	1,060,000	0.0298

Notes:

1. As far as the Company is aware, the ten largest shareholders of the Company are not related or concerted parties.

2. PetroChina Company Limited ("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, 2004.

3. There were no shareholders for whom HKSCC Nominees Limited acted as nominees whose shareholding accounted for 5 per cent or more of the total number of shares issued by the Company.

2. As at 30th June, 2004, the ten largest shareholders of listed shares of the Company were as follows:

	Name of shareholders	Class	Number of shares held *(shares)*	Increase/(decrease) of shares during the reporting period *(shares)*	Percentage of holding *(%)*
1.	HKSCC Nominees Limited	H shares	815,734,699	3,414,000	22.9070
2.	HSBC Nominees (Hong Kong) Limited	H shares	135,487,300	200,000	3.8047
3.	Industrial and Commercial Bank of China-Buo Shi Shares and Securities Investment Funds	A shares	2,928,262	2,928,262	0.0822
4.	Chen Yu	A shares	1,870,000	180,000	0.0525
5.	Zhang Li	A shares	1,510,000	20,000	0.0424
6.	Qiao Liang	A shares	1,450,000	1,450,000	0.0407
7.	Shanghai Hao Duo Network Information Technology Company Limited	A shares	1,391,000	1,391,000	0.0391
8.	Zhao Ying	A shares	1,070,000	1,070,000	0.0300
9.	Huang Sujie	A shares	1,060,000	1,060,000	0.0298
10.	Qiao Hong	A shares	990,000	990,000	0.0278

Note: The Company is unaware of any relationship among the ten largest shareholders of listed shares of the Company or whether they are concerted parties.

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 the supervisor, Mr. Zou Haifeng, held 3,550 shares in the Company, respectively; the supervisor, Mr. Li Shumin, held 7,000 shares in the Company; and none of the other directors, supervisors and senior management held any shares in 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 20th April, 2004, Messrs. Yu Li, Xu Fengli, Shi Jianxun, Zhang Xingfu, Lan Yunsheng, Ni Muhua, Jiang Jixiang, Wang Peirong, Lü Yanfeng and Zhou Henglong and Ms. Fanny Li were elected as the directors of the 4th board of directors of the Company, and Messrs. Zou Haifeng, Yang Jigang, Yan Weidong and Li Shumin were elected as the supervisors of the 4th Supervisory Committee at the extraordinary general meeting. On that day, the Company held a board meeting, at which Messrs. Yu Li and Xu Fengli were elected as chairman and deputy chairman of the Company respectively, Mr. Shi Jianxun was re-appointed as general manager and Messrs. Zhang Xingfu and Li Chongjie were re-appointed as deputy general manager, Mr. Zhang Liyan was elected as deputy chief financial officer and secretary of the Company, and Mr. Shi Jianxun and Ms. Zhang Liyan were approved as the Company's authorized representatives. Mr. Zou Haifeng was elected as chairman of the board of supervisors of the Company at the supervisory meeting.

PRODUCTION AND OPERATION WITHIN THE REPORTING PERIOD

I. Overall Operation

The Group is principally engaged in the production and sales of petroleum products, petrochemical, organic chemical and synthetic rubber products.

During the first half of 2004, guided by the principles set down at the beginning of the year, that is, "strict and micro management", the Company ensured that work safety and implementation of its goals was its principal responsibility. The Company seized the opportunity afforded by a rise in the price of its products, to further enlarge production output and sales and strengthen financial management. Together with the reduction in costs, the Company has been able to succeed in various projects and the Company's profits have continued to rise and the major technical and economic targets have reached their historical high.

For the first half of 2004, the aggregate sales of the Company and its subsidiaries (together "the Group") amounted to 3.94 million tons, an increase of 32% from the same period in 2003. In accordance with PRC GAAP, actual realised sales revenue and net profit of the Company increased by 41% and 151% as compared to the same period in 2003. In accordance with IFRS, actual sales and net profits of the Company increased by 48% and 150% as compared to the same period in 2003.

II. Operating Revenues and Profits from Principal Business Activities

For the first half of 2004, in accordance with PRC GAAP, actual realized sales revenue from the sale of the Group's petroleum products was RMB6,431.75 million, which accounted for 51% of the revenue from principal business activities and the requisite cost of sales was RMB6,132.24 million, with a gross profit margin of 5%; actual realized sales revenue from the sale of petrochemical and organic chemical products was RMB5,062.35 million, which accounted for 40% of the revenue from principal business activities and the requisite cost of sales was RMB3,925.91 million, with a gross profit margin of 22%. Under IFRS, realized sales actual revenue from the sales of the Group's petroleum products was RMB6,212.55 million which accounted for 45% of the revenue; realized sales actual revenue from the sales of petrochemical and organic chemical products was RMB5,493.96 million which accounted for 40% of the revenue.

The Company's principal business is conducted in the PRC and does not engage in any other industry other than the petrochemical industry. During the reporting period, there was no change in the Company's principal business, nor was the Company engaged in any other business which had material impact on its net profits during such reporting period.

During the reporting period, no jointly-invested company had an impact of more than 10% on the net profits of the Company.

OPERATING RESULTS AND FINANCIAL RESULTS ANALYSIS

I. Under PRC GAAP

For the six months ended 30th June, 2004, revenue realized from the principal business of the Group was RMB12,556.72 million, an increase of 41% from the same period in 2003; the profits recognized were RMB605.09 million, an increase of 151% from the same period in 2003.

1. *Analysis of each of the principal products of the Group*

(1) Petroleum Products

In the first half of 2004, revenue realized from the sale of petroleum products was RMB6,431.75 million, an increase of RMB2,106.92 million from the same period in 2003. The increase was primarily attributable to an increase in market demand and the increase in the volume of crude oil to be processed. In the first half of 2004, the volume of processed crude oil was 3.01 million tons which represented an increase of 250,000 tons from the same period in 2003 and of which, crude oil purchased from Russia accounted for 720,000 tons, representing an increase by 240,000 tons.

In the first half of 2004, the sales volume of petroleum products was 2.66 million tons, representing an increase of 41% from the same period in 2003; the weighted average price was RMB2,416 per ton, which represented an increase of 5% as compared to the same period in 2003.

(2) Petrochemical and organic chemical products

In the first half of 2004, revenue realized from the sale of petrochemical and chemical products was RMB5,062.35 million, representing an increase of RMB1,105.40 million from the same period in 2003. This increase was principally attributable to an increase in the demand of petrochemicals from enterprises engaged in the downstream segment of the petrochemical industry, resulting in an increase of product prices. There was no obvious change in the sales volume of such products as compared to the same period in 2003 and the weighted average price increased by 30%.

(3) Synthetic rubber products

In the first half of 2004, revenue realized from the sale of synthetic rubber products was RMB723.28 million, an increase of RMB187.37 million from the same period in 2003. The increase was principally attributable to an increase in market demand, which has resulted in the sales volume and weighted average price of these products increasing by 10% and 23%, respectively, as compared to the same period in 2003.

2. *For the six months ended 30th June, 2004, the Company's financial expenses decreased by RMB94.70 million, of which:*

(1) interest expenses decreased by 35% from RMB236.59 million in the first half of 2003 to RMB152.93 million in the first half of 2004. This decrease was primarily attributable to a reduction of interest bearing loans as taken out by the Group and the Company's replacing high-interest bearing loans with low-interest bearing loans;

(2) in the first half of 2004, the Group recorded a net exchange gain of RMB3.10 million, as compared to a net exchange loss of RMB8.08 million in the first half of 2003. This change was primarily due to the Group's foreign currency borrowings being affected by the interest rate fluctuations during the reporting period; and

(3) in the first half of 2004, the Group's share of profits of its jointly controlled entities and associates came to RMB13.56 million and in the first half of 2003, the Group's share of profits of its jointly controlled entities and associates was RMB2.60 million. This increase was primarily due to an increase in the profits of the Group's jointly controlled entities during the reporting period.

3. For the six months ended 30th June, 2004, non-operating expenses of the Group increased by RMB62.46 million from the same period in 2003. This increase was primarily due to provisions made for impairment loss and loss incurred from the disposal of fixed assets. For the first half of 2004, according to the relevant accounting rules and regulations applicable to enterprises and the Company's actual situation, impairment loss provision for construction-in-progress was RMB19.81 million, impairment loss provision for intangible assets was RMB6.70 million and fixed assets retirement was RMB35.67 million.

2. Under IFRS

In the first half of 2004, total turnover of the Group was RMB13,729.98 million, representing an increase of 48% as compared to the same period in 2003. This increase was primarily attributable to an increase in market demand, thus resulting in the simultaneous increase in the Group's sales volume and the weighted average price of its products.

1. Analysis of each of the principal products of the Group

(1) Petroleum Products

The revenue realized from the sale of petroleum products increased by 54%, from RMB4,021.32 million realized in the first half of 2003 to RMB6,212.55 million realized in the first half of 2004. The increase in sales revenue also represented an increase in the proportion of total turnover attributable to petroleum products from 43% in the first half of 2003 to 45% in the first half of 2004. The main reason for the revenues increase was an increase in market demand which led to an increase of sales volume and weighted average price of petroleum products by 41% and 9%, respectively, from the same period in 2003.

(2) Petrochemical and organic chemical products

Revenues of petrochemical and organic chemical products increased by 39%, from RMB3,939.21 million in the first half 2003 to RMB5,493.96 million in the first half 2004, which represented a reduction in the proportion of total turnover attributable to sale of such products from 42% in the first half of 2003 to 40% in the first half of 2004. This decrease was primarily attributable to an increase in market demand which has led to an increase in the revenues attributable to petroleum products and other products and services as a proportion of the Group's total turnover.

(3) Synthetic rubber products

Revenue of synthetic rubber products increased by 50%, from RMB533.83 million in the first half of 2003 to RMB800.35 million in the first half of 2004. The increase was principally attributable to an increase in market demand, which has resulted in the sales volume and weighted average price of these products increasing by 10% and 23%, respectively, as compared to the same period in 2003.

2. *Cost and expenditure*

The costs of sales increased by 48% from RMB8,527.36 million in the first half of 2003 to RMB12,615.95 million in the first half of 2004. This increase was primarily attributable to the increase in the sales volume of the Company's products, volume of crude oil processing and the price of other raw materials. In the first half of 2004, the weighted average crude oil price was RMB2,049 per ton, which represented an increase of 8% from the same period in 2003 and the volume of crude oil processing increased by 9% as compared to the first half of 2003.

Despite the increase in costs of sales, the Group's gross profit margin increased by 47% in the first half of 2004 from the same period in 2003 due to the substantial increase in the Group's total turnover.

Distribution, administrative fees and other operating expenses increased by 40%, from RMB274.67 million in the first half of 2003 to RMB384.77 million in the first half of 2004. This increase was primarily due to the provisions of RMB49.05 million made for trade receivables, construction in progress and intangible assets, loss incurred from the retirement of fixed assets of RMB34.16 million and the increase in employee compensation cost of RMB23.26 million during the reporting period.

Due to the aforesaid factors, the Group's operating profit increased from RMB480.84 million for the first half of 2003 to RMB729.26 million for the first half of 2004.

Interest expenses decreased by 35%, from RMB236.59 million in the first half of 2003 to RMB152.93 million in the first half of 2004. The decrease was primarily attributable to the reduction in the Group's interest bearing borrowings and the replacement of high-interest bearing loans with low-interest bearing loans during the reporting period.

In the first half of 2004, the Group recorded a net foreign exchange gain of RMB3.10 million, whereas the Group recorded a net foreign exchange loss of RMB8.08 million in the first half of 2003. This change was primarily due to the interest rate fluctuation for the Company's foreign currency borrowings during the reporting period.

In the first half of 2004, the Group's shares of profit of its jointly controlled entities and associates came to RMB13.56 million, as compared to RMB2.60 million in the first half of 2003. This was primarily attributable to the increase in the profits of the Group's jointly controlled entities and associates.

According to the relevant tax rules and regulations, due to the accumulated losses of the Company for and prior to the year ended 31st December, 2002, the Company is not yet required to pay enterprise income tax.

3. *Liquidity and Capital Resources*

The Company depends upon cash flow from operations and loans to satisfy its ongoing liquidity and capital needs.

Net cash flows from the Group's operating activities in the first half of 2004 was RMB1,295.92 million, as compared to RMB1,692.63 million in the first half of 2003. The decrease of net cash inflows was primarily due to cash outflows caused by the purchase of a larger quantity of raw materials in the first half of 2004 and increase in accounts receivable and inventory balances as at 30th June, 2004.

Net cash used in investing activities in the first half of 2004 was RMB195.20 million, as compared to RMB261.85 million in the first half of 2003. This decrease was due to a decrease in capital expenditure during the reporting period.

Net cash used in financing activities in the first half of 2004 was RMB1,119.94 million, as compared to RMB1,447.21 million in the first half of 2003. The change was due to an increase in net repayment of borrowings during the reporting period.

As at 30th June, 2004, the Group's current assets amounted to RMB2,174.40 million and the current liabilities amounted to RMB7,529.68 million, which caused a negative working capital of RMB5,355.28 million. The Group regularly reviews its working capital and liquidity position and ensures the short term obligations of the Group are satisfied through the refinancing of indebtedness and other measures. China Petroleum Finance Company Limited, a subsidiary of our ultimate beneficial shareholder, has agreed to extend the term of a RMB8 billion loan facility provided to the Group up to 31st December, 2005. The Company believes that it has sufficient capital resources to meet its foreseeable working capital needs. As at 30th June, 2004, the Group's capital liabilities ratio was 36% as compared to 49% as at 31st December, 2003 (the capital liabilities ratio is calculated by dividing the long-term liabilities by the aggregate of shareholders' equity and long-term liabilities)

As at 30th June, 2004, the Group's liquidity ratio was 29% and its quick ratio was 9%; inventory ratio was 8.23 times, an increase of 2.45 times as compared to the same period in 2003.

As at 30th June, 2004, the Group's aggregate borrowings were RMB5,389.96 million, a decrease of RMB1,119.94 million as compared to the figure as at 31st December, 2003, of which short-term borrowings was RMB3,620.39 million, representing a decrease of RMB481.61 million as compared to the level of short-term borrowings as at 31st December, 2003. As at 30th June, 2004, long-term borrowings was RMB1,769.57 million, representing a decrease of RMB638.33 million as compared to the same type of borrowings as at 31st December, 2003. These changes reflected an increase in the repayment amounts of the Group during the first half of 2004 caused by an increase in profitability which in turn led to a decrease in liabilities ratio.

The Group does not have seasonal demands for capital.

4. *Exchange Risk*

   On 30th June, 2004, the Group's short-term borrowings were denominated in Renminbi and the portion of long-term borrowings denominated in foreign currency translated into RMB1,132.39 million was mainly attributable to a foreign currency denominated loan related to the ethylene facility project. Foreign currencies denominated loans are mainly taken out in United States Dollar, Japanese Yen and Euro Dollar. The Group also experiences foreign exchange risk in making payments related to the import of raw materials and machinery, which needs to be converted into the applicable foreign currency from Renminbi. In addition, dividends for H shares are also payable in foreign currency. Hence, fluctuations in foreign currency exchange rates will have a significant impact on the Group. In the first half of 2004, the Group had a net foreign exchange gain of RMB3.10 million.

5. *Employees*

   As at 30th June, 2004, the number of employees employed by the Company stood at 21,438. The aggregate remuneration paid to them was RMB497.52 million.

6. *Charges of Assets*

   The Group has not created any charges on any of its principal assets as at 30th June, 2004.

7. *Contingent Liabilities*

   The Group did not have any significant contingent liabilities as at 30th June, 2004.

INVESTMENT (capital not obtained from fund-raising activities)

During the first half of 2004, the Company completed the renovation of the 150,000 tons/year ethylene production facility which was geared towards energy preservation. The total investment attributable to such project was RMB240.12 million as at 30th June, 2004.

PROSPECTS OF THE SECOND HALF OF 2004

During the second half of 2004, the Company shall follow the overall arrangements and rate of progress set down at the beginning of the year, overcoming all adverse factors and ensuring the further implementation of various projects. To achieve this, the Company is fully committed to strengthening its safe production management methods so as to ensure its production facilities run safely, reliably and at full capacity. The Company shall ensure that all hidden dangers be eliminated and further improve production methods, product mix and capital resources through the observance of market forces. The Company shall optimize the allocation of resources; secure the procurement of raw materials and fuel in large quantities (which include crude oil, Russian crude oil and coal) in order to ensure maximum economies of scale, and further enhance efficiency and development potentials. The Company aims to maximize both the national and overseas resources, to expand the size of its markets and raise the competitiveness of its products. Through strengthening of its financial management and strictly implementing its internal controls for financial management purposes, the Company aims to further reduce the proportion of interest bearing borrowings and efficiently deploy its capital. The Company expects the processing capacity for crude oil to reach over 3 million tons in the second half of 2004. Subject to crude oil prices not increasing at a significant level and the petrochemical market remaining relatively stable, the Company shall endeavour to increase its profits to 200% to 250% for the nine months ending 30th September, 2004 as compared to the same period in 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, 2004.

3. PREVIOUS YEAR'S PROFIT DISTRIBUTION

According to the Company's 2003 annual general meeting of the Company, no final dividend was declared and no transfer was made from the common reserve to the Company's share capital for 2003.

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

5. During the reporting period, there were no mergers, acquisitions or restructuring involving the Company or any member of the Group.

6. SIGNIFICANT CONNECTED TRANSACTION

The prices paid by the Company for utilities and supporting services supplied 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. The connected transactions of the Group were settled by debit of bank accounts. Such connected transactions were within the normal course of the Group's production and operations which also increased the Group's profit. Details of these connected transactions are set out in note 11 and VII to the financial statements prepared in accordance with IFRS and PRC GAAP, respectively.

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

A. PetroChina

Category of connected transaction	**For the six months ended 30th June, 2004** *(RMB thousand)*	**Percentage of the same type of transactions** *(%)*
Purchase of crude oil	6,346,803	100
Purchase of materials	889,065	73.21
Sale of gasoline	1,340,630	100
Sale of diesel	3,457,194	100
Sale of petrochemical products	4,042,490	68.26
Property safety and insurance fund	16,475	100

B. JCGC

Category of connected transaction	**For the six months ended 30th June, 2004** *(RMB thousand)*	**Percentage of the same type of transactions** *(%)*
Sale of goods	688,092	14.13
Construction of fixed assets	65,294	27.49
Purchase of raw materials and spare parts	46,101	8.74
Sub-contracting services	2,429	2.54
Purchase of utilities and supporting services	146,837	34.17
Operating lease rentals on land & property	4,320	100

C. CNPC

Category of connected transaction	**For the six months ended 30th June, 2004** *(RMB thousand)*	**Percentage of the same type of transactions** *(%)*
Loans drawn	4,438,120	91.42
Interest expense	122,557	77.69
Purchase of materials and spare parts	35,763	0.48

(2) 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.

7. MATERIAL CONTRACTS AND PERFORMANCE

(1) During the reporting period, the Company did not enter into any trust, sub-contracting or lease arrangements in respect of the assets of any third party nor has any third party entered into any trust, sub-contracting or lease arrangements in respect of the assets of the Company.

(2) The Company has not entered into any significant guarantees during the reporting period and no significant guarantees entered into prior to the reporting period has been extended to the reporting period.

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

8. The Company and its shareholders holding an interest of 5 per cent or more have not provided any undertakings that may have a significant impact on the Company's operating results and financial conditions.

9. Neither the Company, the Board nor any directors of the Company has experienced any reprimand, penalties or complaints from or faced investigation by CSRC, or any public reprimand from any stock exchanges or any regulatory authority during the reporting period.

10. PURCHASE, SALE AND REDEMPTION OF SHARES

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

11. CODE OF BEST PRACTICE

To the knowledge of the directors, the Company had complied with the requirements of the code of best practice which incorporates items set out in Appendix 14 to the Listing Rules during the reporting period.

12. TRUST DEPOSITS AND TRUST LOANS

As at 30th June, 2004, the Company did not have any trust deposits and trust loans with any financial institutions and did not encounter any difficulty in making withdrawals.

13. HOUSING REFORMS

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

In accordance with IFRS, the above 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, 2004, the total amount amortized was RMB45.23 million. The amount amortized in the first six months of 2004 was RMB4.66 million. As at 30th June, 2004, the above remaining deferred staff cost was approximately RMB38.86 million. In the opinion of the Board, if the aforesaid deferred staff cost was completely written off in the first half of 2004, the net assets of the Company as at 30th June, 2004 would be reduced by approximately RMB38.86 million. Other than the employees' housing reform programs mentioned above, the Company has not implemented any employees' housing plan.

14. INFORMATION RELATING TO FUND OCCUPATION BY THE CONTROLLING SHAREHOLDER AND SUBSIDIARIES OF THE COMPANY AND INDEPENDENT NON-EXECUTIVE DIRECTORS' OPINION

Excluding the normal course of production and operating activities, there were no instances where the controlling shareholder and its subsidiaries occupied the funds of the Company during the reporting period.

During the reporting period, the independent non-executive directors have not found any instances of fund occupation between the Company and the controlling shareholder and related parties to be outside the ordinary course of production and operating activities of the Company. The independent non-executive directors have not found any instances where the controlling shareholder and other related parties misused funds belonging to the Company or any instances of third party guarantees.

15. There were no other significant events during the reporting period.

The Board hereby announces the unaudited interim results of the Company and the Group for the six months ended 30th June, 2004 prepared under the PRC GAAP and 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 internal supervision and financial reports, including the unaudited financial statement prepared under the PRC GAAP and IFRS and the additional information in respect thereof for the six months ended 30th June, 2004.

UNAUDITED CONSOLIDATED INTERIM CONDENSED PROFIT AND LOSS ACCOUNT (PREPARED UNDER IFRS)

For the Six Months Ended 30th June, 2004

(RMB thousands except for per share data)

		Six months ended 30th June,	
		2004	2003
	Notes	***RMB***	*RMB*
Turnover	2	**13,729,975**	9,282,866
Cost of sales		**(12,615,949)**	(8,527,355)
Gross profit		**1,114,026**	755,511
Distribution costs		**(16,076)**	(14,910)
Administrative expenses		**(306,330)**	(253,128)
Other operating expenses, net		**(62,364)**	(6,629)
Operating profit	3	**729,256**	480,844
Interest expense	4	**(152,934)**	(236,587)
Interest income		**585**	2,606
Exchange loss		**(3,829)**	(8,632)
Exchange gain		**6,926**	548
Share of profit of a jointly controlled entity		**12,559**	2,825
Share of profit/(loss) of an associated company		**1,005**	(223)
Profit before taxation		**593,568**	241,381
Taxation		**–**	–
Profit before minority interests		**593,568**	241,381
Minority interests		**12,786**	1,462
Profit attributable to shareholders		**606,354**	242,843
Basic and diluted earnings per share	5	**RMB0.17**	RMB0.07
Dividend	6	**–**	–

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (PREPARED UNDER IFRS)

As of 30th June, 2004

(Amounts in thousands)

	Notes	**30th June, 2004 RMB**	31st December, 2003 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	7	**9,634,133**	9,929,535
Interests in a jointly controlled entity		**66,281**	53,722
Investment in an associated company		**5,913**	4,908
Intangible assets	7	**553,442**	621,534
		10,259,769	10,609,699
CURRENT ASSETS			
Inventories		**1,496,315**	1,568,093
Accounts receivable	8	**250,737**	184,756
Prepaid expenses and other current assets		**411,069**	267,542
Cash and cash equivalents		**16,278**	35,499
		2,174,399	2,055,890
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	9	**3,909,286**	3,614,336
Short-term borrowings	10	**3,620,393**	4,101,999
		7,529,679	7,716,335
NET CURRENT LIABILITIES		**(5,355,280)**	(5,660,445)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,904,489**	4,949,254
FINANCED BY:			
Share capital		**3,561,078**	3,561,078
Reserves		**2,100,345**	2,100,831
Accumulated losses		**(2,544,513)**	(3,151,353)
Shareholders' equity		**3,116,910**	2,510,556
Minority interests		**18,014**	30,800
NON-CURRENT LIABILITIES			
Long-term borrowings	10	**1,769,565**	2,407,898
		4,904,489	4,949,254

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT (PREPARED UNDER IFRS)

For the Six Months Ended 30th June, 2004

(Amounts in thousands)

	Notes	Six months ended 30th June, 2004 RMB	2003 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		**606,354**	242,843
Depreciation and amortisation		**562,937**	488,684
Provision for impairment of accounts receivables		**11,354**	31,859
Provision for impairment of prepaid expenses and other current assets		**11,179**	–
Provision/(reversal) for diminution in value of inventories and inventory writedowns	*3*	**79,169**	(393)
Provision for impairment of property, plant and equipment	*3*	**19,814**	–
Provision for impairment of intangible assets	*3*	**6,698**	–
Loss on disposal of property, plant and equipment	*3*	**34,158**	1,200
Increase in receivables		**(221,291)**	(27,213)
(Increase)/decrease in inventories		**(7,391)**	196,538
Increase in payables		**249,185**	710,006
Other, net		**(56,245)**	49,107
NET CASH PROVIDED BY OPERATING ACTIVITIES		**1,295,921**	1,692,631
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		**(196,718)**	(207,853)
Acquisition of Jilian *(a)*		**–**	(54,000)
Proceeds from disposal of property, plant and equipment		**1,515**	–
NET CASH USED FOR INVESTING ACTIVITIES		**(195,203)**	(261,853)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	*10*	**4,854,427**	2,605,947
Repayments of borrowings	*10*	**(5,974,366)**	(4,053,160)
NET CASH USED FOR FINANCING ACTIVITIES		**(1,119,939)**	(1,447,213)
Decrease in cash and cash equivalents		**(19,221)**	(16,435)
Cash and cash equivalents at beginning of period		**35,499**	32,805
Cash and cash equivalents at end of period		**16,278**	16,370

(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 31st December, 2002 was paid during the six months ended 30th June, 2003.

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (PREPARED UNDER IFRS)

For the Six Months Ended 30th June, 2004

(Amounts in thousands)

	Share capital	Accumulated losses	Reserves	Total
	RMB	*RMB*	*RMB*	*RMB*
Balance at 1st January, 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 30th June, 2003	3,561,078	(3,336,606)	2,101,318	2,325,790
Balance at 1st January, 2004	3,561,078	(3,151,353)	2,100,831	2,510,556
Net profit for the period	–	606,354	–	606,354
Transfer to accumulated losses on realisation of revaluation reserve	–	486	(486)	–
Balance at 30th June, 2004	**3,561,078**	**(2,544,513)**	**2,100,345**	**3,116,910**

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, 2004

(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, 2003.

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, 2004 to 30th June, 2004 is 33% (the estimated weighted average tax rate used for the six-month period from 1st January, 2003 to 30th June, 2003 was 33%).

The Group did not recognise deferred income tax assets in respect of tax losses at this point of time because management did not think it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

These unaudited consolidated interim condensed financial statements should be read in conjunction with the 2003 annual financial statements where the accounting policies are described in more detail.

The results of operations for the six months ended 30th June, 2004 are not necessarily indicative of the results to be expected for the full year ending 31st December, 2004.

2. SEGMENT INFORMATION

Six months ended 30th June, 2004

	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	6,212,553	5,493,959	616,306	800,349	606,808	13,729,975
Segment results	(93,733)	818,966	(91,967)	172,965	(76,975)	729,256
Finance costs, net						(149,252)
Share of profit of a jointly controlled entity	–	12,559	–	–	–	12,559
Share of profit of an associated company	–	–	–	–	1,005	1,005
Profit before taxation						593,568

Six months ended 30th June, 2003

	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	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 jointly controlled entities	–	2,825	–	–	–	2,825
Share of loss of an associated company	–	–	–	–	(223)	(223)
Profit before taxation						241,381

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

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

	Six months ended 30th June,	
	2004	2003
	RMB	*RMB*
Depreciation of property, plant and equipment	**501,375**	449,636
Loss on disposal of property, plant and equipment	**34,158**	1,200
Provision for impairment of property, plant and equipment	**19,814**	–
Provision for impairment of intangible assets	**6,698**	–
Provision for impairment of receivables (included in "administrative expenses")	**22,533**	31,859
Provision/(reversal) of diminution in value of inventories	**79,169**	(393)
Amortisation of intangible assets	**61,562**	39,048
Research and development expenditure	**192**	1,200
Employee compensation costs	**497,520**	310,800
Operating lease rentals on land and buildings	**4,320**	5,251
Repair and maintenance	**304,285**	131,981

4. INTEREST EXPENSE

	Six months ended 30th June,	
	2004	2003
	RMB	*RMB*
Interest expense	**152,934**	260,022
Less: Amount capitalised	**–**	(23,435)
	152,934	236,587

5. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the six months ended 30th June, 2004 have been computed by dividing the profit attributable to shareholders of RMB606,354 (2003: profit attributable to shareholders of RMB242,843) by the number of 3,561,078,000 shares issued and outstanding for the period.

6. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (2003: nil).

7. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment	**Intangible assets**
	RMB	*RMB*
Net book value:		
At 1st January, 2004	9,929,535	621,534
Additions	261,460	168
Disposals	(35,673)	–
Depreciation/amortisation	(501,375)	(61,562)
Impairment	(19,814)	(6,698)
At 30th June, 2004	**9,634,133**	**553,442**
Capital commitments contracted but not provided for:		
At 30th June, 2004	**28,560**	**–**
At 31st December, 2003	8,680	–

8. ACCOUNTS RECEIVABLE

	30th June, 2004 RMB	31st December, 2003 RMB
Due from third parties	**742,680**	815,487
Due from related parties		
– PetroChina Group Companies	**188,257**	41,663
– CNPC Group Companies	**–**	191
– JCGC Group Companies	**176,287**	171,927
– An associated company	**23,138**	23,759
	1,130,362	1,053,027
Less: Provision for impairment loss	**(879,625)**	(868,271)
	250,737	184,756

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 30th June, 2004 is as follows:

	30th June, 2004 RMB	31st December, 2003 RMB
Within 1 year	**190,703**	82,853
Between 1 to 2 years	**2,551**	379
Between 2 to 3 years	**3,336**	35,454
Over 3 years	**933,772**	934,341
	1,130,362	1,053,027

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	30th June, 2004 *RMB*	31st December, 2003 *RMB*
Trade payables	**1,781,940**	1,766,473
Advances from customers	**242,128**	457,114
Salaries and welfare payable	**311,255**	158,468
Other payables and accrued liabilities	**416,988**	122,018
Amounts due to related parties		
– PetroChina Group Companies	**1,039,935**	957,305
– CNPC Group Companies	**23,342**	3,764
– JCGC Group Companies	**89,104**	140,565
– An associated company	**4,594**	8,629
	3,909,286	3,614,336

Amounts due to related parties are interest free, unsecured and with no fixed term of repayment.

The ageing analysis of trade payables at 30th June, 2004 is as follows:

	30th June, 2004 *RMB*	31st December, 2003 *RMB*
Within 1 year	**1,641,250**	1,522,269
Between 1 to 2 years	**70,976**	191,714
Between 2 to 3 years	**26,576**	17,170
Over 3 years	**43,138**	35,320
	1,781,940	1,766,473

10. BORROWINGS

	30th June, 2004 RMB	31st December, 2003 RMB
Short-term borrowings	**3,620,393**	4,101,999
Long-term borrowings	**1,769,565**	2,407,898
	5,389,958	6,509,897

The movements in borrowings can be analysed as follows:

	30th June, 2004 RMB	30th June, 2003 RMB
Balance at 1st January,	**6,509,897**	9,363,490
New borrowings	**4,854,427**	2,605,947
Repayments of borrowings	**(5,974,366)**	(4,053,160)
Balance at 30th June,	**5,389,958**	7,916,277

	30th June, 2004 RMB	31st December, 2003 RMB
Short-term borrowings		
Bank loans – unsecured *(Note (i))*	**49,600**	49,600
Loans from a fellow subsidiary *(Note (ii))*	**3,398,470**	3,155,000
	3,448,070	3,204,600
Current portion of long-term borrowings	**172,323**	897,399
	3,620,393	4,101,999

(i) At 30th June, 2004, bank loans bear interest at the rate of 5.84% (31st December, 2003: 5.55%) per annum and are guaranteed by Jilin Merchandise Group, a third-party of the Group.

(ii) The outstanding loans are the drawn down part of the borrowing facilities provided by China Petroleum Finance Company Limited ("CP Finance"), a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China, totalling RMB8 billion. The loans are unsecured and bear interest at the average rate of 5% (31st December, 2003: 5.019%) per annum. On 6th February, 2004, CP Finance agreed to extend the borrowing facilities period to 31st December, 2005.

(iii) The carrying amounts of short-term borrowings approximate their fair value.

	30th June, 2004 *RMB*	31st December, 2003 *RMB*
Long-term borrowings		
Unsecured long-term borrowings	**1,941,888**	3,305,297
Current portion of long-term borrowings	**(172,323)**	(897,399)
	1,769,565	2,407,898
The analysis of the above long-term borrowings is as follows:		
Wholly repayable within five years	**1,840,693**	2,823,749
Not wholly repayable within five years	**101,195**	481,548
	1,941,888	3,305,297
Current portion of long-term borrowings	**(172,323)**	(897,399)
	1,769,565	2,407,898

Details of long-term borrowings are as follows:

	Interest rate and final maturity	30th June, 2004 RMB	31st December, 2003 RMB
Renminbi denominated loans	Floating interest rate at 5.18% to 6.03% per annum as of 30th June, 2004, with maturities through 2007	**809,500**	1,646,400
US dollar denominated loans	Floating interest rate at 0% to 8.66% per annum as of 30th June, 2004, with maturities through 2029	**912,579**	1,400,799
Japanese Yen denominated loans	Fixed interest rate at 4.10% to 5.30% per annum as of 30th June, 2004, with maturities through 2007	**177,185**	205,607
Euro denominated loans	Fixed interest rate at 8.30% per annum as of 30th June, 2004, with maturities through 2006	**42,624**	52,491
		1,941,888	3,305,297

11. RELATED PARTY TRANSACTIONS

	Notes	Six months ended 30th June, 2004 RMB	2003 RMB
PetroChina Group Companies			
Purchase of crude oil	*(a)*	**6,346,803**	4,132,060
Purchase of materials	*(a)*	**889,065**	641,224
Sale of gasoline	*(b)*	**1,340,630**	1,350,858
Sale of diesel	*(b)*	**3,457,194**	2,344,456
Sale of petrochemical goods	*(b)*	**4,042,490**	1,614,840
Property safety and insurance fund	*(c)*	**16,475**	19,333
CNPC Group Companies			
Interest expense	*(d)*	**122,557**	162,656
Loans drawn	*(e)*	**4,438,120**	2,552,040
Purchase of materials and spare parts	*(f)*	**35,763**	8,126
JCGC Group Companies			
Sale of goods	*(g)*	**688,092**	436,180
Sub-contracting services	*(h)*	**2,429**	2,420
Construction of fixed assets	*(i)*	**65,294**	22,609
Purchase of raw materials and spare parts	*(j)*	**46,101**	45,371
Purchase of utilities and supporting services	*(k)*	**146,837**	112,200
Operating lease rentals on land & property	*(l)*	**4,320**	5,251

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

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

(c) The Group participates in the property safety and insurance fund plan established and organised by PetroChina under which it is required to make annual contribution to the plan at 0.4% of the average cost of fixed assets and inventory. The fund is mainly used to compensate for the accidental property loss.

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

(e) Represents borrowings from CP Finance.

(f) Represents purchase of materials and spare parts on normal commercial terms at market prices.

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

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

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

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

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

(l) Represents rental for operating lease on land and property at market prices.

UNAUDITED BALANCE SHEETS (PREPARED UNDER PRC GAAP)

As at 30th June, 2004

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

	30th June, 2004 Group (Unaudited)	31st December, 2003 Group (Audited)	**30th June, 2004 Company (Unaudited)**	31st December, 2003 Company (Audited)
ASSETS				
CURRENT ASSETS				
Cash and bank *(Note V-1)*	**16,278,288**	35,498,819	**14,258,692**	30,675,068
Short-term investments	**–**	–	**–**	–
Notes receivable *(Note V-2)*	**2,446,000**	31,487,455	**1,046,000**	30,847,455
Dividend receivable	**–**	–	**–**	–
Interest receivable	**–**	–	**–**	–
Accounts receivable *(Note V-3)*	**248,290,620**	153,268,657	**343,891,021**	228,521,231
Other receivables *(Note V-4)*	**30,775,267**	35,615,442	**4,871,174**	15,026,666
Advances to suppliers *(Note V-5)*	**363,621,931**	219,531,546	**361,485,538**	218,715,694
Subsidy receivable	**–**	–	**–**	–
Inventories *(Note V-6)*	**1,496,314,992**	1,568,092,833	**1,432,846,392**	1,524,683,504
Prepaid expenses *(Note V-7)*	**16,672,006**	12,395,263	**16,295,560**	12,003,154
Long-term bond investments maturing within one year	**–**	–	**–**	–
Other current assets	**–**	–	**–**	–
Total current assets	**2,174,399,104**	2,055,890,015	**2,174,694,377**	2,060,472,772
LONG-TERM INVESTMENTS				
Long-term equity investments *(Note V-8)*	**72,193,683**	58,630,291	**153,180,836**	161,027,860
Long-term bond investments	**–**	–	**–**	–
Total long-term investments				
Including: Consolidation difference	**72,193,683**	58,630,291	**153,180,836**	161,027,860
FIXED ASSETS				
Fixed assets – cost	**15,910,874,624**	15,922,817,553	**15,546,330,233**	15,551,363,296
Less: Accumulated depreciation	**(6,232,451,605)**	(5,879,358,440)	**(6,068,110,236)**	(5,719,658,380)
Fixed assets – net book value	**9,678,423,019**	10,043,459,113	**9,478,219,997**	9,831,704,916
Less: Impairment of fixed assets	**(286,216,091)**	(323,843,932)	**(272,233,347)**	(309,861,188)
Fixed assets – net book amount *(Note V-9)*	**9,392,206,928**	9,719,615,181	**9,205,986,650**	9,521,843,728
Construction materials	**8,100,747**	3,130,000	**8,100,747**	3,130,000
Construction in progress *(Note V-10)*	**95,500,266**	32,361,820	**95,500,266**	32,361,820
Fixed assets pending disposal	**–**	–	**–**	–
Total fixed assets	**9,495,807,941**	9,755,107,001	**9,309,587,663**	9,557,335,548
INTANGIBLE AND OTHER ASSETS				
Intangible assets *(Note V-11)*	**1,389,780,068**	1,463,518,889	**1,388,118,029**	1,462,399,217
Long-term deferred expenses *(Note V-12)*	**70,029,854**	101,751,642	**70,029,854**	101,751,642
Other long-term assets	**–**	–	**–**	–
Total intangible and other assets	**1,459,809,922**	1,565,270,531	**1,458,147,883**	1,564,150,859
DEFERRED TAXES				
Deferred tax assets	**–**	–	**–**	–
TOTAL ASSETS	**13,202,210,650**	13,434,897,838	**13,095,610,759**	13,342,987,039

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

UNAUDITED BALANCE SHEETS (PREPARED UNDER PRC GAAP) (Continued)

As at 30th June, 2004

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

	30th June, 2004 Group (Unaudited)	31st December, 2003 Group (Audited)	**30th June, 2004 Company (Unaudited)**	31st December, 2003 Company (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans *(Note V-13)*	**3,448,070,000**	3,204,600,000	**3,398,470,000**	3,155,000,000
Notes payable	**–**	–	**–**	–
Accounts payable *(Note V-14)*	**1,948,746,343**	1,844,980,631	**1,949,491,640**	1,861,455,634
Advances from customers *(Note V-14)*	**1,116,506,821**	1,271,055,240	**1,100,056,208**	1,244,157,924
Salaries payable	**252,582,822**	124,125,535	**248,233,722**	124,125,535
Welfare payable	**58,671,713**	34,342,677	**50,877,941**	27,310,869
Dividend payable	**–**	–	**–**	–
Taxes payable *(Note V-15)*	**73,350,003**	174,919,468	**75,338,518**	181,634,303
Other levies payable	**–**	–	**–**	–
Other payables *(Note V-14)*	**172,519,996**	111,184,160	**162,534,161**	110,412,394
Accrued expenses *(Note V-16)*	**286,908,368**	53,728,325	**283,768,151**	53,728,325
Provisions	**–**	–	**–**	–
Long-term liabilities due within one year *(Note V-17)*	**172,322,630**	897,399,277	**172,322,630**	897,399,277
Other current liabilities	**–**	–	**–**	–
Total current liabilities	**7,529,678,696**	7,716,335,313	**7,441,092,971**	7,655,224,261
LONG-TERM LIABILITIES				
Long-term loans *(Note V-18)*	**1,504,682,067**	2,077,640,306	**1,504,682,067**	2,077,640,306
Debentures payable	**–**	–	**–**	–
Payables due after one year	**–**	–	**–**	–
Special project payables	**–**	–	**–**	–
Other long-term liabilities *(Note V-19)*	**264,883,416**	330,258,094	**264,883,416**	330,258,094
Total long-term liabilities	**1,769,565,483**	2,407,898,400	**1,769,565,483**	2,407,898,400
DEFERRED TAXES				
Deferred tax liabilities	**–**	–	**–**	–
TOTAL LIABILITIES	**9,299,244,179**	10,124,233,713	**9,210,658,454**	10,063,122,661
MINORITY INTERESTS	**18,014,166**	30,799,747	**–**	–
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)*	**(2,671,187,298)**	(3,276,275,225)	**(2,663,474,829)**	(3,268,562,756)
Foreign exchange difference reserve	**–**	–	**–**	–
Total shareholders' equity	**3,884,952,305**	3,279,864,378	**3,884,952,305**	3,279,864,378
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**13,202,210,650**	13,434,897,838	**13,095,610,759**	13,342,987,039

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	**Shi Jian Xun**	**Zhang Li Yan**	**Liao Hong Wei**

UNAUDITED PROFIT AND LOSS ACCOUNTS (PREPARED UNDER PRC GAAP)

For the Six Months Ended 30th June, 2004

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

Items	**2004 (1-6) Group (Unaudited)**	2003 (1-6) Group (Audited)	**2004 (1-6) Company (Unaudited)**	2003 (1-6) Company (Audited)
1. SALES REVENUE *(Note V-24)*	**12,556,716,553**	8,885,128,786	**12,545,541,890**	8,835,299,367
Less: Cost of sales *(Note V-25)*	**(10,955,477,471)**	(7,802,301,759)	**(10,921,200,679)**	(7,770,491,789)
Sales tax and other levies *(Note V-26)*	**(366,365,066)**	(326,511,639)	**(366,365,066)**	(326,511,639)
2. GROSS PROFIT ON SALES	**1,234,874,016**	756,315,388	**1,257,976,145**	738,295,939
Add: Other operating (loss)/profit *(Note V-27)*	**(39,597,041)**	3,182,806	**(44,951,883)**	11,927,329
Less: Selling expenses	**(16,076,225)**	(14,910,036)	**(16,069,181)**	(14,847,499)
General and administrative expenses	**(370,477,812)**	(244,546,602)	**(359,157,198)**	(233,908,546)
Financial expenses, net *(Note V-28)*	**(149,332,739)**	(244,032,163)	**(146,361,685)**	(240,776,916)
3. OPERATING PROFIT	**659,390,199**	256,009,393	**691,436,198**	260,690,307
Add: Investment income/(loss) *(Note V-29)*	**13,563,392**	2,601,629	**(7,847,024)**	(1,235,033)
Subsidy income	**–**	502,000	**–**	502,000
Non-operating income	**1,693,881**	284,874	**1,665,763**	224,556
Less: Non-operating expenses *(Note V-30)*	**(82,345,126)**	(19,887,076)	**(80,167,010)**	(19,588,147)
4. TOTAL PROFIT	**592,302,346**	239,510,820	**605,087,927**	240,593,683
Less: Income tax	**–**	–	**–**	–
Minority interests	**12,785,581**	1,462,018	**–**	–
5. NET PROFIT	**605,087,927**	240,972,838	**605,087,927**	240,593,683

Supplementary Information:

	2004 (1-6)		2003 (1-6)	
	Group (Unaudited)	**Company (Unaudited)**	Group (Audited)	Company (Audited)
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. Others	**–**	**–**	–	–

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	**Shi Jian Xun**	**Zhang Li Yan**	**Liao Hong Wei**

UNAUDITED PROFIT APPROPRIATION STATEMENTS (PREPARED UNDER PRC GAAP)

For the Six Months Ended 30th June, 2004

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

Items	2004 (1-6) Group (Unaudited)	2003 (1-6) Group (Audited)	2004 (1-6) Company (Unaudited)	2003 (1-6) Company (Audited)
1. NET PROFIT	**605,087,927**	240,972,838	**605,087,927**	240,593,683
Add: Accumulated losses at the beginning of the period	**(3,276,275,225)**	(3,700,270,377)	**(3,268,562,756)**	(3,692,178,753)
Transfer from other sources	**–**	–	**–**	–
2. ACCUMULATED LOSSES	**(2,671,187,298)**	(3,459,297,539)	**(2,663,474,829)**	(3,451,585,070)
Less: Transfer to statutory common reserve fund	**–**	–	**–**	–
Transfer to statutory common welfare fund	**–**	–	**–**	–
Transfer to staff and workers' bonus and welfare fund	**–**	–	**–**	–
3. ACCUMULATED LOSSES	**(2,671,187,298)**	(3,459,297,539)	**(2,663,474,829)**	(3,451,585,070)
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	**(2,671,187,298)**	(3,459,297,539)	**(2,663,474,829)**	(3,451,585,070)

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	**Shi Jian Xun**	**Zhang Li Yan**	**Liao Hong Wei**

UNAUDITED CASH FLOW STATEMENTS (PREPARED UNDER PRC GAAP)

For the Six Months Ended 30th June, 2004

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

Items	**2004 (1-6) Group (Unaudited)**	2003 (1-6) Group (Audited)	**2004 (1-6) Company (Unaudited)**	2003 (1-6) Company (Audited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	**13,575,335,485**	11,908,843,011	**13,484,432,032**	11,786,033,145
Refund of tax	**–**	502,000	**–**	502,000
Cash received relating to other operating activities	**763,975**	2,649,983	**2,301,971**	2,019,502
Sub-total of cash inflows	**13,576,099,460**	11,911,994,994	**13,486,734,003**	11,788,554,647
Cash paid for goods and services	**(10,782,067,240)**	(9,051,827,111)	**(10,730,760,826)**	(9,005,453,099)
Cash paid to and on behalf of employees	**(235,213,677)**	(150,202,553)	**(206,644,741)**	(131,067,198)
Payment of all types of taxes	**(999,288,984)**	(593,663,007)	**(994,857,894)**	(582,892,448)
Cash paid relating to other operating activities	**(80,777,794)**	(204,103,390)	**(75,840,348)**	(193,439,296)
Sub-total of cash outflows	**(12,097,347,695)**	(9,999,796,061)	**(12,008,103,809)**	(9,912,852,041)
Net cash flows from operating activities	**1,478,751,765**	1,912,198,933	**1,478,630,194**	1,875,702,606
2. Cash flows from investing activities				
Cash received from sale of investments	**–**	–	**–**	–
Cash received from return of investments	**–**	–	**–**	–
Net cash received from disposal of fixed assets	**1,514,731**	240,713	**1,514,731**	220,320
Cash received relating to other investing activities	**–**	–	**–**	–
Sub-total of cash inflows	**1,514,731**	240,713	**1,514,731**	220,320
Cash paid to acquire fixed assets, intangible assets and other long-term assets	**(196,718,328)**	(207,853,068)	**(195,192,189)**	(207,656,498)
Cash paid to acquire investments	**–**	(54,000,000)	**–**	(54,000,000)
Cash paid relating to other investing activities	**–**	–	**–**	–
Sub-total of cash outflows	**(196,718,328)**	(261,853,068)	**(195,192,189)**	(261,656,498)
Net cash flows from investing activities	**(195,203,597)**	(261,612,355)	**(193,677,458)**	(261,436,178)

UNAUDITED CASH FLOW STATEMENTS (Continued)

For the Six Months Ended 30th June, 2004

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

Items	**2004 (1-6) Group (Unaudited)**	2003 (1-6) Group (Audited)	**2004 (1-6) Company (Unaudited)**	2003 (1-6) Company (Audited)
3. Cash flows from financing activities				
Proceeds from issuing shares	**–**	–	**–**	–
Including: Cash received from minority shareholders	**–**	–	**–**	–
Proceeds from borrowings	**4,854,427,269**	2,605,946,898	**4,854,427,269**	2,566,346,898
Cash received relating to other financing activities	**–**	–	**–**	–
Sub-total of cash inflows	**4,854,427,269**	2,605,946,898	**4,854,427,269**	2,566,346,898
Repayment of borrowings	**(5,974,366,833)**	(4,053,159,175)	**(5,974,366,833)**	(3,979,559,175)
Cash paid for interest expense and distribution of dividends	**(182,829,135)**	(219,809,101)	**(181,429,548)**	(217,870,865)
Including: Dividends paid to minority shareholders	**–**	–	**–**	–
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	**(6,157,195,968)**	(4,272,968,276)	**(6,155,796,381)**	(4,197,430,040)
Net cash flows from financing activities	**(1,302,768,699)**	(1,667,021,378)	**(1,301,369,112)**	(1,631,083,142)
4. Effect of foreign exchange rate changes on cash	**–**	–	**–**	–
5. Net decrease in cash and cash equivalents	**(19,220,531)**	(16,434,800)	**(16,416,376)**	(16,816,714)

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	**Shi Jian Xun**	**Zhang Li Yan**	**Liao Hong Wei**

UNAUDITED CASH FLOW STATEMENTS (Continued)

For the Six Months Ended 30th June, 2004

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

Supplementary Information

Items	2004 (1-6) Group (Unaudited)	2003 (1-6) Group (Audited)	2004 (1-6) Company (Unaudited)	2003 (1-6) Company (Audited)
1. Reconciliation of net profit to cash flows from operating activities				
Net profit	605,087,927	240,972,838	605,087,927	240,593,683
Add: Minority interests	(12,785,581)	(1,462,018)	–	–
Provision for impairment of assets	128,214,613	31,465,652	127,551,812	31,228,655
Depreciation of fixed assets	454,768,739	423,148,242	443,626,779	411,693,390
Amortization of intangible assets	67,208,626	45,298,355	67,158,685	45,238,908
Amortization of long-term deferred expenses	42,225,822	22,107,234	42,225,822	22,107,234
(Increase)/Decrease in prepaid expenses	(4,276,743)	5,233,569	(4,292,406)	4,894,812
Increase in accrued expenses	263,075,625	104,141,778	259,935,408	100,404,678
Gain on disposal of fixed assets	(1,514,731)	(240,713)	(1,514,731)	(220,320)
Loss on scrapping of fixed assets	35,672,355	1,199,780	33,737,001	1,179,632
Financial expenses	152,933,553	236,586,684	151,533,966	234,648,448
Investment (income)/loss	(13,563,392)	(2,601,629)	7,847,024	1,235,033
Deferred tax debit	–	–	–	–
(Increase)/Decrease in inventories	(7,391,193)	196,538,667	12,668,078	204,181,927
Increase in operating receivables	(217,013,842)	(82,486,958)	(229,303,010)	(122,757,985)
(Decrease)/Increase in operating payables	(13,890,013)	692,297,452	(37,632,161)	701,274,511
Net cash flows from operating activities	1,478,751,765	1,912,198,933	1,478,630,194	1,875,702,606
2. Investing and financing activities that do not involve cash receipts and payments				
Purchase of fixed assets	–	–	–	–
Convertible bonds maturing within one year	–	–	–	–
Finance lease of fixed assets	–	–	–	–
3. Net decrease in cash and cash equivalents				
Cash at the end of the period	16,278,288	16,369,841	14,258,692	12,758,582
Less: Cash at the beginning of the period	(35,498,819)	(32,804,641)	(30,675,068)	(29,575,296)
Cash equivalents at the end of the period	–	–	–	–
Less: Cash equivalents at the beginning of the period	–	–	–	–
Net decrease in cash and cash equivalents	(19,220,531)	(16,434,800)	(16,416,376)	(16,816,714)

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	**Shi Jian Xun**	**Zhang Li Yan**	**Liao Hong Wei**

NOTES TO THE FINANCIAL STATEMENTS

For the Six Months Ended 30th June, 2004

(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 13th December, 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 1st July, 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, a wholly-owned subsidiary of CNPC established on 5th November, 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 1st January and ends on 31st December.

3. Reporting currency

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

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 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.

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 receivables*

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.

(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 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 17th 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 17th 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.

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 1st January 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.

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 1st January, 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.

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.

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.

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 (i.e.: 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 and 33% from 2004.

Jilin City Songmei Acetic Co., Ltd. ("Songmei"), a 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, 2003 and 2004, 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 became accumulative profit-making, net of loss carry forward, in first half of 2004. If BASF becomes accumulative profit-making, net of loss carry forward, for 2004, it will enter its first year of tax exemption period and its applicable income tax rate for 2004 will be 0%.

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 Nitrochloro-benzene Company Limited ("Xinghua")	Manufacturing enterprises	25,668,000	Manufacturing of Nitrochloro-benzene	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

Name of enterprise	Type of enterprises	Registered/ paid-in capital	Business scope	Investment amount	Percentage of equity held	Consolidation
Jointly controlled entity						
BASF	Manufacturing enterprises	150,000,000	Manufacturing of petrochemical products	60,066,150	40%	No *(Note ii)*

(i) Xinghua has ceased its production and started liquidation in 2000 as it incurred substantial losses and had a negative equity. 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 BASF's articles of association, BASF is jointly controlled by the Company and the other joint venture partner. Therefore, BASF is a jointly controlled entity of the Company. For the six months ended 30th June, 2004, as the amounts of revenue and total profit for the period and total assets as at 30th June, 2004 of BASF 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

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Cash on hand	**31,959**	11,156
Cash in bank	**16,246,329**	35,487,663
	16,278,288	35,498,819

Cash held in foreign currencies at 30th June, 2004 is as follows:

Currency	**Amount**	**Exchange rate**	**RMB equivalent**
USD	102,896	8.2766	851,629

2. Notes receivable

Notes receivable represent bank acceptance notes generated from sales transactions. At 30th June, 2004, no notes receivable were pledged (31st December, 2003: nil).

3. Accounts receivable

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Accounts receivable	**1,127,916,008**	1,021,539,822
Less: Specific provision	**(879,625,388)**	(868,271,165)
	248,290,620	153,268,657

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

	30th June, 2004 (Unaudited)			31st December, 2003 (Audited)		
	Balance	**%**	**Provision for bad debts**	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**188,257,074**	**17**	**–**	51,365,749	5	–
1-2 years	**2,550,982**	**0**	**–**	379,324	0	–
2-3 years	**3,336,204**	**0**	**(1,522,930)**	35,453,710	3	(30,098,105)
More than 3 years	**933,771,748**	**83**	**(878,102,458)**	934,341,039	92	(838,173,060)
	1,127,916,008	**100**	**(879,625,388)**	1,021,539,822	100	(868,271,165)

(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 30th June, 2004, the total balance of the five largest accounts receivable was RMB521,399,342, 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 30th June, 2004, accounts receivable aged over 3 years mainly comprise receivables due from third party debtors of RMB35.48 million (31st December, 2003: 79.12 million) and JCGC of RMB20.19 million (31st December, 2003: 17.05 million) respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at 30th June, 2004, 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.

4. Other receivables

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Other receivables	114,097,321	107,758,595
Less: Specific provision	(83,322,054)	(72,143,153)
	30,775,267	35,615,442

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

	30th June, 2004 (Unaudited)			31st December, 2003 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	12,147,365	11	(1,631,608)	3,582,261	3	(1,643,642)
1-2 years	2,003,207	2	(26,379)	4,632,416	5	(29,813)
2-3 years	14,272,685	13	(2,299,372)	14,528,019	13	(2,554,706)
More than 3 years	85,674,064	74	(79,364,695)	85,015,899	79	(67,914,992)
	114,097,321	100	(83,322,054)	107,758,595	100	(72,143,153)

(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 30th June, 2004, the total balance of the five largest other receivables was RMB30,216,852, representing 26% of the total other receivables balance.

5. Advances to suppliers

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

	30th June, 2004 (Unaudited)		31st December, 2003 (Audited)	
	Balance	%	Balance	%
Ageing:				
Within 1 year	343,978,533	95	205,951,053	94
1-2 years	12,999,073	3	6,950,557	3
2-3 years	326,496	0	309,509	0
More than 3 years	6,317,829	2	6,320,427	3
	363,621,931	100	219,531,546	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

	1st January, 2004 (Audited)			**30th June, 2004 (Unaudited)**
Cost:				
Raw materials	749,200,037			**878,991,812**
Work in progress	268,921,978			**330,072,098**
Finished goods	309,593,221			**132,256,638**
Spare parts	412,354,385			**406,436,712**
Low value consumables and packing materials	6,776,048			**4,180,568**
	1,746,845,669			**1,751,937,828**
Provision for diminution in value of inventories:				
		Additions (Unaudited)	**Deductions** (Unaudited)	
Raw materials	(58,579,019)	(2,601,525)	–	**(61,180,544)**
Work in progress	(7,149,932)	(859,175)	–	**(8,009,107)**
Finished goods	(21,714,235)	–	3,869,580	**(17,844,655)**
Spare parts	(90,362,644)	(74,478,657)	–	**(164,841,301)**
Low value consumables and packing materials	(947,006)	(2,800,223)	–	**(3,747,229)**
	(178,752,836)	(80,739,580)	3,869,580	**(255,622,836)**
	1,568,092,833			**1,496,314,992**

7. Prepaid expenses

	1st January, 2004 (Audited)	**Additions** (Unaudited)	**Amortization** (Unaudited)	**30th June, 2004 (Unaudited)**
Catalyst	10,219,591	19,844,004	(18,018,942)	**12,044,653**
Insurance premium	1,049,619	1,237,821	(1,094,895)	**1,192,545**
Other	1,126,053	24,145,638	(21,836,883)	**3,434,808**
	12,395,263	45,227,463	(40,950,720)	**16,672,006**

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

8. Long-term equity investments

	1st January, 2004 (Audited)	Additions (Unaudited)	Deduction (Unaudited)	**30th June, 2004 (Unaudited)**
Jointly controlled entity	53,722,621	12,558,430	–	**66,281,051**
Associated company	4,907,670	1,004,962	–	**5,912,632**
	58,630,291	13,563,392	–	**72,193,683**

There is no restriction 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: 1st January, 2004 (Audited)	Percentage of equity held: **30th June, 2004 (Unaudited)**	Original investment: 1st January, 2004 (Audited)	Original investment: Additions (Unaudited)	Original investment: Decrease (Unaudited)	Original investment: **30th June, 2004 (Unaudited)**
Unconsolidated subsidiary							
Xinghua *(Note IV (i))*		–	–	–	–	–	**–**
Jointly controlled entity							
BASF	18th November, 1995 to 30th March, 2005	40	40	60,066,150	–	–	**60,066,150**
Associated company							
Lianli	22nd March, 2001 to 22nd March, 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:

	1st January, 2004 book value (Audited)	Additional investment (Unaudited)	Reduction in investment (Unaudited)	Share of net profit (Unaudited)	Dividend received (Unaudited)	**30th June, 2004 book value (Unaudited)**
Jointly controlled entity						
BASF	53,722,621	–	–	12,558,430	–	**66,281,051**
Associated company						
Lianli	4,907,670	–	–	1,004,962	–	**5,912,632**
	58,630,291	–	–	13,563,392	–	**72,193,683**

9. Fixed assets and accumulated depreciation

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
Cost					
1st January, 2004 (Audited)	1,738,961,157	11,574,319,743	2,465,535,711	144,000,942	15,922,817,553
Transfer from CIP *(Note V 10)* (Unaudited)	4,316,454	142,882,170	139,600	9,830,503	157,168,727
Other additions (Unaudited)	85,842	1,071,666	4,519,256	187,350	5,864,114
Disposals (Unaudited)	(20,806,743)	(97,673,242)	(41,571,034)	(14,924,751)	(174,975,770)
30th June, 2004 (Unaudited)	**1,722,556,710**	**11,620,600,337**	**2,428,623,533**	**139,094,044**	**15,910,874,624**
Accumulated depreciation					
1st January, 2004 (Audited)	648,985,514	3,381,945,853	1,752,311,005	96,116,068	5,879,358,440
Depreciation (Unaudited)	41,658,923	312,310,253	93,621,531	7,178,032	454,768,739
Disposals (Unaudited)	(7,751,323)	(56,310,731)	(22,690,345)	(14,923,175)	(101,675,574)
30th June, 2004 (Unaudited)	**682,893,114**	**3,637,945,375**	**1,823,242,191**	**88,370,925**	**6,232,451,605**
Net book value					
30th June, 2004 (Unaudited)	**1,039,663,596**	**7,982,654,962**	**605,381,342**	**50,723,119**	**9,678,423,019**
31st December, 2003 (Audited)	1,089,975,643	8,192,373,890	713,224,706	47,884,874	10,043,459,113
Provision for Impairment					
1st January, 2004 (Audited)	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
Disposal (Unaudited)	(4,148,584)	(29,213,927)	(4,263,754)	(1,576)	(37,627,841)
30th June, 2004 (Unaudited)	**54,004,790**	**179,029,995**	**48,644,706**	**4,536,600**	**286,216,091**
Net book amount					
30th June, 2004 (Unaudited)	**985,658,806**	**7,803,624,967**	**556,736,636**	**46,186,519**	**9,392,206,928**
31st December, 2003 (Audited)	1,031,822,269	7,984,129,968	660,316,246	43,346,698	9,719,615,181

As at 30th June, 2004, the cost of fully depreciated fixed assets still in use amounted to RMB535,687,679.

10. Construction in progress

Name of project	Budget (Unaudited)	1st January, 2004 (Audited)	Additions (Unaudited)	Transfer out to fixed assets (Unaudited)	30th June, 2004 (Unaudited)	Source of funds (Unaudited)	Total additions as a % of budget (Unaudited)
Ethylene facilities	138,897,000	–	138,897,000	(138,897,000)	–	Working capital	100%
Improvement project for pressure stableness	59,996,400	–	35,301,425	–	35,301,425	Working capital	59%
Effluent filter facilities	16,640,000	1,399,038	14,724,609	–	16,123,647	Working capital	97%
Other *(a)*		30,962,782	51,198,399	(18,271,727)	63,889,454	Working capital	
		32,361,820	240,121,433	(157,168,727)	115,314,526		
Less: provision for Construction in Progress *(b)*		–	(19,814,260)	–	(19,814,260)		
		32,361,820			95,500,266		

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

(b) Certain construction in progress has been discontinued for a long period of time and is not expected to restart in the foreseeable future. Accordingly, an impairment provision was made against the construction in progress based on the excess of the carrying amount over the recoverable amount.

11. Intangible assets

	Land use rights	Technical know-how	Total
Cost			
1st January, 2004 (Audited)	1,149,201,148	914,208,066	2,063,409,214
Additions (Unaudited)	–	168,000	168,000
30th June, 2004 (Unaudited)	**1,149,201,148**	**914,376,066**	**2,063,577,214**
Accumulated amortization			
1st January, 2004 (Audited)	213,132,609	386,757,716	599,890,325
Amortization (Unaudited)	10,935,162	56,273,464	67,208,626
30th June, 2004 (Unaudited)	**224,067,771**	**443,031,180**	**667,098,951**
Net book value			
30th June, 2004 (Unaudited)	**925,133,377**	**471,344,886**	**1,396,478,263**
31st December, 2003 (Audited)	936,068,539	527,450,350	1,463,518,889
Provision for Impairment			
1st January, 2004 (Audited)	–	–	–
Additions (Unaudited)	–	6,698,195	6,698,195
30th June, 2004 (Unaudited)	**–**	**6,698,195**	**6,698,195**
Net book amount			
30th June, 2004 (Unaudited)	**925,133,377**	**464,646,691**	**1,389,780,068**
31st December, 2003 (Audited)	936,068,539	527,450,350	1,463,518,889
Remaining years of amortization (Unaudited)	41-48 years	4-10 years	

12. Long-term deferred expenses

	Cost (Unaudited)	Accumulated amortization (Unaudited)	1st January, 2004 (Audited)	Additions (Unaudited)	Amortization (Unaudited)	**30th June, 2004 (Unaudited)**	Remaining years of amortization (Unaudited)
Catalyst *(a)*	256,343,976	186,314,122	101,674,086	10,504,034	(42,148,266)	70,029,854	1-4
Other	11,322,461	11,322,461	77,556	–	(77,556)	–	–
	267,666,437	197,636,583	101,751,642	10,504,034	(42,225,822)	70,029,854	

(a) The useful life for these catalysts is over 1 year.

13. Short-term loans

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Guaranteed loans – RMB	**49,600,000**	49,600,000
Unsecured loans – RMB	**3,398,470,000**	3,155,000,000
	3,448,070,000	3,204,600,000

As at 30th June, 2004, guaranteed loans totalling RMB49.6 million were guaranteed by Jilin Merchandise Group, and the interest rate is 5.84% per annum.

Pursuant to the loan facility commitment letter of 6th February, 2004, CP Finance has confirmed to extend period of RMB8 billion credit facilities to the Company to 31st December, 2005. At 30th June, 2004, total borrowings from CP Finance amounted to RMB3,398 million, and the average interest rate is 5% per annum.

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

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Value added tax	**24,449,837**	77,129,821
Business tax	**685,905**	926,463
City construction and maintenance tax	**4,872,677**	6,416,947
Consumption tax	**41,353,019**	86,463,775
Income tax	**1,415,218**	1,149,626
Property tax	**(685)**	203,902
Other	**574,032**	2,628,934
	73,350,003	174,919,468

16. Accrued expenses

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Repair and maintenance expenses	208,333,409	–
Public administration expenses	28,040,326	–
Interest expense on loans	23,832,743	53,728,325
Other	26,701,890	–
	286,908,368	53,728,325

17. Long-term liabilities due within one year

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Long-term loans due within one year *(Note V-18)*		
Guaranteed loans – USD	44,332,199	136,449,730
Unsecured loans – RMB	9,500,000	646,400,000
– USD	3,082,060	3,082,097
	56,914,259	785,931,827
Other long-term liabilities due within one year *(Note V-19)*		
Guaranteed loans – USD	46,283,286	46,283,713
– JPY	52,075,611	52,686,606
– EUR	17,049,474	12,497,131
	115,408,371	111,467,450
	172,322,630	897,399,277

18. Long-term loans

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Guaranteed loans	630,712,623	1,003,669,968
Unsecured loans	873,969,444	1,073,970,338
	1,504,682,067	2,077,640,306

Name of lender	Balance at 30th June, 2004 (Unaudited)	Currency	Foreign currency amount	Exchange rate	Interest rate %	Due date	Conditions
CP Finance	400,000,000	RMB			5.18	8th March, 2007	Unsecured
CP Finance	400,000,000	RMB			4.63	10th March, 2007	Unsecured
Industrial and Commercial Bank of China, Jihua Sub-branch	9,500,000	RMB			6.03	29th December, 2004	Unsecured
Construction Bank of China, Jilin Branch	148,194,592	USD	17,905,250	8.2766	8.66	30th September, 2009	Guaranteed by JCGC
Construction Bank of China, Jilin Branch	113,020,230	USD	13,655,394	8.2766	8.42	31st July, 2010	Guaranteed by JCGC
Bank of China, Changchun Sub-branch	77,051,504	USD	9,309,560	8.2766	–	29th September, 2029	Unsecured
Bank of China, Jilin Branch	413,830,000	USD	50,000,000	8.2766	LIBOR +60bps	14th March, 2007	Guaranteed by PetroChina
	1,561,596,326						
Current portion of long-term loans *(Note V-17)*	(56,914,259)						
	1,504,682,067						

19. Other long-term liabilities

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

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)	Interest rate per annum
Payables to JCGC – Ethylene Project loans	**380,291,787**	441,725,544	4.1%-8.3%
Other long-term liabilities due within one year *(Note V-17)*	**(115,408,371)**	(111,467,450)	
	264,883,416	330,258,094	

As at 30th June, 2004, the payables to JCGC of RMB380,291,787 (2003: RMB441,725,544) 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 30th September, 2007.

	30th June, 2004 (Unaudited)		31st December, 2003 (Audited)	
	Original currency	*RMB equivalent*	*Original currency*	*RMB equivalent*
US Dollar	**19,389,945**	**160,482,819**	22,185,978	183,626,680
Japanese Yen	**2,320,181,250**	**177,185,282**	2,661,137,500	205,607,466
Euro	**4,231,143**	**42,623,686**	5,077,372	52,491,398
		380,291,787		**441,725,544**

20. Share capital

	30th June, 2004 (Unaudited) *(Shares in thousand)*	31st December, 2003 (Audited) *(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 23rd May, 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 17th June, 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 23rd May, 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 15th October, 1996 and the 20,000,000 A shares issued to the employees were traded on the Shenzhen Stock Exchange on 15th April, 1997.

(d) Pursuant to a document issued by China Securities Regulatory Commission on 13th December, 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

	1st January, 2004 (Audited)	Additions (Unaudited)	Deduction (Unaudited)	**30th June, 2004 (Unaudited)**
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**
1st January, 2004 (Audited)	160,154,718	126,834,279	414,453,720	701,442,717
Additions (Unaudited)	–	–	–	–
30th June, 2004 (Unaudited)	**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 1st January, 2004 (Audited)	(3,276,275,225)
Add: Net profit for the period (Unaudited)	605,087,927
Accumulated losses at 30th June, 2004 (Unaudited)	**(2,671,187,298)**

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 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Petroleum products	**6,431,753,688**	4,324,838,536
Petrochemical and organic chemical products	**5,062,350,861**	3,956,956,173
Synthetic rubber products	**723,277,372**	535,906,626
Chemical fertilizers and inorganic chemical products	**339,334,632**	67,427,451
	12,556,716,553	8,885,128,786

The sales to the five largest customers of the Group for the six months ended 30th June, 2004 amounted to RMB9,202,554,522, representing 73% of Group's total sales.

25. Cost of sales

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Petroleum products	**6,132,236,068**	3,943,879,309
Petrochemical and organic chemical products	**3,925,907,186**	3,392,251,735
Synthetic rubber products	**508,238,015**	387,096,479
Chemical fertilizers and inorganic chemical products	**389,096,202**	79,074,236
	10,955,477,471	7,802,301,759

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.

28. Financial expenses, net

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Interest expense	**152,933,553**	236,586,684
Less: Interest income	**(584,825)**	(2,605,822)
Exchange loss	**3,828,755**	8,631,734
Less: Exchange gain	**(6,926,029)**	(548,284)
Other	**81,285**	1,967,851
	149,332,739	244,032,163

29. Investment income/(loss)

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Share of profit of jointly controlled entities	**12,558,430**	2,824,155
Share of profit/(loss) of an associated company	**1,004,962**	(222,526)
	13,563,392	2,601,629

30. Non-operating expenses

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Loss on disposal of fixed assets	**35,672,355**	1,199,780
Loss on impairment of fixed assets	**19,814,260**	–
Flood fund	**12,241,401**	6,036,500
Loss on impairment of intangible assets	**6,698,195**	–
Loss on temporary shutdown	**6,045,532**	6,434,901
Other	**1,873,383**	6,215,895
	82,345,126	19,887,076

VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

1. Accounts receivable

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Accounts receivable	1,222,850,051	1,096,788,839
Less: Specific provision	(878,959,030)	(868,267,608)
	343,891,021	228,521,231

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

	30th June, 2004 (Unaudited)			31st December, 2003 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	285,899,784	24	–	127,281,124	9	–
1-2 years	508,673	0	–	379,324	0	–
2-3 years	3,336,204	0	(1,522,930)	35,453,710	3	(30,098,105)
More than 3 years	933,105,390	76	(877,436,100)	933,674,681	88	(838,169,503)
	1,222,850,051	100	(878,959,030)	1,096,788,839	100	(868,267,608)

(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 30th June, 2004, the total balance of the five largest accounts receivable was RMB521,399,342, representing 43% 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 30th June, 2004, accounts receivable aged over 3 years which have not been provided provision mainly comprise receivables due from third party debtors of RMB35.48 million (31st December, 2003: 78.46 million) and JCGC of RMB20.19 million (31st December, 2003: 17.05 million) respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at 30th June, 2004, 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.

2. Other receivables

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Other receivables	**88,193,228**	87,169,819
Less: Specific provision	**(83,322,054)**	(72,143,153)
	4,871,174	15,026,666

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

	30th June, 2004 (Unaudited)			31st December, 2003 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	**5,175,257**	**6**	**(1,631,608)**	2,078,625	1	(1,643,642)
1-2 years	**1,044,534**	**1**	**(26,379)**	3,520,589	5	(29,813)
2-3 years	**2,299,372**	**3**	**(2,299,372)**	2,554,706	3	(2,554,706)
More than 3 years	**79,674,065**	**90**	**(79,364,695)**	79,015,899	91	(67,914,992)
	88,193,228	**100**	**(83,322,054)**	87,169,819	100	(72,143,153)

(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) As at 30th June, 2004, the total balance of the five largest other receivables was RMB13,308,058, representing 15% of the total other receivables balance.

3. Long-term equity investments

	1st January, 2004 (Audited)	Additions (Unaudited)	Deduction (Unaudited)	30th June, 2004 (Unaudited)
Subsidiaries *(Note (1))*	102,397,569	–	(21,410,416)	**80,987,153**
Jointly controlled entity *(Note (2))*	53,722,621	12,558,430	–	**66,281,051**
Associated company *(Note (2))*	4,907,670	1,004,962	–	**5,912,632**
	161,027,860	13,563,392	(21,410,416)	**153,180,836**

(1) Subsidiaries

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held: 1st January, 2004 (Audited) %	Percentage of equity held: 30th June, 2004 (Unaudited) %	Original investment: 1st January, 2004 (Audited)	Original investment: Additions (Unaudited)	Original investment: 30th June, 2004 (Unaudited)
Winsway	7th August, 1995 to 6th August, 2005	70	70	36,154,000	–	36,154,000
Songmei	26th December, 1997 to 25th December, 2017	66	66	47,660,421	–	47,660,421
Jianxiu	12th February, 2001 to 12th February, 2008	99	99	44,537,759	–	44,537,759
Xinghua	21st February, 1991 to 20th February, 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:

	1st January, 2004 book value (Audited)	Additional investment (Unaudited)	Share of net profit/(loss) (Unaudited)	Dividend received (Unaudited)	30th June, 2004 book value (Unaudited)
Winsway	36,401,231	–	(674,430)	–	35,726,801
Songmei	41,534,646	–	(16,606,207)	–	24,928,439
Jianxiu	24,461,692	–	(4,129,779)	–	20,331,913
Xinghua *(Note IV (i))*	–	–	–	–	–
	102,397,569	–	(21,410,416)	–	80,987,153

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

4. Sales revenue

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Petroleum products	**6,431,753,688**	4,324,838,536
Petrochemical and organic chemical products	**5,051,176,198**	3,907,126,754
Synthetic rubber products	**723,277,372**	535,906,626
Chemical fertilizers and inorganic chemical products	**339,334,632**	67,427,451
	12,545,541,890	8,835,299,367

5. Cost of sales

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Petroleum products	**6,132,236,068**	3,943,879,309
Petrochemical and organic chemical products	**3,891,630,394**	3,360,468,765
Synthetic rubber products	**508,238,015**	387,096,479
Chemical fertilizers and inorganic chemical products	**389,096,202**	79,047,236
	10,921,200,679	7,770,491,789

6. Investment loss

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
Share of profit of jointly controlled entities	**12,558,430**	2,824,155
Share of profit/(loss) of an associated company	**1,004,962**	(222,526)
Share of loss of subsidiaries	**(21,410,416)**	(3,836,662)
	(7,847,024)	(1,235,033)

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	Chen Geng
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	Chen Geng
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	PRC	Inspection, research and consultation of pressure vessels	Indirect subsidiary	Limited company	Li Jiangqiang

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

Name	1st January, 2004 (Audited) *RMB'000*	Additions (Unaudited) *RMB'000*	Reductions (Unaudited) *RMB'000*	**30th June, 2004 (Unaudited)** *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	1st January, 2004 (Audited) RMB'000	%	Additions (Unaudited) RMB'000	%	Reductions (Unaudited) RMB'000	%	**30th June, 2004 (Unaudited) 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 1st January, 2004 (Audited) RMB	%	Additions (Unaudited) RMB	%	Reductions (Unaudited) RMB	%	**Capital or equity held at 30th June, 2004 (Unaudited) RMB**	**%**
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**
Jinxiang	1,881,000	94	–	–	–	–	**1,881,000**	**94**

(e) Related companies in which no control exists:

Name	Nature of the enterprise	Date of registration	Place of registration	Registered capital '000	Currency	Equity percentage held at 30th June, 2004	Principal activities
Jointly controlled entity – BASF	Sino-foreign joint venture	18th November, 1995	Jilin	150,000	RMB	40%	Manufacturing of petrochemical products
Associated company – Lianli	State-owned	22nd March, 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.

(f) Significant related party transactions

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Audited)
PetroChina Group Companies		
Purchase of crude oil	**6,346,802,733**	4,132,059,694
Purchase of raw materials	**889,064,803**	641,223,966
Sale of gasoline	**1,340,630,494**	1,350,858,001
Sale of diesel	**3,457,194,147**	2,344,455,610
Sale of petrochemical goods	**4,042,489,881**	1,614,840,153
Property safety and insurance fund *(Note (1))*	**16,474,896**	19,333,263
CNPC Group Companies		
Loan drawn	**4,438,120,000**	2,552,040,000
Interest expenses	**122,557,079**	162,656,186
Purchase of raw materials and spare parts	**35,763,456**	8,126,000
JCGC Group Companies		
Sale of goods	**688,092,135**	436,180,413
Sub-contracting services	**2,428,644**	2,420,171
Construction of fixed assets	**65,294,023**	22,609,016
Purchase of raw materials and spare parts	**46,100,792**	45,370,609
Purchase of utilities and supporting services	**146,837,253**	112,199,791
Operating lease rentals on land & property	**4,320,222**	5,250,522
Lianli		
Sale of goods	**46,503,486**	20,094,310
Purchase of raw materials	**17,031,242**	1,343,854

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

(1) The Group participates in the property safety and insurance fund plan established and organised 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.

(g) Related party balances

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Accounts receivable from		
– PetroChina Group Companies	**188,257,074**	41,663,413
– JCGC Group Companies	**176,287,105**	171,926,626
– Lianli	**23,138,266**	23,759,065
Accounts receivable due from related parties are for goods sold to these companies.		
Other receivables from		
– JCGC Group Companies	**8,658,137**	8,650,856
Other receivables due from related parties are mainly for expenses paid on their behalf.		
Advances to suppliers to		
– JCGC Group Companies	**112,534,272**	24,599,505
The balance mainly represents advance payments for import of machinery through JCGC.		
Accounts payable to		
– CNPC Group Companies	**23,341,734**	3,763,947
– PetroChina Group Companies	**175,993,536**	155,824,055
– JCGC Group Companies	**37,084,973**	88,345,816
– Lianli	**3,735,269**	5,493,144
Advances from		
– PetroChina Group Companies	**863,941,427**	801,480,000
– JCGC Group Companies	**9,577,881**	9,325,875
– Lianli	**858,612**	3,135,696
Other payables to		
– JCGC Group Companies	**42,440,717**	42,893,478
Short-term loans from		
– CP Finance	**3,398,470,000**	3,155,000,000
Long-term loans from		
– CP Finance	**800,000,000**	1,636,900,000
Other long-term liabilities from		
– JCGC Group Companies	**380,291,787**	441,725,544

(h) Loans guaranteed by related parties

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Guaranteed by		
– PetroChina Group Companies *(Note V 18,19)*	**794,121,787**	1,298,430,021
– JCGC Group Companies *(Note V 18)*	**261,214,822**	283,415,221

VIII. CAPITAL COMMITMENTS

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

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
Property, plant and equipment	**28,559,800**	8,680,000

IX. NET PROFIT BEFORE NON-OPERATING LOSS

	Six months ended 30th June, 2004 (Unaudited)
Net profit	**605,087,927**
Add/(Deduct): Non-operating (profit)/loss	
– Net loss from disposal of fixed assets	**34,157,624**
– Non-seasonal shutdown	**6,045,532**
– Reversal of assets impairment provision	**(1,570,546)**
– Other	**1,133,550**
	644,854,087
Net impact on income tax	**–**
Net profit before non-operating loss	**644,854,087**

SIGNIFICANT DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING REGULATIONS ("PRC GAAP") AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

(Amounts in thousands unless otherwise stated)

Effect of significant differences between PRC GAAP and IFRS on net profit and shareholders' equity is summarised below:

Net profit

		Six months ended 30th June,	
		2004	2003
	Notes	***RMB***	*RMB*
Net profit as reported under PRC GAAP		**605,088**	240,973
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at 28th February, 1995	*(i)*	**(726)**	(726)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	*(iii)*	**(3,655)**	(3,655)
– Amortisation of housing subsidy cost	*(iv)*	**(4,660)**	(4,660)
– Reversal of amortisation of land use rights	*(v)*	**10,307**	10,911
Net profit as reported under IFRS		**606,354**	242,843

Shareholders' equity

	Notes	2004 30th June, RMB	2003 31st December, RMB
Shareholders' equity as reported under PRC GAAP		**3,884,952**	3,279,864
Adjustments to conform with IFRS:			
– Surplus on revaluation of fixed assets at 28th February, 1995	*(i)*	**29,033**	29,033
– Deferred tax effect on revaluation surplus on revaluation of fixed assets at 28th February, 1995	*(i)*	**(9,580)**	(9,580)
– Depreciation expense due to revaluation at 28th February, 1995	*(i)*	**(13,551)**	(12,825)
– Difference in loss on write-off of fixed assets due to revaluation at 28th February, 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)*	**(53,350)**	(49,695)
– Housing subsidy cost	*(iv)*	**38,861**	43,521
– Deferred tax effect on housing subsidy cost	*(iv)*	**(23,587)**	(23,587)
– Adjustment of land use rights at 1st January, 2001	*(v)*	**(875,197)**	(885,504)
– Tax adjustment	*(vi)*	**33,167**	33,167
Shareholders' equity as reported under IFRS		**3,116,910**	2,510,556

(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 28th February, 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 28th February, 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 28th February, 1995 were written off in connection with the shut down of manufacturing assets. As the effect of the 28th February, 1995 has not been recognised under PRC GAAP, additional loss on write-off of fixed assets relating to the surplus arising from the 28th February, 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) 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.

(v) Under PRC GAAP, land use rights are recognised at the appraised value and amortised over 50 years. With effect from 1st January, 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.

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

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA ("US GAAP")

(Amounts in thousands unless otherwise stated)

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

Net profit

		Six months ended 30th June		
	Notes	**2004** ***RMB***	2003 *RMB*	**2004** ***USD***
Net profit under IFRS		**606,354**	242,843	**73,261**
US GAAP adjustments:				
– Depreciation charge on fixed asset revaluation surplus on Restructuring and at 28th February, 1995	*(i)*	**5,611**	5,611	**678**
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	*(i)*	**(12,978)**	–	**(1,568)**
– Difference in loss on write-off of fixed assets due to writedown in carrying amount of fixed assets	*(i)*	**(19,978)**	–	**(2,414)**
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**765**	765	**92**
Net profit under US GAAP		**579,774**	249,219	**70,049**
Basic and diluted earnings per share		**RMB0.16**	RMB0.07	**USD 0.02**

Shareholders' equity

	Notes	2004 30th June, RMB	2003 31st December, RMB	2004 30th June, USD
Shareholders' equity as reported under IFRS		**3,116,910**	2,510,556	**376,589**
US GAAP adjustments:				
– Fixed asset revaluation on Restructuring and at 28th February, 1995	*(i)*	**(744,007)**	(744,007)	**(89,892)**
– Deferred tax asset on fixed asset revaluation surplus on Restructuring	*(i)*	**235,941**	235,941	**28,507**
– Depreciation charge on fixed assets due to revaluation on Restructuring and at 28th February, 1995	*(i)*	**671,072**	665,461	**81,080**
– Reversal of deferred tax liability on fixed asset revaluation surplus at 28th February, 1995	*(i)*	**9,580**	9,580	**1,157**
– Reduction in loss on write-off of fixed assets	*(i)*	**11,532**	11,532	**1,393**
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets, net of impairment of fixed assets	*(i)*	**259,562**	279,540	**31,361**
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	*(i)*	**(40,932)**	(27,954)	**(4,946)**
– Foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**(30,616)**	(30,616)	**(3,699)**
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	*(ii)*	**11,482**	10,717	**1,387**
– Gain on transfer of fixed assets to Jilian	*(iii)*	**(65,320)**	(65,320)	**(7,892)**
– Tax adjustment	*(iv)*	**(245,521)**	(245,521)	**(29,664)**
Shareholders' equity as reported under US GAAP		**3,189,683**	2,609,909	**385,381**

(i) *Revaluation of fixed assets*

On 30th September, 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 30th June, 2004 was RMB4,885 (2003: RMB4,885), 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 (2003: RMB235,941) relating to the reversal of the revaluation effect was established, together with a corresponding increase in shareholders' equity.

On 28th February, 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 30th June, 2004 was RMB726 (2003: 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 RMB11,532 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 31st December, 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. As at 31st December, 2003, the discounted cash flows of certain fixed assets among the above write-down fixed assets were lower than their carrying value by RMB42,700 and was charged to the income statement for the reconciliation to US GAAP.

In the first half of 2004, certain fixed assets of which the carrying amount under IFRS is lower than that under US GAAP by RMB19,978 due to the above write-down adjustment of RMB322,240 at 31st December, 2002 were written off. For purposes of reconciling to the US GAAP financial data, the additional loss on fixed assets write-down, amounting to RMB19,978 is charged to the income statement. The write-down adjustment of RMB259,562 (2003: 279,540) is reversed as at 30th June, 2004. The related depreciation of above write-down adjustment in the first half of 2004 of RMB12,978 is charged to the income statement.

(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 31st December, 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 recognised 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 30th June, 2004 was RMB3,815 (2003: 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 28th February, 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 RMB have been converted into United States dollars at the respective rates of USD1.00 : RMB8.2766 announced by the People's Bank of China as at 30th June, 2004. No representation is made that the RMB amounts could have been or could be converted into US dollars at that rate.

ASSET IMPAIRMENT PROVISION

As at 30th June, 2004

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

Items	As at 1st January, 2004		Current period addition		Reversal caused by increase of assets value		Current period reduction Other transfer-out (Note)		Total		As at 30th June, 2004	
	Group	Company	Group	Company	Group	Company	Group	Company	Group	Company	Group	Company
1. Bad debt provision	940,414,318	940,410,761	22,533,124	21,870,323	–	–	–	–	–	–	**962,947,442**	**962,281,084**
Including: Accounts receivable	868,271,165	868,267,608	11,354,223	10,691,422	–	–	–	–	–	–	**879,625,388**	**878,959,030**
Other receivables	72,143,153	72,143,153	11,178,901	11,178,901	–	–	–	–	–	–	**83,322,054**	**83,322,054**
2. Provision for impairment of short-term investments												
Including: Equity investments												
Bond investments												
3. Inventory provision	178,752,836	178,752,836	80,739,580	80,739,580	(1,570,546)	(1,570,546)	(2,299,034)	(2,299,034)	(3,869,580)	(3,869,580)	**255,622,836**	**255,622,836**
Including: Raw materials	58,579,019	58,579,019	2,601,525	2,601,525	–	–	–	–	–	–	**61,180,544**	**61,180,544**
Work in progress	7,149,932	7,149,932	859,175	859,175	–	–	–	–	–	–	**8,009,107**	**8,009,107**
Finished goods	21,714,235	21,714,235	–	–	(1,570,546)	(1,570,546)	(2,299,034)	(2,299,034)	(3,869,580)	(3,869,580)	**17,844,655**	**17,844,655**
Spare parts	90,362,644	90,362,644	74,478,657	74,478,657	–	–	–	–	–	–	**164,841,301**	**164,841,301**
Low value consumables and packing materials	947,006	947,006	2,800,223	2,800,223	–	–	–	–	–	–	**3,747,229**	**3,747,229**
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	–	–	–	–	(37,627,841)	(37,627,841)	(37,627,841)	(37,627,841)	**286,216,091**	**272,233,347**
Including: Buildings	58,153,374	57,553,374	–	–	–	–	(4,148,584)	(4,148,584)	(4,148,584)	(4,148,584)	**54,004,790**	**53,404,790**
Machinery	208,243,922	206,691,178	–	–	–	–	(29,213,927)	(29,213,927)	(29,213,927)	(29,213,927)	**179,029,995**	**177,477,251**
Equipment	52,908,460	44,378,460	–	–	–	–	(4,263,754)	(4,263,754)	(4,263,754)	(4,263,754)	**48,644,706**	**40,114,706**
Motor vehicles	4,538,176	1,238,176	–	–	–	–	(1,576)	(1,576)	(1,576)	(1,576)	**4,536,600**	**1,236,600**
6. Provision for impairment of intangible assets	–	–	6,698,195	6,698,195	–	–	–	–	–	–	**6,698,195**	**6,698,195**
Including: Technical know-how	–	–	6,698,195	6,698,195	–	–	–	–	–	–	**6,698,195**	**6,698,195**
Patent	–	–	–	–	–	–	–	–	–	–	**-**	**-**
7. Provision for impairment of construction in progress	–	–	19,814,260	19,814,260	–	–	–	–	–	–	**19,814,260**	**19,814,260**
8. Provision for trust loan												

Note: The other transfer-out of inventory provision in the first half of 2004 represents the utilisation of the provision due to the sale or usage of the inventories.

DOCUMENTS AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION OF DOCUMENTS

1. The original 2004 interim report of the Company signed by the chairman of the Board.

2. The original financial statements for the six months ended 30th June, 2004 prepared under PRC GAAP and IFRS signed by the legal representative, the financial controller and the chief of the Finance Department of the Company.

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

4. The articles of association of the Company.

5. The interim report published in Hong Kong.

Address for inspection of the above documents
Jilin Chemical Industrial Company Limited
The Secretary's Office to the board of directors
No. 9 Longtan Street, Longtan District, Jilin City, Jilin Province, 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.