1 Corporate Information

Jilin Chemical Industrial Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on December 13, 1994 as a joint stock limited company to hold the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary ("Contributed Net Assets") of Jilin Chemical Industrial Corporation (the "Predecessor"), which was then a state-owned enterprise controlled by and under the administration of the Jilin Provincial Government.

In connection with the aforesaid restructuring ("Restructuring"), the Contributed Net Assets of the Predecessor as of September 30, 1994 were taken over by the Company from the Predecessor at a valuation which reflected their then current fair values on October 1, 1994 in consideration for which 2,396,300,000 shares in the form of state-owned shares, with a par value of RMB1.00 each, were issued by the Company to the Predecessor. The Predecessor was then renamed Jilin Chemical Group Corporation ("JCGC") and became the Company's then ultimate holding company.

Effective from July 1, 1998, pursuant to a directive issued by the PRC State Council on May 12, 1998, the oil and petrochemical industry in the PRC was restructured and JCGC became a wholly-owned subsidiary of China National Petroleum Corporation ("CNPC"), a state-owned enterprise established in the PRC. Following the aforesaid restructuring, CNPC became the ultimate holding company of the Company through its control of JCGC.

According to an announcement relating to the corporate restructuring of the CNPC Group in November 1999, JCGC transferred all of the state-owned shares held in the Company together with certain assets and businesses of JCGC to PetroChina Company Limited ("PetroChina"), a wholly-owned subsidiary of CNPC which was established on November 5, 1999. Accordingly, PetroChina replaced JCGC to become the immediate holding company of the Company.

2 Summary of Principal Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with IFRS. These financial statements have been prepared under the historical cost convention except as disclosed below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. In the application of the Company's accounting policies, it also requires management to exercise its judgement.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries in which the Group has the power to govern the financial and operating policies and generally accompanying an interest of more than 50 percent of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The results of operations of subsidiaries are included in the consolidated profit and loss account, and the share attributable to minority interests is excluded from the results attributable to shareholders. Intercompany balances, transactions and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A listing of the Group's principal subsidiaries is set out in Note 13.

(c) Investments in associated companies

Associated companies are entities in which the Group holds, or over which the Group has significant influence, but which it does not control and generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method. Such equity interests are initially recognised at cost and their carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the associate after the date of acquisition and changes in equity that have not been included in the income statement. Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company including any other unsecured receivables, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associated company.

Investments in associated companies are accounted for using the equity method in the Company's financial statements.

Details of the Group's associated company are shown in Note 15.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(d) Interests in jointly controlled entities

A jointly controlled entity is a joint venture between two or more venturers whose rights and obligations with respect to the venture are specified in a contractual joint venture agreement which gives the venturers joint control over the venture and in which no single venturer is in a position to control, unilaterally, the activities of the venture.

The Group's interests in jointly controlled entities are accounted for using the equity method. Such equity interests are initially recognised at cost and their carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the joint venture after the date of acquisition and changes in equity that have not been included in the income statement. Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interests in jointly controlled entities are accounted for using the equity method in the Company's financial statements.

Details of the Group's jointly controlled entity are shown in Note 14.

(e) Foreign currency translations

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in Renminbi, which is the functional and presentation currency of all companies in the Group.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit and loss account. Monetary assets and liabilities are translated at balance sheet date exchange rates.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost less accumulated depreciation. Cost represents the purchase price of the asset and other costs directly incurred to bring the asset to working condition for its intended use. Subsequent to their initial recognition, property, plant and equipment are carried at revalued amounts less accumulated depreciation and accumulated impairment losses, if any. Revaluations are performed by independent qualified valuers on a regular basis. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Increases in the carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the consolidated profit and loss account. The difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the consolidated profit and loss account) and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Depreciation to write off the cost or revalued amount of each asset to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

Buildings	10-45 years
Plant and machinery	8-28 years

Assets under construction represent capital assets under construction or installation and are stated at cost. No depreciation is provided for construction in progress until they are completed and available for use.

Property, plant and equipment are reviewed for impairment losses whenever there is an indication that they may be impaired. If such an indication exists, the carrying amount of an individual asset is compared with its recoverable amount, which is the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the asset and from its ultimate disposal. When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amount and proceeds, and are taken into account in determining net profit. On disposals of revalued assets, amounts in revaluation reserve relating to these assets are transferred to retained earnings.

Interest costs on borrowings to finance the construction of property, plant and equipment, together with exchange differences arising from foreign currency borrowings to the extent that they are adjustments to interest costs, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Costs for planned major maintenance activities are expensed as incurred except for costs of components that result in improvements and betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives, which is generally the period until the next scheduled major maintenance.

2 Summary of Principal Accounting Policies *(Cont'd)*

(g) Intangible assets

(i) Technical know-how

The purchase costs of technical know-how relate to certain production facilities and are included as part of the total contract price of the construction contract and are distinguishable. They are capitalised as intangible assets at cost, unless they are acquired in a business combination that is an acquisition in which case they are recorded at fair value. They are amortised using the straight-line method over the estimated useful life of 10 years, starting from the date when the underlying facilities are completed and ready for their intended use.

Technical know-how is not revalued and its carrying amount is reviewed annually and adjusted for impairment where it is considered necessary. An impairment loss is recognised in the consolidated profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

(ii) Land use rights

Land use rights acquired as part of a business combination that is an acquisition are recorded at fair value less subsequent accumulated amortisation. Fair value is determined based on valuation performed by independent valuers.

Land use rights are amortised using the straight-line method over their lease terms of 50 years.

Land use rights are not revalued and their carrying amount is reviewed for impairment whenever there is an indication that they may be impaired. If such an indication exists, the carrying amount of a land use right is compared with its recoverable amount which is the higher of its net selling price and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the land use right and from its ultimate disposal. When the carrying amount of a land use right is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2 Summary of Principal Accounting Policies *(Cont'd)*

(i) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the consolidated profit and loss account.

(j) Cash and cash equivalents

Cash and cash equivalents are carried on the balance sheet at cost and comprise cash on hand and bank deposits with maturities of three months or less from the time of purchase.

(k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

(m) Revenue recognition

Revenue comprises the sale of petroleum products, petrochemical and organic chemical products, chemical fertilisers and inorganic chemicals, synthetic rubber products and other products and services. Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of sales taxes and discounts. Revenues are recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(n) Research and development expenses

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(o) Government grant related to income and subsidies

Government grant related to income and subsidies are recognised as income upon approval by the relevant government authorities, at which stage the eventual collectibility is assured.

(p) Retirement benefit plans

The Group contributes to the employee retirement benefit plan organised by the provincial government under which it is required to make monthly contributions to the plan. The provincial government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to the plan are charged to consolidated profit and loss account as incurred.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2 Summary of Principal Accounting Policies *(Cont'd)*

(r) Related parties

Related parties are corporations in which CNPC is a major beneficial shareholder and is able to exercise control or significant influence.

(s) Financial instruments

Financial instruments carried on the consolidated balance sheet include cash and bank balances, receivables, payables, and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item and in Note 30.

The Group had no derivative financial instruments in any of the years presented.

(t) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss account on a straight-line basis over the period of the lease.

(u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3 Turnover

Turnover represents revenues from the sale of petroleum, petrochemical and chemical products. Analysis of turnover by segment is shown in Note 28.

(Amounts in thousands unless otherwise stated)

4 Operating Profit

	2004 RMB	2003 RMB
Operating profit is arrived at after crediting and charging the following items:		
Crediting		
Government grants and subsidies	–	502
Charging		
Amortisation of intangible assets	110,086	101,642
Auditors' remuneration	3,500	4,250
Cost of inventories (approximates cost of sales) recognised as expense	28,708,451	19,125,842
Depreciation on property, plant and equipment	1,037,192	930,365
Employee compensation costs (including directors' and supervisors' emoluments) *(Note 5)*	747,770	625,700
Net (profit)/loss on disposals of property, plant and equipment	(26,412)	26,379
Operating lease rentals on land and buildings	7,680	10,501
Operating lease rentals on plant and machinery	27,733	2,463
Provision for impairment of property, plant and equipment (included in "cost of sales")	7,220	–
Provision for impairment of intangible assets (included in "cost of sales")	6,698	–
Provision for impairment of receivables (included in "administrative expenses")	11,050	100,713
Provision for impairment of prepaid expenses and other current assets (included in "other operating expenses")	1,372	–
Inventory writedowns (included in "cost of sales")	77,544	12,856
Repair and maintenance	351,938	264,613
Research and development expenditure	2,726	1,764

(Amounts in thousands unless otherwise stated)

5 Employee Compensation Costs

	2004 RMB	2003 RMB
Wages and salaries	**520,160**	434,880
Retirement benefit cost	**106,290**	89,230
Staff welfare	**121,320**	101,590
	747,770	625,700

The Group participates in the retirement benefit plan organised by the provincial government under which it is required to make monthly contributions to the plan at 25% of the basic salaries as set by the government for the relevant periods. The Group currently has no other obligations for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

6 Interest Expense

	2004 RMB	2003 RMB
Interest on		
Bank loans		
– wholly repayable within five years	**30,391**	67,430
– not wholly repayable within five years	**3,119**	29,050
Other loans		
– wholly repayable within five years	**236,561**	355,975
– not wholly repayable within five years	**–**	762
Less: Amounts capitalised	**–**	(23,435)
	270,071	429,782

Amounts capitalised in 2003 were borrowing costs related to funds borrowed specifically for the purpose of constructing qualifying assets. Interest rate on such capitalised borrowings in 2003 was 5.50% per annum.

(Amounts in thousands unless otherwise stated)

7 Emoluments of Directors and Supervisors

Details of the directors' and supervisors' emoluments are as follows:

	2004 RMB	2003 RMB
Fees	80	80
Salaries, allowances and other benefits	675	472
Contribution to retirement benefit plan	9	7
	764	559

The emoluments of the directors and supervisors fell within the following band:

	2004 Number	2003 Number
Nil – RMB1,064	16	16

Fees for directors and supervisors disclosed above included fees of RMB80 (2003: RMB80) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2004 (2003: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2003 and December 31, 2004 were also directors or supervisors and their emoluments are reflected in the analysis presented above.

8 Taxation

	2004 RMB	2003 RMB
PRC income tax	111,784	270
Deferred tax	(283,202)	–
	(171,418)	270

(Amounts in thousands unless otherwise stated)

8 TAXATION *(Cont'd)*

In accordance with the relevant PRC income tax rules and regulations, the enacted PRC income tax rate applicable to the Group is 33% (2003: 33%). Certain subsidiaries and the jointly controlled entity are Sino-foreign joint ventures and are entitled to certain tax concessions available to foreign investment production enterprises operating in the PRC. These tax concessions include a five-year tax holiday under which these enterprises are exempt from income tax for the first two years commencing from the first cumulative profitable year of operation followed by a 50% reduction in the income tax rate for three years thereafter.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the basic tax rate in the PRC applicable to the Group as follows:

	2004 *RMB*	2003 *RMB*
Profit before taxation	**2,356,568**	426,123
Tax calculated at a rate of 33%	**777,667**	140,621
Utilisation and recognition of previously unrecognised deferred tax assets	**(899,719)**	(133,827)
Approved income tax deduction relating to capital expenditures *(Note (a))*	**(65,561)**	–
Other	**16,195**	(6,524)
Tax expense	**(171,418)**	270

(a) In accordance with a PRC income tax regulation, upon the approval of provincial tax authorities, 40% of certain capital expenditures relating to technology upgrade of property, plant and equipment can be used to offset the income tax provision. In 2004, such capital expenditures approved by the provincial tax authorities amounted to RMB65,561 (2003: Nil) and were recorded as a deduction of income tax expense for the year.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of RMB2,553,194 for the year ended December 31, 2004 (2003: RMB435,484).

10 BASIC AND DILUTED PROFIT PER SHARE

Basic and diluted profit per share for the year ended December 31, 2004 have been computed by dividing net profit for the year by the weighted average number of 3,561,078,000 (2003: 3,561,078,000) shares issued and outstanding for the year.

There are no dilutive potential ordinary shares.

(Amounts in thousands unless otherwise stated)

11 DIVIDEND

No dividend was declared in respect of 2003 and 2004.

12 PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Plant and machinery	Construction in progress	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost or valuation				
At December 31, 2003	1,753,083	14,558,398	35,492	16,346,973
Additions	31,615	70,251	440,135	542,001
Transfer to fixed assets	11,984	400,774	(412,758)	–
Transfer to intangible assets	–	–	(10,257)	(10,257)
Disposals	(24,008)	(196,628)	–	(220,636)
At December 31, 2004	**1,772,674**	**14,832,795**	**52,612**	**16,658,081**
Accumulated depreciation				
At December 31, 2003	711,749	5,705,689	–	6,417,438
Charge for the year	82,846	954,346	–	1,037,192
Disposals	(12,660)	(160,099)	–	(172,759)
At December 31, 2004	**781,935**	**6,499,936**	**–**	**7,281,871**
Provision for impairment				
At December 31, 2003	–	–	–	–
Impairment charge *(Note (a))*	–	–	7,220	7,220
At December 31, 2004	**–**	**–**	**7,220**	**7,220**
Net book value				
At December 31, 2004	**990,739**	**8,332,859**	**45,392**	**9,368,990**
At December 31, 2003	1,041,334	8,852,709	35,492	9,929,535
Carrying value of fixed assets had they been stated at cost less accumulated depreciation and provision for impairment	1,022,633	8,451,931	45,392	9,519,956

(a) Certain construction in progress have been discontinued since 2004 and are 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.

(Amounts in thousands unless otherwise stated)

12 PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Company	Buildings	Plant and machinery	Construction in progress	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost or valuation				
At December 31, 2003	1,672,064	14,174,483	35,492	15,882,039
Additions	29,678	59,964	440,135	529,777
Transfer to fixed assets	11,984	400,774	(412,758)	–
Transfer to intangible assets	–	–	(10,257)	(10,257)
Disposals	(19,831)	(191,588)	–	(211,419)
At December 31, 2004	**1,693,895**	**14,443,633**	**52,612**	**16,190,140**
Accumulated depreciation				
At December 31, 2003	681,623	5,468,653	–	6,150,276
Charge for the year	81,409	933,480	–	1,014,889
Disposals	(11,744)	(151,891)	–	(163,635)
At December 31, 2004	**751,288**	**6,250,242**	**–**	**7,001,530**
Provision for impairment				
At December 31, 2003	–	–	–	–
Impairment charge	–	–	7,220	7,220
At December 31, 2004	–	–	7,220	7,220
Net book value				
At December 31, 2004	**942,607**	**8,193,391**	**45,392**	**9,181,390**
At December 31, 2003	990,441	8,705,830	35,492	9,731,763
Carrying value of fixed assets had they been stated at cost less accumulated depreciation and provision for impairment	973,901	8,299,080	45,392	9,318,373

(Amounts in thousands unless otherwise stated)

12 PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

(a) As part of the Restructuring described in Note 1 and as required by the relevant PRC regulations, a valuation of all of the contributed fixed assets and land use rights was carried out as of September 30, 1994 by China Assets Appraisal Co., Ltd., a firm of independent valuers registered in the PRC. The valuation was performed in order to determine the fair value of such contributed fixed assets and land use rights and establish amounts for share capital and capital reserve. The valuation of fixed assets was based on market value where available or depreciated replacement cost where market value was not available. The valuation of land use rights was based on standard land prices determined by the Jilin Province Land Administration Bureau. The value at which the above contributed fixed assets and land use rights were assumed by the Company was determined at RMB2,834,034 and RMB1,088,843, respectively. These contributed fixed assets and land use rights were initially accounted for by the Company at their predecessor values and are subsequently carried at revalued amounts less accumulated depreciation.

In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged American Appraisal Hong Kong Limited, independent valuers in Hong Kong, to perform a valuation of all of the Group's fixed assets as of February 28, 1995. The valuation, which was based on the market value where available or depreciated replacement costs where market value was not available, resulted in an additional surplus of RMB29,033. The surplus arising from the valuation was credited to the revaluation reserve.

Revaluations of property, plant and equipment are to be performed periodically, normally by professionally qualified valuers. As at December 31, 2003, a revaluation of the Company's property, plant and equipment was undertaken by China United Assets Appraiser Co., Ltd, a firm of independent valuers registered in the PRC. Because of the specialised nature of the assets under valuation, they were valued on a depreciated replacement cost basis. Following adjustments for the impairment provisions made in prior periods as noted below, the results of revaluation were substantially in line with the carrying amounts of property, plant and equipment.

At December 31, 2002, the directors of the Company compared the carrying amount of the Group's property, plant and equipment to their estimate of the fair value, and on the basis of their review, made an adjustment to reduce the carrying amount of certain assets by RMB323,844.

13 SUBSIDIARIES

	Company	
	2004	2003
	RMB	*RMB*
Unlisted investments, at cost	**113,461**	113,461
Less: Provision for impairment loss	**(43,131)**	(19,251)
	70,330	94,210

All subsidiaries are unlisted companies with limited liability established and operating in the PRC.

(Amounts in thousands unless otherwise stated)

13 SUBSIDIARIES (Cont'd)

Particulars of subsidiaries at December 31, 2004 are set out as follows:

Company name	Paid-up capital RMB	Type of legal entity	Attributable equity interest (%)	Principal activities
Jilin Jihua Jianxiu Company Limited ("Jianxiu")	45,200	Limited liability company	99	Machinery repair and installation
Jilin Xinhua Nitrochloro-benzene Company Limited ("Xinhua")	25,668	Limited liability company	75	Manufacture and sales of nitrochloro-benzene
Jilin Winsway Chemical Industrial Store and Transport Limited ("Winsway")	51,454	Sino-foreign equity joint venture	70	Provision of transportation services for chemical raw materials and products
Jilin City Songmei Acetic Co., Ltd. ("Songmei")	72,000	Sino-foreign co-operative joint venture	66	Manufacture of acetic acid
Jilin Jihua Jinxiang Pressure Vessel Inspection Co., Ltd. ("Jinxiang")	2,000	Limited liability company	94	Inspection, research and consultation of pressure vessels

Except for Jinxiang, which was established by Jianxiu and Jilin Lianli Industrial Co., Ltd. ("Lianli"), an associated company of the Company, on March 6, 2003, there were no changes in the interests held in other subsidiaries in 2003 and 2004.

14 INTERESTS IN A JOINTLY CONTROLLED ENTITY

	Group and Company	
	2004 **RMB**	2003 RMB
Share of net assets	**89,835**	53,722

(Amounts in thousands unless otherwise stated)

14 INTERESTS IN A JOINTLY CONTROLLED ENTITY *(Cont'd)*

Movements of the share of net assets are set out as follows:

	At January 1, 2004 *RMB*	Share of profit *RMB*	At December 31, 2004 ***RMB***
Jilin Province BASF JCIC NPG Co., Ltd. ("BASF")	53,722	36,113	**89,835**

The jointly controlled entity is an unlisted company with limited liability established and operating in the PRC.

Particulars of the jointly controlled entity at December 31, 2004 are set out as follows:

Company name	Paid-up capital *RMB*	Attributable equity interest (%) 2004	2003	Principal activities
BASF	150,000	**40**	40	Manufacture of petrochemical products

There was no change in the interest held in BASF during 2003 and 2004.

There were no material contingencies or commitments relating to BASF at December 31, 2004 and 2003.

(Amounts in thousands unless otherwise stated)

14 INTERESTS IN A JOINTLY CONTROLLED ENTITY *(Cont'd)*

A summary of the financial position and operating results of the jointly controlled entity is as follows:

	Certain financial information of the jointly controlled entity		Group's share	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Non-current assets	**77,750**	89,506	**31,100**	35,802
Current assets	**148,989**	63,021	**59,597**	25,209
Current liabilities	**2,151**	18,222	**862**	7,289
Turnover	**232,113**	148,694	**92,845**	59,478
Gross profit	**114,077**	44,918	**45,631**	17,967
Operating expenses	**(23,794)**	(20,758)	**(9,518)**	(8,303)
Profit before taxation	**90,283**	24,160	**36,113**	9,664
Taxation	**–**	–	**–**	–
Profit after taxation	**90,283**	24,160	**36,113**	9,664

15 INVESTMENT IN AN ASSOCIATED COMPANY

	Group and Company	
	2004	2003
	RMB	*RMB*
Share of net assets	**9,305**	4,908

The associated company is an unlisted company with limited liability established and operating in the PRC.

Particulars of the associated company are set out as follows:

Company name	Paid-up capital	Attributable equity interest	Principal activities
	RMB	*(%)*	
Jilin Lianli Industrial Co., Ltd.	42,214	47	Wholesale and retailing of petrochemical products

There was no change in the interest held in the associated company during 2003 and 2004.

(Amounts in thousands unless otherwise stated)

16 INTANGIBLE ASSETS

	Group			
	Technical know-how	Land use rights	Others	Total
	RMB	*RMB*	*RMB*	*RMB*
Cost				
At December 31, 2003	914,208	61,843	84,089	1,060,140
Transfer from construction in progress	10,257	–	–	10,257
Additions	40	–	–	40
At December 31, 2004	**924,505**	**61,843**	**84,089**	**1,070,437**
Accumulated amortisation				
At December 31, 2003	386,758	11,279	40,569	438,606
Charge for the year	99,510	1,257	9,319	110,086
At December 31, 2004	**486,268**	**12,536**	**49,888**	**548,692**
Provision for impairment				
At December 31, 2003	–	–	–	–
Impairment charge *(Note (a))*	6,698	–	–	6,698
At December 31, 2004	**6,698**	**–**	**–**	**6,698**
Net book value				
At December 31, 2004	**431,539**	**49,307**	**34,201**	**515,047**
At December 31, 2003	527,450	50,564	43,520	621,534

(a) Certain technical know-how was replaced by new techniques in 2004 and the carrying amounts of the technical know-how were therefore fully provided.

(Amounts in thousands unless otherwise stated)

16 INTANGIBLE ASSETS *(Cont'd)*

	Company			
	Technical know-how	**Land use rights**	**Others**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
Cost				
At December 31, 2003	914,151	61,843	84,089	1,060,083
Transfer from construction in progress	10,257	–	–	10,257
Additions	–	–	–	–
At December 31, 2004	**924,408**	**61,843**	**84,089**	**1,070,340**
Accumulated amortisation				
At December 31, 2003	386,757	11,279	40,569	438,605
Charge for the year	99,414	1,257	9,319	109,990
At December 31, 2004	**486,171**	**12,536**	**49,888**	**548,595**
Provision for impairment				
At December 31, 2003	–	–	–	–
Impairment charge	6,698	–	–	6,698
At December 31, 2004	**6,698**	**–**	**–**	**6,698**
Net book value				
At December 31, 2004	**431,539**	**49,307**	**34,201**	**515,047**
At December 31, 2003	527,394	50,564	43,520	621,478

(Amounts in thousands unless otherwise stated)

17 Inventories

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Raw materials				
– at cost	**1,076,914**	538,646	**1,068,524**	536,895
– at net realisable value	**147,142**	151,975	**147,142**	151,975
Work in progress				
– at cost	**686,171**	252,213	**663,768**	227,168
– at net realisable value	**505**	9,559	**505**	9,559
Finished goods				
– at cost	**265,152**	101,036	**265,152**	84,423
– at net realisable value	**179,325**	186,843	**170,583**	186,843
Spare parts				
– at cost	**–**	1,735	**–**	1,735
– at net realisable value	**243,641**	320,257	**243,641**	320,257
Low value consumables and packing materials				
– at cost	**6,852**	2,738	**6,852**	2,738
– at net realisable value	**351**	3,091	**351**	3,091
	2,606,053	1,568,093	**2,566,518**	1,524,684

18 Accounts Receivable

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Due from third parties	**502,942**	815,487	**499,145**	812,139
Due from related parties				
– PetroChina Group Companies	**211,530**	41,663	**165,242**	41,663
– CNPC Group Companies	**–**	191	**–**	191
– JCGC Group Companies	**169,077**	171,927	**169,077**	171,927
– Subsidiaries	**–**	–	**116,198**	77,958
– An associated company	**23,138**	23,759	**23,138**	23,759
	906,687	1,053,027	**972,800**	1,127,637
Less: Provision for impairment loss	**(641,442)**	(868,271)	**(640,775)**	(868,268)
	265,245	184,756	**332,025**	259,369

(Amounts in thousands unless otherwise stated)

18 Accounts Receivable *(Cont'd)*

Amounts due from related parties are interest free and unsecured. Related parties are offered credit terms of no more than 30 days. Most of the sales to third parties are realised on cash basis.

In 2004, accounts receivable of RMB237,879 (2003: RMB97,657) were written off against the provision for impairment loss because of the bankruptcy of certain customers.

The ageing analysis of accounts receivable at December 31, 2004 is as follows:

	Group		Company	
	2004 RMB	2003 RMB	**2004 RMB**	2003 RMB
Within 1 year	**222,075**	82,853	**290,897**	158,129
Between 1 to 2 years	**2,042**	379	**–**	379
Between 2 to 3 years	**299**	35,454	**299**	35,454
Over 3 years	**682,271**	934,341	**681,604**	933,675
	906,687	1,053,027	**972,800**	1,127,637

In 2002, the Group implemented a cash sales policy for the majority of its customers. Certain selected customers are offered credit terms of not more than 30 days.

19 Prepaid Expenses and Other Current Assets

	Group		Company	
	2004 RMB	2003 RMB	**2004 RMB**	2003 RMB
Other receivables	**109,824**	99,108	**83,843**	68,393
Amounts due from related parties				
– CNPC Group Companies	**7,172**	–	**7,172**	–
– JCGC Group Companies	**138,347**	33,250	**138,347**	33,250
– Subsidiaries	**–**	–	**–**	10,126
– A jointly controlled entity	**–**	455	**–**	455
– An associated company	**239**	–	**239**	–
Down payments to suppliers	**239,834**	194,477	**239,750**	193,661
Prepaid expenses	**19,856**	12,395	**19,475**	12,003
	515,272	339,685	**488,826**	317,888
Less: Provision for impairment loss	**(73,381)**	(72,143)	**(73,381)**	(72,143)
	441,891	267,542	**415,445**	245,745

(Amounts in thousands unless otherwise stated)

19 Prepaid Expenses and Other Current Assets *(Cont'd)*

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

In 2004, other receivables of RMB134 (2003: RMB4,095) were written off against the provision for impairment loss.

20 Cash and Cash Equivalents

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Cash at bank and on hand	**14,629**	35,499	**11,819**	30,675

The weighted average effective interest rate on bank deposits was 0.72% (2003: 0.72%) for the year ended December 31, 2004.

21 Accounts Payable and Accrued Liabilities

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Trade payables	**1,709,398**	1,765,178	**1,597,371**	1,731,631
Advances from customers	**639,698**	457,114	**622,533**	430,216
Salaries and welfare payable	**197,094**	158,468	**187,446**	151,436
Other payables and accrued liabilities	**121,461**	122,018	**116,117**	121,247
Amounts due to related parties				
– PetroChina Group Companies	**1,667,303**	957,305	**1,635,648**	957,305
– CNPC Group Companies	**–**	3,764	**–**	3,764
– JCGC Group Companies	**85,623**	140,565	**85,623**	140,565
– Subsidiaries	**–**	–	**81,816**	24,442
– An associated company	**9,109**	8,629	**9,109**	8,629
	4,429,686	3,613,041	**4,335,663**	3,569,235

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

(Amounts in thousands unless otherwise stated)

21 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES *(Cont'd)*

The ageing analysis of trade payables at December 31, 2004 is as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Within 1 year	**1,610,663**	1,520,974	**1,500,167**	1,487,427
Between 1 to 2 years	**33,123**	191,714	**31,592**	191,714
Between 2 to 3 years	**23,267**	17,170	**23,267**	17,170
Over 3 years	**42,345**	35,320	**42,345**	35,320
	1,709,398	1,765,178	**1,597,371**	1,731,631

22 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Bank loans				
– unsecured *(Note (i))*	**44,640**	49,600	**–**	–
– secured	**–**	–	**–**	–
	44,640	49,600	**–**	–
Loans from a fellow subsidiary *(Note (ii))*	**2,874,330**	3,155,000	**2,874,330**	3,155,000
	2,918,970	3,204,600	**2,874,330**	3,155,000
Current portion of long-term borrowings	**167,105**	897,399	**167,105**	897,399
	3,086,075	4,101,999	**3,041,435**	4,052,399

(i) At December 31, 2004, bank loans bear interest at the rate ranging from 5.84% to 7.25% (2003: 5.55%) per annum and are guaranteed by Jilin Merchandise Group, a third-party to 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 rate ranging from 4.776% to 5.019% (2003: 5.019%) per annum. On February 6, 2004, CP Finance agreed to extend the borrowing facilities period to December 31, 2005.

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

(Amounts in thousands unless otherwise stated)

22 BORROWINGS *(Cont'd)*

(b) Long-term borrowings

	Interest rate and final maturity	Group and Company	
		2004 **RMB**	2003 RMB
Renminbi – denominated loans			
Industrial and Commercial Bank of China	Fixed interest rate of 6.03% per annum as of December 31, 2003, with maturities through 2004, repaid in 2004	**–**	9,500
CP Finance	Majority variable interest rates ranging from 5.18% to 5.42% per annum as of December 31, 2003, with maturities through 2007, repaid in 2004	**–**	1,636,900
US dollar – denominated loans			
Construction Bank of China	Fixed interest rates ranging from 8.42% to 8.66% per annum as of December 31, 2004, with maturities through 2010	**239,035**	283,415
China Development Bank	Fixed interest rate of 5.50% as of December 31, 2003, and floating interest rate set by government in the following years, with maturities through 2012, repaid in 2004	**–**	856,705
JCGC Group Companies	Fixed interest rates ranging from 6.55% to 7.86% per annum as of December 31, 2004, with maturities through 2008	**137,340**	183,627
Bank of China	Interest free as of December 31, 2004, with maturities through 2029	**77,051**	77,052
Bank of China	Variable interest rates of Libor + 0.6% as of December 31, 2004, with maturities through 2007	**413,825**	–
Japanese Yen – denominated loans			
JCGC Group Companies	Fixed interest rates ranging from 4.10% to 5.30% per annum as of December 31, 2004, with maturities through 2008	**157,746**	205,607
Euro – denominated loans			
JCGC Group Companies	Fixed interest rate of 8.30% per annum as of December 31, 2004, with maturities through 2006	**38,123**	52,491
Total long-term borrowings		**1,063,120**	3,305,297
Less: Current portion of long-term borrowings		**(167,105)**	(897,399)
		896,015	2,407,898

(Amounts in thousands unless otherwise stated)

22 BORROWINGS *(Cont'd)*

(b) Long-term borrowings *(Cont'd)*

At December 31, 2004, all long-term borrowing are unsecured (2003: Same).

At December 31, 2004, long-term borrowings of RMB333,209 (2003: RMB441,725) from JCGC Group Companies were borrowed from certain banks through JCGC Group Companies.

The periods in which the short-term and long-term borrowings reprice and the exposure of the borrowings of the Group to interest rate changes are as follows:

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
6 months or less	**83,553**	112,500	**83,553**	112,500
6-12 months	**3,416,348**	4,989,499	**3,371,708**	4,939,899
1-5 years	**403,163**	926,350	**403,163**	926,350
Over 5 years	**79,026**	481,548	**79,026**	481,548
	3,982,090	6,509,897	**3,937,450**	6,460,297

	Group		Company	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Total borrowings				
– at fixed rates	**3,568,265**	4,872,997	**3,523,625**	4,823,397
– at variable rates	**413,825**	1,636,900	**413,825**	1,636,900
	3,982,090	6,509,897	**3,937,450**	6,460,297

The weighted average effective interest rates at the balance sheet date are as follows:

Weighted average effective interest rates:				
– bank loans	5.15%	5.85%	5.07%	5.86%
– loans from related parties	5.11%	5.18%	5.11%	5.18%

(Amounts in thousands unless otherwise stated)

22 Borrowings *(Cont'd)*

(b) Long-term borrowings *(Cont'd)*

The carrying amounts and fair values of long-term borrowings are as follows:

	Group and Company Carrying amounts		Group and Company Fair values	
	2004	2003	**2004**	2003
	RMB	*RMB*	***RMB***	*RMB*
Bank loans	**729,911**	1,226,672	**718,887**	1,191,836
Loans from related parties	**333,209**	2,078,625	**355,796**	2,121,108
	1,063,120	3,305,297	**1,074,683**	3,312,944

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet date. Such discount rates ranged from 0.86% to 5.92% as of December 31, 2004 depending on the type of the borrowings. The carrying amounts of current portion of long term borrowings approximate their fair value.

Maturities of long-term borrowings at the balance sheet date are as follows:

	Group and Company	
	2004	2003
	RMB	*RMB*
Bank loans		
– within 1 year	**47,412**	149,032
– between 1 to 2 years	**47,412**	181,532
– between 2 to 5 years	**556,061**	414,560
– after 5 years	**79,026**	481,548
	729,911	1,226,672

	Group and Company	
	2004	2003
	RMB	*RMB*
Loans from related parties		
– within 1 year	**119,693**	748,367
– between 1 to 2 years	**119,693**	121,468
– between 2 to 5 years	**93,823**	1,208,790
– after 5 years	**–**	–
	333,209	2,078,625

(Amounts in thousands unless otherwise stated)

23 SHARE CAPITAL

	Group and Company	
	2004	2003
	RMB	*RMB*
Registered, issued and fully paid:		
– 2,396,300,000 state-owned shares of RMB1.00 each	**2,396,300**	2,396,300
– 964,778,000 H shares and ADS of RMB1.00 each	**964,778**	964,778
– 200,000,000 A shares of RMB1.00 each	**200,000**	200,000
	3,561,078	3,561,078

The state-owned shares, H shares, A shares and ADS rank para passu in all respects.

Following the announcement of the Company's audited results for 2002, the Company's A shares (which are available only to the PRC nationals) were suspended from trading on the Shenzhen Stock Exchange (the "Exchange") of the PRC on April 30, 2003 pursuant to the relevant provisions of the China Securities Regulatory Commission and the Exchange, following the recording of losses, computed in accordance with the PRC accounting standards and regulations, for three consecutive years from 2000 to 2002. Following the announcement of the Company's audited profitable interim results, computed in accordance with the PRC accounting standards and regulations, for the six months ended June 30, 2003, the Company's A shares resumed trading on the Exchange on September 25, 2003.

(Amounts in thousands unless otherwise stated)

24 RESERVES

	Capital reserve *RMB*	Revaluation reserve *RMB*	Statutory common reserve fund *RMB* *(Note (a))*	Statutory common welfare fund *RMB* *(Note (b))*	Discretionary common reserve fund *RMB* *(Note (c))*	Total *RMB*
Group						
Balance at January 1, 2003	1,391,114	9,247	160,155	140,997	400,291	2,101,804
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2003	1,391,114	8,274	160,155	140,997	400,291	2,100,831
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2004	**1,391,114**	**7,301**	**160,155**	**140,997**	**400,291**	**2,099,858**
Company						
Balance at January 1, 2003	1,391,114	9,247	152,443	140,997	400,291	2,094,092
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2003	1,391,114	8,274	152,443	140,997	400,291	2,093,119
Transfer to accumulated losses on realisation of revaluation reserve	–	(973)	–	–	–	(973)
Balance at December 31, 2004	**1,391,114**	**7,301**	**152,443**	**140,997**	**400,291**	**2,092,146**

(a) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its distributable profit, as determined under the PRC accounting regulations, to the statutory common reserve fund until the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividend to shareholders.

The statutory common reserve fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its statutory common reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

Since the Company had an accumulated loss at December 31, 2004, no appropriation to the statutory common reserve fund was made in 2004 (2003: nil).

24 RESERVES *(Cont'd)*

(b) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 5% to 10% of its distributable profit, as determined under the PRC accounting regulations, to the statutory common welfare fund. This fund can only be used to provide staff welfare facilities and other collective benefits to the Company's employees. This fund is non-distributable other than in liquidation.

Since the Company had an accumulated loss at December 31, 2004, no appropriation to the statutory common welfare fund was made in 2004 (2003: nil).

(c) Transfer to the discretionary common reserve fund is subject to approval by the shareholders at general meeting. Its usage is similar to that of the statutory common reserve fund.

No transfer to the discretionary common reserve fund has been proposed by the Board of Directors.

(d) The Company's distributable reserve at December 31, 2004 under the PRC accounting regulations is nil (2003: nil).

(Amounts in thousands unless otherwise stated)

25 Deferred Income Tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 33% (2003: 33%).

Deferred tax balances are attributable to the following items:

	At January 1, 2004 *RMB*	Profit and loss account *RMB*	**At December 31, 2004** ***RMB***
Deferred tax liabilities:			
Non-current:			
Revaluation of fixed assets *(Note 12)*	3,266	(479)	**2,787**
Exchange gain in respect of loans borrowed for fixed assets	20,717	(2,413)	**18,304**
Deferred tax effect on housing subsidy cost	14,363	(3,075)	**11,288**
Deferred tax effect on accelerated depreciation and amortisation	–	119,622	**119,622**
Total deferred tax liabilities	38,346	113,655	**152,001**
Deferred tax assets:			
Non-current:			
Deferred tax effect on tax losses	38,346	(38,346)	**–**
Deferred tax effect on deductible temporary differences	–	435,203	**435,203**
Total deferred tax assets	38,346	396,857	**435,203**
Net deferred tax balance	–	283,202	**283,202**

(Amounts in thousands unless otherwise stated)

25 DEFERRED INCOME TAX *(Cont'd)*

	At January 1, 2003 *RMB*	Profit and loss account *RMB*	**At December 31, 2003** ***RMB***
Deferred tax liabilities:			
Non-current:			
Revaluation of fixed assets *(Note 12)*	3,745	(479)	**3,266**
Exchange gain in respect of loans borrowed for fixed assets	23,130	(2,413)	**20,717**
Deferred tax effect on housing subsidy cost	17,438	(3,075)	**14,363**
Total deferred tax liabilities	44,313	(5,967)	**38,346**
Deferred tax assets:			
Non-current:			
Deferred tax effect on tax losses	44,313	(5,967)	**38,346**
Total deferred tax assets	44,313	(5,967)	**38,346**
Net deferred tax balance	–	–	**–**

In 2004, the changes in commercial environment caused significant increase in market demand for petrochemical, organic chemical and synthetic rubber products which resulted the increase in sales prices and therefore gross margins. The improvement in profitability enabled management to revise its business plan for future 5 years. The revised business plan proved recoverability of the deferred tax asset recognised in full amount as at December 31, 2004.

The deferred tax assets were arising from tax losses available to be offset against future taxable income.

Deferred income tax assets for tax losses carried forward and deductible temporary differences (mainly impairment provisions for receivables, inventories and write-down of carrying value of property, plant and equipment) are recognised to the extent that realisation of the related tax benefit through future taxable income is probable.

On September 20, 2004, the Chinese Ministry of Finance and State Administration of Taxation issued an income tax regulation which allows companies in northeast China to shorten the depreciation and amortisation periods of property, plant and equipment and intangible assets on tax basis effective July 1, 2004. Therefore, at December 31, 2004, deferred tax liabilities of RMB119,622 is recognised on the temporary difference arising from accelerated depreciation and amortisation.

(Amounts in thousands unless otherwise stated)

26 CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2004 RMB	2003 RMB
Profit attributable to shareholders		**2,544,510**	427,609
Adjustments for:			
Minority interests		**(16,524)**	(1,756)
Deferred income tax assets	25	**(283,202)**	–
Depreciation and amortisation	4	**1,147,278**	1,032,007
Provision for impairment of prepaid expenses and other current assets	4	**1,372**	–
Provision for impairment of receivables	4	**11,050**	100,713
Provision for impairment of property, plant and equipment	4	**7,220**	–
Provision for impairment of intangible assets	4	**6,698**	–
Inventory writedowns	4	**77,544**	12,856
Net (profit)/loss on disposal of property, plant and equipment	4	**(26,412)**	26,379
Share of profit of a jointly controlled entity	14	**(36,113)**	(9,664)
Share of (profit)/loss of an associated company		**(4,397)**	14,001
Interest income		**(1,753)**	(1,531)
Interest expense	6	**270,071**	429,782
Changes in working capital:			
Accounts and other receivables (net)		**(256,510)**	330,044
Inventories *(Note (a))*		**(1,115,504)**	(186,721)
Payables and accrued liabilities (net) *(Note (b))*		**1,045,447**	1,830,961
CASH GENERATED FROM OPERATIONS		**3,370,775**	4,004,680
Interest received		**1,753**	1,531
Interest paid		**(297,749)**	(427,887)
NET CASH PROVIDED BY OPERATING ACTIVITIES		**3,074,779**	3,578,324
NON-CASH TRANSACTIONS			
Purchase of property, plant and equipment	29(j)	**–**	159,500

(a) The majority of the change in inventories in 2004 relates to timing difference in purchase of crude oil.

(b) The majority of the change in payables and accrued liabilities in 2004 relates to timing difference in settlement of payables and advances from customers including a related party.

(Amounts in thousands unless otherwise stated)

27 Acquisition

In December 2002, the Company acquired the remaining 35% equity interest in Jilian, a jointly controlled entity, for a cash consideration of RMB135,000 and integrated its business into the Company's. Jilian was subsequently dissolved in 2002. The acquisition of Jilian is accounted for using the purchase method. The identifiable assets and liabilities acquired were restated to fair values at the time of the successive share purchases. The acquired business did not contribute significant revenues and operating profit to the Company for the year ended December 31, 2002.

Details of net assets acquired are as follows:

	RMB
Cash and cash equivalents	7,914
Property, plant and equipment	816,638
Intangible assets	52,599
Inventories	157,260
Receivables	53,351
Payables	(397,576)
Borrowings	(304,471)
Fair value of net assets	385,715
Equity interest acquired	35%
Total purchase consideration (which is equal to 35% of the fair value of net assets)	135,000
Less: Cash and cash equivalents of Jilian acquired	(7,914)
Cash outflow on acquisition during 2002	(73,086)
Cash outflow on acquisition during 2003	54,000

28 Segment Information

(a) Primary reporting format – business segments

The Group is principally engaged in the following four business segments in the PRC, petroleum products, petrochemical and organic chemical products, chemical fertilisers and inorganic chemicals, and synthetic rubber products.

(i) The petroleum products segment is engaged in the production of gasoline, diesel oil, solvent oil and other by-products such as lubricants. While certain of the products produced by the Group are used as raw materials in the production of petrochemicals, a major portion is sold to outside customers.

(ii) The petrochemical and organic chemical products segment primarily produces ethanol, acetic acid and acetic anhydride.

(iii) The chemical fertilisers and inorganic chemicals segment principally produces ammonium nitrate, urea, ammonium chloride, sulphuric acid and slag.

(iv) The synthetic rubber products segment primarily produces styrene-butadiene-rubber.

The other products and services segment includes sales of raw materials purchased from third parties to related parties at cost to receive favourable discounts and provision of utilities, maintenance and other related services.

The accounting policies of the operating segments are the same as those described in Note 2 – “Summary of principal accounting policies”.

Intersegment sales are conducted principally at market price.

(Amounts in thousands unless otherwise stated)

28 SEGMENT INFORMATION *(Cont'd)*

(a) Primary reporting format – business segments *(Cont'd)*

Operating segment information for the years ended December 31, 2003 and 2004 is presented below.

Year ended December 31, 2004	Petroleum products RMB	Petrochemical and organic chemical products RMB	Chemical fertilisers and inorganic chemicals RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Profit and loss						
Sales (including intersegment)	18,079,875	13,550,409	664,246	1,793,689	3,666,195	37,754,414
Less: Intersegment sales	(4,702,040)	(782,150)	–	–	(412,801)	(5,896,991)
Total sales to external customers	13,377,835	12,768,259	664,246	1,793,689	3,253,394	31,857,423
Segment results	(475,328)	2,939,339	(80,353)	317,016	(107,646)	2,593,028
Finance costs – net						(276,970)
Share of profit of a jointly controlled entity	–	36,113	–	–	–	36,113
Share of profit of an associated company	–	–	–	–	4,397	4,397
Profit before taxation						2,356,568
Taxation						171,418
Minority interests						16,524
Net profit						2,544,510
Depreciation and amortisation	549,867	377,907	29,290	58,087	132,127	1,147,278
Impairment of property, plant and equipment	–	–	4,680	–	2,540	7,220
Impairment of intangible assets	–	6,698	–	–	–	6,698
Impairment of current assets (receivables and inventories)						89,966
Assets and liabilities						
Segment assets	1,844,441	9,175,528	561,825	991,418	638,643	13,211,855
Interests in a jointly controlled entity	–	89,835	–	–	–	89,835
Investment in an associated company	–	–	–	–	9,305	9,305
Deferred income tax assets						283,202
Total assets						13,594,197
Segment current liabilities	594,431	3,054,582	552,913	130,489	210,350	4,542,765
Borrowings						3,982,090
Total liabilities						8,524,855
Segment capital expenditure on property, plant and equipment and on intangible assets	263,201	189,023	11,462	65,136	13,219	542,041

(Amounts in thousands unless otherwise stated)

28 SEGMENT INFORMATION *(Cont'd)*

(a) Primary reporting format – business segments *(Cont'd)*

Year ended December 31, 2003	Petroleum products *RMB*	Petrochemical and organic chemical products *RMB*	Chemical fertilisers and inorganic chemicals *RMB*	Synthetic rubber products *RMB*	Other products and services *RMB*	Total *RMB*
Profit and loss						
Sales (including intersegment)	12,906,594	8,595,891	164,861	1,133,031	2,560,499	25,360,876
Less: Intersegment sales	(3,586,528)	(812,800)	–	–	(308,739)	(4,708,067)
Total sales to external customers	9,320,066	7,783,091	164,861	1,133,031	2,251,760	20,652,809
Segment results	37,344	721,791	(121,754)	356,048	(98,111)	895,318
Finance costs – net						(464,858)
Share of profit of a jointly controlled entity	–	9,664	–	–	–	9,664
Share of loss of an associated company	–	–	–	–	(14,001)	(14,001)
Profit before taxation						426,123
Taxation						(270)
Minority interests						1,756
Net profit						427,609
Depreciation and amortisation	494,535	362,532	9,671	40,855	124,414	1,032,007
Impairment of current assets (receivables and inventories)						113,569
Assets and liabilities						
Segment assets	2,503,467	7,700,372	848,240	755,820	799,060	12,606,959
Interests in a jointly controlled entity	–	53,722	–	–	–	53,722
Investment in an associated company	–	–	–	–	4,908	4,908
Total assets	2,503,467	7,754,094	848,240	755,820	803,968	12,665,589
Segment current liabilities	501,931	2,387,753	454,000	95,190	175,462	3,614,336
Borrowings						6,509,897
Total liabilities						10,124,233
Segment capital expenditure on property, plant and equipment and on intangible assets	35,042	179,145	179,071	75,241	18,355	486,854

(Amounts in thousands unless otherwise stated)

28 Segment Information *(Cont'd)*

(b) Secondary reporting format – geographical segments

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.

29 Related Party Transactions

The Company is a subsidiary of PetroChina, which is part of a larger group of companies under CNPC. The Group has extensive transactions with members of the CNPC group. In addition to the related party information shown elsewhere in the financial statements, the following is a summary of the significant transactions entered into in the normal course of business between the Group and entities controlled by CNPC during the year:

	Notes	2004 RMB	2003 RMB
PetroChina Group Companies			
Purchase of crude oil	*(a)*	**11,789,022**	8,067,989
Purchase of materials	*(a)*	**7,447,892**	1,266,922
Sale of gasoline	*(b)*	**2,917,651**	2,656,296
Sale of diesel oil	*(b)*	**7,794,524**	5,615,331
Sale of petrochemical goods	*(b)*	**11,548,928**	4,083,318
Operating lease rentals on property, plant and equipment	*(c)*	**27,733**	2,463
Property safety and insurance fund	*(d)*	**32,958**	35,278
JCGC Group Companies			
Sale of goods	*(e)*	**1,417,140**	908,009
Sub-contracting services	*(f)*	**19,665**	16,694
Construction of property, plant and equipment	*(g)*	**76,342**	65,653
Purchase of raw materials and spare parts	*(h)*	**148,587**	290,002
Purchase of utilities and supporting services	*(i)*	**262,961**	228,828
Purchase of property, plant and equipment	*(j)*	**–**	159,500
Operating lease rentals on land and property	*(k)*	**7,680**	10,501
CNPC Group Companies			
Interest expense	*(l)*	**212,814**	305,319
Loans drawn	*(m)*	**8,531,610**	5,308,460
Purchase of raw materials and spare parts	*(n)*	**52,830**	66,789

29 RELATED PARTY TRANSACTIONS *(Cont'd)*

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

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

(c) Represents rentals for operating lease on property, plant and equipment at market prices.

(d) 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.

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

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

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

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

(i) Purchase of 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.

(j) In December 2003, the Company purchased certain property, plant and equipment from JCGC for a consideration of RMB159,500 based on a revaluation conducted by a professional valuer. The consideration was settled by offsetting against the Company's accounts receivable due from JCGC of RMB159,500.

(k) Represents rentals for operating lease on land at market prices.

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

(m) Represents borrowings from CP Finance drawn during the year.

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

30 Financial Instruments

(a) Financial risk factors

The Group's operations expose it to various financial risks, including credit risk, foreign exchange risk, interest rate risk and liquidity risk. While the Group has not used derivative financial instruments for hedging or trading purposes, it focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance of the Group. The Group's senior management has written policies covering specific financial risks indicated above.

(i) Credit risk

The carrying amounts of receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carry a significant exposure to credit risk. Cash is placed with state-owned banks and financial institutions.

(ii) Foreign exchange risk

The Group operates in the PRC and transactions are primarily denominated in Renminbi, the national currency. The Group is exposed to foreign exchange risk arising from various currency exposures with respect to borrowings denominated in foreign currencies *(Note 22)*.

(iii) Interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates. The Group sometimes borrows at variable rates and these represent the Group's maximum exposure to interest rate risk in relation to its financial liabilities.

(iv) Liquidity risk

The Group depends on cash flows from operations, loans from banks and related parties, and equity financing to satisfy its liquidity and capital needs. Management reviews the Group's working capital and liquidity position on a regular basis to ensure it has sufficient resources to meet its working capital needs and to continue its operations for the foreseeable future. In addition, management also aims at maintaining flexibility in funding by keeping committed credit lines available. The Company expects to receive continuing support from CNPC for its working capital requirements in the foreseeable future. In this regard, CP Finance, a subsidiary of CNPC, has agreed to extend the period of borrowing facilities, totalling RMB8 billion, available to the Company to December 31, 2005 *(Note 22)*.

(Amounts in thousands unless otherwise stated)

30 Financial Instruments *(Cont'd)*

(b) Fair values

The carrying amounts of the following financial assets and financial liabilities, net of impairment provisions, approximate their fair values: cash, trade receivables and payables, other receivables and payables and short-term borrowings. The fair value of long-term borrowings is disclosed in Note 22.

31 Major Customers

The Group's major customers are as follows:

	2004		2003	
	Turnover	**% to total turnover**	Turnover	% to total turnover
	RMB	**%**	*RMB*	%
PetroChina Group Companies	**22,261,103**	**70**	12,354,945	60
JCGC Group Companies	**1,417,140**	**4**	908,009	4
	23,678,243	**74**	13,262,954	64

32 Capital Commitments

	2004	2003
	RMB	*RMB*
Contracted but not provided for in respect of plant and equipment	**153,564**	8,680

33 Ultimate Holding Company

The directors regard CNPC, a state-owned enterprise established in the PRC, as being the ultimate holding company.

34 Approval of Financial Statements

The financial statements have been approved by the board of directors on March 17, 2005 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 20, 2005.