

## I. CORPORATE INFORMATION

Jilin Chemical Industrial Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on December 13, 1994 as a joint stock limited company upon the restructuring of Jilin Chemical Industrial Corporation. The principal activities of the Company are the production and sale of petroleum products, petrochemical and organic chemical products, synthetic rubber products, chemical fertilizers and inorganic chemical products, and other related products, and the provision of related services.

In accordance with the restructuring agreement, the Company issued 2,396,300,000 state-owned shares with a par value of RMB1.00 each to Jilin Chemical Industrial Corporation to take over the assets and liabilities of the principal production units, certain ancillary functions and a subsidiary of Jilin Chemical Industrial Corporation. Jilin Chemical Industrial Corporation then changed its name to Jilin Chemical Group Corporation (“JCGC”) and became the Company’s immediate holding company.

As a state-owned enterprise, JCGC was originally controlled and administered by Jilin provincial government, as well as supervised by the National Administration of Petroleum and Chemical Industries. According to the restructuring regulations promulgated by the State Council of the PRC, JCGC, together with certain oil fields and oil distribution companies, became wholly-owned subsidiaries of China National Petroleum Corporation (“CNPC”) since July 1, 1998. Therefore, CNPC becomes the ultimate holding company of the Company through its control over JCGC. Since then, the Company has been receiving continuing support from CNPC for its working capital requirements. At the date of this report, China Petroleum Finance Company Limited (“CP Finance”), subsidiary of CNPC, has agreed to provide credit facilities of RMB8 billion to the Company (see Note V 14).

In 1999, CNPC and its subsidiaries underwent a corporate restructuring (the “Corporate Restructuring”). According to the Corporate Restructuring, CNPC transferred the 2,396,300,000 state-owned shares of the Company owned by JCGC, together with certain assets and business undertakings of JCGC, to PetroChina Company Limited (“PetroChina”), a wholly-owned subsidiary of CNPC established on November 5, 1999. Accordingly, PetroChina becomes the Company’s immediate holding company.

## II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### I. 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.

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

### 2. Accounting period

The Group's accounting period starts on January 1 and ends on December 31.

### 3. Reporting currency

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

### 4. Basis of accounting

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

### 5. Foreign currency translations

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.

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

### 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.

(b) *Other receivables*

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

(c) *Recognition of bad debts*

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.

(d) *Transfer and factor*

Where accounts receivable and notes receivable have been transferred or factored and the cash have been substantially received from customers, the difference between proceeds derived from the transaction, net of relevant taxes, and the carrying amount of the accounts receivable and notes receivable is expensed in the period.

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

### 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.

Provisions for declines in the value of inventories are determined on an item-by-item basis when the carrying value of the inventories is higher than their net realizable value. Provisions for declines in the value of inventories are determined on a category basis when inventories are numerous and with low unit price.

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.

The Group adopts perpetual inventory method for physical inventories.

### 9. Long-term investments

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

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

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

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

### 9. Long-term investments (Cont'd)

When long-term equity investments acquired prior to March 17, 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 March 17, 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.

When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### 10. Fixed assets and depreciation

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

Fixed assets purchased or constructed are recorded at cost, or at the appraised amount as approved by the state assets administration authorities pursuant to the Company's restructuring.

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

### 10. Fixed assets and depreciation (Cont'd)

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. Where indication exists that the recoverable amount may be lower than the carrying amount of a individual fixed asset, the Group will perform impairment test on it. An impairment provision is made when the recoverable amount is lower than the carrying amount.

When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

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

### 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.

Where indication exists that the recoverable amount may be lower than the carrying amount of a individual construction in progress, the Group will perform impairment test on it. An impairment provision is made when the recoverable amount is lower than the carrying amount. When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### 12. Intangible assets and amortization

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

Land use rights are stated at acquisition cost, or at the appraised amount as approved by the state assets administration authorities pursuant to the Group's restructuring. Land use rights are amortized using the straight-line method over a period of 50 years.

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

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.

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

### 12. Intangible assets and amortization (Cont'd)

Intangible assets are stated at the lower of the carrying amount and recoverable amount. Where indication exists that the recoverable amount may be lower than the carrying amount of a individual intangible asset, the Group will perform impairment test on it. An impairment provision is made when the recoverable amount is lower than the carrying amount.

When there is an indication that the need for an impairment provision recorded in a prior period no longer exists or has decreased, the provision for impairment loss is reversed. The increased carrying amount of the assets should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### 13. 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.

### 14. Borrowing costs

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.



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

### 15. Provisions

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

### 16. Employee social security and benefits

All Chinese employees of the Group participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized and administered by the governmental authorities.

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 recorded 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. Revenue is recognized using the percentage of completion method at the balance sheet date.

#### (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.

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

### 18. Operating leases

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

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

### 19. Accounting for income tax

The Group accounts for enterprise and local income taxes using the liability method under the deferred tax method. The temporary difference arises from the timing difference of recognition of revenue, expense or profit and loss on tax and accounting basis. Cumulative income taxes at the end of each period are adjusted by applying the currently enacted tax rates on timing differences.

Deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which timing differences can be utilized in the near future.

### 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.

A jointly controlled entity whose revenue is below 10% of that of the Company, total assets below 10% of those of the Company and total profit below 10% of that of the Company are not consolidated.

## III. TAXATION

The principal types of taxes applicable to the Group are as follows:

- (i) Value added tax ("VAT") – the Group's sales revenue is subject to VAT at 17%. VAT payable is the net difference between periodic output VAT and deductible input VAT.
- (ii) Business tax ("BT") – the Group's gross service income is subject to BT at 5%.
- (iii) Consumption tax ("CT") – the Group's sales of gasoline and diesel oil are subject to CT at RMB277.6 per ton and RMB117.6 per ton, respectively.
- (iv) Income tax – the Group is subject to income tax at 33% of its taxable income.
- (v) City construction and maintenance tax ("CCMT") – the Group is subject to CCMT at 7% of the total VAT, BT and CT payable.
- (vi) Education levy ("EL") – the Group is subject to EL at 3% of the total VAT, BT and CT payable.

Jilin Winsway Chemical Industrial Store and Transport Limited ("Winsway"), a subsidiary of the Company, is a sino-foreign equity joint venture and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first cumulative profit-making year of operation, which is 1996, followed by a 50% reduction in the income tax rate (ie: 15%) from the third to fifth years in accordance with the tax regulations. In accordance with circular (1999) No. 172 issued by State Administration of Taxation, foreign investment enterprises located in the mid-west area are eligible to a reduced tax rate of 15% for three years after the expiry of the tax holiday. Accordingly, Winsway is subject to income tax at 15% for the three years from 2001. From 2004, Winsway is subject to income tax at 33%.

Jilin City Songmei Acetic Co., Ltd. ("Songmei"), another subsidiary of the Company, is a sino-foreign cooperative joint venture and is eligible for a tax holiday of full exemption from income tax for the first two years starting from its first cumulative profit-making year of operation followed by a 50% reduction in the income tax rate from the third to fifth years in accordance with the tax regulations. Songmei is exempted from income tax for 2000 and 2001, being the first two profitable years. For 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 2004 is the first cumulative profit-making year. Therefore, the Company is exempted from income tax in 2004.

Jilin Lianli Trading Company Limited ("Lianli"), an associated company established in 2001, is subject to income tax at 33%.

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

## IV. MAJOR SUBSIDIARIES AND A JOINTLY CONTROLLED ENTITY

Name of enterprise	Type of enterprise	Registered/ paid-in capital	Business scope	Investment amount	Percentage of equity	
					held	Consolidated
<b>Subsidiaries</b>						
Winsway	Transportation enterprise	51,454,000	Provision of transportation services for chemical materials and products	36,154,000	70%	Yes
Songmei	Manufacturing enterprise	72,000,000	Manufacturing of acetic acid	47,660,421	66%	Yes
Jianxiu	Construction enterprise	45,200,000	Machinery repair and installation	44,537,759	99%	Yes
Jilin Xinghua Nitrochloro- benzene Company Limited ("Xinghua")	Manufacturing enterprise	25,668,000	Manufacturing of Nitrochloro-benzene	19,250,000	75%	No (Note i)
Jinxiang	Pressure vessels inspection enterprise	2,000,000	Inspection, research and consultation of pressure vessels	1,900,000	94%	Yes
<b>Jointly controlled entity</b>						
BASF	Manufacturing enterprise	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. By the end of 2002, the assets and liabilities of Xinghua have been written down to nil. In accordance with circular (1995) No. 11 promulgated by the Ministry of Finance of the People's Republic of China, the financial statements of Xinghua are not consolidated, and the long-term investment in Xinghua was written off.

(ii) According to 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. As the amounts of revenue and total profit for 2004 and total assets as at December 31, 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".

# Notes to the Financial Statements

For the year ended December 31, 2004

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## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank

	December 31, 2004	December 31, 2003
Cash on hand	6,486	11,156
Cash in bank	14,622,733	35,487,663
	<u>14,629,219</u>	<u>35,498,819</u>

Cash held in foreign currencies at December 31, 2004 is as follows:

Currency	Amount	Exchange rate	RMB equivalent
US\$	103,210	8.2765	854,218

### 2. Notes receivable

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

### 3. Accounts receivable

	December 31, 2004	December 31, 2003
Accounts receivable	896,142,211	1,021,539,822
Less: Specific provision	(641,441,767)	(868,271,165)
	<u>254,700,444</u>	<u>153,268,657</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Accounts receivable (Cont'd)

- (a) Ageing analysis for accounts receivable and provision for bad debts:

	December 31, 2004			December 31, 2003		
	Accounts receivable	%	Provision for bad debts	Accounts receivable	%	Provision for bad debts
Ageing:						
Within 1 year	211,529,663	24	-	51,365,749	5	-
1-2 years	2,042,308	0	-	379,324	0	-
2-3 years	298,777	0	(298,777)	35,453,710	3	(30,098,105)
More than 3 years	682,271,463	76	(641,142,990)	934,341,039	92	(838,173,060)
	<u>896,142,211</u>	<u>100</u>	<u>(641,441,767)</u>	<u>1,021,539,822</u>	<u>100</u>	<u>(868,271,165)</u>

In 2004, accounts receivable of RMB237,879,702 (2003: RMB97,656,702) were written off against the provision for bad debts because of the bankruptcy of certain customers.

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At December 31, 2004, the total balance of the five largest accounts receivable was RMB360,770,484, representing 40% of the total accounts receivable balance.
- (d) The Group's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at year end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At December 31, 2004, accounts receivable aged over 3 years mainly comprise receivables due from third party debtors of RMB27.5 million (2003: RMB79.12 million) and JCGC of RMB13.63 million (2003: RMB17.05 million), respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at December 31, 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.

# Notes to the Financial Statements

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

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

### 4. Other receivables

	December 31, 2004	December 31, 2003
Other receivables	118,456,441	107,758,595
Less: Specific provision	<u>(73,381,286)</u>	<u>(72,143,153)</u>
	<u>45,075,155</u>	<u>35,615,442</u>

(a) Ageing analysis for other receivables and provision for bad debts:

	December 31, 2004			December 31, 2003		
	Other receivables	%	Provision for bad debts	Other receivables	%	Provision for bad debts
Ageing:						
Within 1 year	24,807,982	21	-	3,582,261	3	(1,643,642)
1-2 years	837,310	0	(127,602)	4,632,416	5	(29,813)
2-3 years	1,154,676	0	(163,607)	14,528,019	13	(2,554,706)
More than 3 years	91,656,473	79	(73,090,077)	85,015,899	79	(67,914,992)
	<u>118,456,441</u>	<u>100</u>	<u>(73,381,286)</u>	<u>107,758,595</u>	<u>100</u>	<u>(72,143,153)</u>

In 2004, other receivables of RMB133,691 (2003: RMB4,095,164) were written off against the provision for bad debts because of the bankruptcy of certain customers.

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2004, the total balance of the five largest other receivables was RMB49,740,061, representing 42% of the total other receivables balance.

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

### 5. Advances to suppliers

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

	December 31, 2004		December 31, 2003	
	Balance	%	Balance	%
Ageing:				
Within 1 year	361,188,190	95	205,951,053	94
1-2 years	7,984,731	3	6,950,557	3
2-3 years	1,918,666	0	309,509	0
More than 3 years	5,867,824	2	6,320,427	3
	<u>376,959,411</u>	<u>100</u>	<u>219,531,546</u>	<u>100</u>

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

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



# Notes to the Financial Statements

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

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

### 6. Inventories

	December 31, 2003			December 31, 2004
Cost:				
Raw materials	749,200,037			1,294,876,600
Work in progress	268,921,978			692,320,089
Finished goods	309,593,221			460,687,071
Spare parts	412,354,385			406,903,650
Low value consumables and packing materials	6,776,048			7,563,052
	<u>1,746,845,669</u>			<u>2,862,350,462</u>
Provision for diminution in value of inventories:		<b>Additions</b>	<b>Deductions</b>	
Raw materials	(58,579,019)	(12,241,643)	-	(70,820,662)
Work in progress	(7,149,932)	-	1,506,078	(5,643,854)
Finished goods	(21,714,235)	(674,243)	6,178,349	(16,210,129)
Spare parts	(90,362,644)	(74,294,659)	1,394,902	(163,262,401)
Low value consumables and packing materials	(947,006)	-	586,973	(360,033)
	<u>(178,752,836)</u>	<u>(87,210,545)</u>	<u>9,666,302</u>	<u>(256,297,079)</u>
	<u>1,568,092,833</u>			<u>2,606,053,383</u>

In 2004, cost of inventories recognised in cost of sales and operating expenses amounts to RMB23,884,903,088 (2003: RMB16,811,354,227).

# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 7. Prepaid expenses

	January 1, 2004	Additions	Amortization	December 31, 2004
Catalyst	10,219,591	44,750,633	(40,277,615)	14,692,609
Insurance premium	1,049,619	2,010,166	(2,125,434)	934,351
Other	1,126,053	44,939,956	(41,836,485)	4,229,524
	<u>12,395,263</u>	<u>91,700,755</u>	<u>(84,239,534)</u>	<u>19,856,484</u>

The useful life of above catalyst is within one year.

### 8. Long-term equity investments

	January 1, 2004	Additions	Decrease	December 31, 2004
Jointly controlled entity	53,722,621	36,112,288	–	89,834,909
Associated company	4,907,670	4,397,015	–	9,304,685
	<u>58,630,291</u>	<u>40,509,303</u>	<u>–</u>	<u>99,139,594</u>

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

# Notes to the Financial Statements

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

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

(a) Details of long-term equity investments:

Name of enterprise	Investment period	Percentage of equity held			Original investment		December 31, 2004
		January 1, 2004 %	December 31, 2004 %	January 1, 2004	Additions	Decrease	
Unconsolidated subsidiary - Xinghua (Note IV (i))		-	-	-	-	-	-
Jointly controlled entity - BASF	From November 18, 1995	40	40	60,066,150	-	-	60,066,150
Associated company - Lianli	March 22, 2001 to March 22, 2006	47	47	20,042,147	-	-	20,042,147
				80,108,297	-	-	80,108,297

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

	January 1, 2004 carrying amount	Additional investment	Reduction in investment	Share of net profit	Dividend received	December 31, 2004 carrying amount
Jointly controlled entity - BASF	53,722,621	-	-	36,112,288	-	89,834,909
Associated company - Lianli	4,907,670	-	-	4,397,015	-	9,304,685
	58,630,291	-	-	40,509,303	-	99,139,594

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For the year ended December 31, 2004

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 9. Fixed assets and accumulated depreciation

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
<b>Cost</b>					
January 1, 2004	1,738,961,157	11,574,319,743	2,465,535,711	144,000,942	15,922,817,553
Other additions	31,615,302	1,224,378	4,817,222	41,134,328	78,791,230
Transfer from CIP (Note V 10)	11,984,021	179,784,092	211,159,329	9,830,503	412,757,945
Disposals	(24,007,849)	(133,174,320)	(45,129,473)	(15,079,523)	(217,391,165)
<b>December 31, 2004</b>	<b>1,758,552,631</b>	<b>11,622,153,893</b>	<b>2,636,382,789</b>	<b>179,886,250</b>	<b>16,196,975,563</b>
<b>Accumulated depreciation</b>					
January 1, 2004	648,985,514	3,381,945,853	1,752,311,005	96,116,068	5,879,358,440
Depreciation	82,169,916	686,190,205	178,721,531	21,168,875	968,250,527
Disposals	(8,511,323)	(78,137,798)	(26,650,345)	(14,392,648)	(127,692,114)
<b>December 31, 2004</b>	<b>722,644,107</b>	<b>3,989,998,260</b>	<b>1,904,382,191</b>	<b>102,892,295</b>	<b>6,719,916,853</b>
<b>Net book value</b>					
<b>December 31, 2004</b>	<b>1,035,908,524</b>	<b>7,632,155,633</b>	<b>732,000,598</b>	<b>76,993,955</b>	<b>9,477,058,710</b>
December 31, 2003	1,089,975,643	8,192,373,890	713,224,706	47,884,874	10,043,459,113
<b>Provision for Impairment</b>					
January 1, 2004	58,153,374	208,243,922	52,908,460	4,538,176	323,843,932
Deductions	(4,148,584)	(31,758,961)	(5,911,563)	(1,576)	(41,820,684)
<b>December 31, 2004</b>	<b>54,004,790</b>	<b>176,484,961</b>	<b>46,996,897</b>	<b>4,536,600</b>	<b>282,023,248</b>
<b>Net carrying amount</b>					
<b>December 31, 2004</b>	<b>981,903,734</b>	<b>7,455,670,672</b>	<b>685,003,701</b>	<b>72,457,355</b>	<b>9,195,035,462</b>
December 31, 2003	1,031,822,269	7,984,129,968	660,316,246	43,346,698	9,719,615,181

As at December 31, 2004, the cost of fully depreciated fixed assets still in use amounted to RMB567,258,233.

# Notes to the Financial Statements

For the year ended December 31, 2004

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 10. Construction in progress

Name of project	Budget	January 1, 2004	Additions	Transfer out to fixed assets	Transfer out to intangible assets (c)	December 31, 2004	Source of funds	Total additions as a % of budget
Ethylene facilities	138,897,000	-	153,502,592	(145,113,991)	(8,388,601)	-	Working capital	111%
Improvement project for pressure stableness	59,990,000	-	55,759,980	(55,759,980)	-	-	Working capital	93%
Improvement project for fission furnace	30,000,000	-	30,000,000	(30,000,000)	-	-	Working capital	100%
Improvement project for commutation project	19,998,000	-	16,276,011	-	-	16,276,011	Working capital	81%
Effluent filter facilities	16,640,000	1,399,038	14,856,599	(16,255,637)	-	-	Working capital	89%
Other (a)		30,962,782	170,033,290	(165,628,337)	(1,868,000)	33,499,735		
		<u>32,361,820</u>	<u>440,428,472</u>	<u>(412,757,945)</u>	<u>(10,256,601)</u>	<u>49,775,746</u>		
Provision for impairment (b)		-	(7,220,081)	-	-	(7,220,081)		
		<u>32,361,820</u>				<u>42,555,665</u>		

- (a) Other projects represent construction in progress with individual cost of less than RMB15 million.
- (b) 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 cost of construction in progress based on the excess of the carrying amount over the recoverable amount.
- (c) Certain technical know-how was purchased with the facilities and transferred to intangible assets when the facilities are completed.

# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 11. Intangible assets

	Land use rights	Technical know-how	Total
<b>Cost</b>			
January 1, 2004	1,149,201,148	914,208,066	2,063,409,214
Transfer from CIP (Note V 10)	–	10,256,601	10,256,601
Additions	–	40,000	40,000
<b>December 31, 2004</b>	<b><u>1,149,201,148</u></b>	<b><u>924,504,667</u></b>	<b><u>2,073,705,815</u></b>
<b>Accumulated amortization</b>			
January 1, 2004	213,132,609	386,757,716	599,890,325
Amortization	22,467,136	99,510,418	121,977,554
<b>December 31, 2004</b>	<b><u>235,599,745</u></b>	<b><u>486,268,134</u></b>	<b><u>721,867,879</u></b>
<b>Net book value</b>			
<b>December 31, 2004</b>	<b><u>913,601,403</u></b>	<b><u>438,236,533</u></b>	<b><u>1,351,837,936</u></b>
December 31, 2003	<u>936,068,539</u>	<u>527,450,350</u>	<u>1,463,518,889</u>
<b>Provision for impairment (a)</b>			
January 1, 2004	–	–	–
Additions	–	6,698,195	6,698,195
<b>December 31, 2004</b>	<b><u>–</u></b>	<b><u>6,698,195</u></b>	<b><u>6,698,195</u></b>
<b>Net carrying amount</b>			
<b>December 31, 2004</b>	<b><u>913,601,403</u></b>	<b><u>431,538,338</u></b>	<b><u>1,345,139,741</u></b>
December 31, 2003	<u>936,068,539</u>	<u>527,450,350</u>	<u>1,463,518,889</u>
Remaining years of amortization	<u>40-47 years</u>	<u>3-10 years</u>	

(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.

# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 12. Long-term deferred expenses

	Cost	Accumulated amortization	January 1, 2004	Additions	Amortization	December 31, 2004	Remaining years of amortization
Catalyst	276,992,356	212,343,894	101,674,086	23,074,558	(60,100,182)	64,648,462	1-5
Other	-	-	77,556	-	(77,556)	-	-
	<u>276,992,356</u>	<u>212,343,894</u>	<u>101,751,642</u>	<u>23,074,558</u>	<u>(60,177,738)</u>	<u>64,648,462</u>	

The useful life of above catalyst is over 1 year.

### 13. Deferred tax assets

	December 31, 2004	December 31, 2003
Assets impairment provision and disposal loss (a)	435,203,118	-
Accelerated depreciation and amortisation (b)	(119,622,477)	-
	<u>315,580,641</u>	<u>-</u>

- (a) At December 31, 2004, the Company's deductible timing differences amounted to RMB1,318 million, including asset impairment provision of RMB1,222 million and fixed asset disposal loss of RMB96 million, which had not been approved by the tax authorities. Accordingly, deferred income tax assets of RMB435 million are recognised under the deferred tax method, as the Group believes that the realisation of the related tax benefit through taxable income in the near future is probable.
- (b) On September 20, 2004, the Chinese Ministry of Finance and State Tax Bureau issued an income tax regulation which allows certain old industrial companies in northeast China to shorten the depreciation and amortization periods of fixed assets (excluding building) and intangible assets up to 40% of their useful lives on tax basis, effective July 1, 2004. As a result, timing differences of RMB363 million relating to the accelerated depreciation and amortization of fixed assets and intangible assets are derived as of December 31, 2004, which resulted in a deferred tax liability of RMB120 million.

**V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (Cont'd)**14. Short-term loans**

	<b>December 31, 2004</b>	December 31, 2003
Guaranteed loans – RMB	<b>44,640,000</b>	49,600,000
Unsecured loans – RMB	<b>2,874,330,000</b>	3,155,000,000
	<b><u>2,918,970,000</u></b>	<u>3,204,600,000</u>

At December 31, 2004, guaranteed loans totalling RMB44.64 million were guaranteed by Jilin Merchandise Group. The loans bear interest at rates ranging from 5.84% to 7.25% per annum.

Pursuant to a loan facility commitment letter dated February 6, 2004, CP Finance has confirmed to extend the period of borrowing facilities of RMB8 billion granted to the Company to December 31, 2005. At December 31, 2004, borrowings from CP Finance amounted to RMB2,874 million. The loans bear interest at a rate of 5% per annum.

**15. 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 capital expenditures, a portion of which was aged over 3 years, there were no balances included in other payables of which the age exceeded 3 years at the year end. There were no balances included in advances from customers of which the age exceeded 1 year at the year end.



# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 16. Taxes payable

	December 31, 2004	December 31, 2003
Value added tax	(53,327,903)	77,129,821
Business tax	817,735	926,463
City construction and maintenance tax	1,457,548	6,416,947
Consumption tax	89,320,743	86,463,775
Income tax	113,079,160	1,294,209
Property tax	(13,044)	203,902
Other	3,000,658	2,484,351
	<u>154,334,897</u>	<u>174,919,468</u>

### 17. Accrued expenses

	December 31, 2004	December 31, 2003
Interest expense on loans	<u>26,049,897</u>	<u>53,728,325</u>

### 18. Long-term liabilities due within one year

	December 31, 2004	December 31, 2003
Long-term loans due within one year (Note V 19)		
Guaranteed loans – US\$	44,329,941	136,449,730
Unsecured loans – RMB	–	646,400,000
– US\$	3,082,023	3,082,097
	<u>47,411,964</u>	<u>785,931,827</u>
Other long-term liabilities due within one year (Note V 20)		
Guaranteed loans – US\$	46,282,726	46,283,713
– JPY	54,349,108	52,686,606
– EUR	19,061,632	12,497,131
	<u>119,693,466</u>	<u>111,467,450</u>
	<u>167,105,430</u>	<u>897,399,277</u>

# Notes to the Financial Statements

For the year ended December 31, 2004

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 19. Long-term loans

	December 31, 2004	December 31, 2003
Guaranteed loans	194,705,563	1,003,669,968
Unsecured loans	487,793,551	1,073,970,338
	<u>682,499,114</u>	<u>2,077,640,306</u>

Name of lender	Balance at December 31, 2004	Currency	Foreign currency amount	Exchange rate	Interest rate %	Due date	Conditions
Construction Bank of China, Jilin Branch	134,720,729	US\$	16,277,500	8.2765	8.66	September 30, 2009	Guaranteed by JCGC
Construction Bank of China, Jilin Branch	104,314,776	US\$	12,603,731	8.2765	8.42	July 31, 2010	Guaranteed by JCGC
Bank of China, Changchun sub-branch	77,050,573	US\$	9,309,560	8.2765	-	September 29, 2029	Unsecured
Bank of China, Jilin Branch	413,825,000	USE	50,000,000	8.2765	LIBOR +60bps	March 14, 2007	Guaranteed by PetroChina
	<u>729,911,078</u>						
Current portion of long-term loans (Note V 18)	<u>(47,411,964)</u>						
	<u>682,499,114</u>						

# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 20. Other long-term liabilities

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

	December 31, 2004	December 31, 2003	Interest rate
Payables to JCGC – Ethylene Project loans	333,208,992	441,725,544	4.1%-8.3%
Other long-term liabilities due within one year (Note V 18)	<u>(119,693,466)</u>	<u>(111,467,450)</u>	
	<u>213,515,526</u>	<u>330,258,094</u>	

As at December 31, 2004, the payables to JCGC of RMB333,208,992 (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 September 30, 2008.

	December 31, 2004		December 31, 2003	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	16,593,913	137,339,517	22,185,978	183,626,680
Japanese Yen	1,979,225,000	157,746,212	2,661,137,500	205,607,466
Euro	3,384,913	<u>38,123,263</u>	5,077,372	<u>52,491,398</u>
		<u>333,208,992</u>		<u>441,725,544</u>

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

### 21. Share capital

	<b>December 31, 2004</b> <i>(Shares in thousand)</i>	December 31, 2003 <i>(Shares in thousand)</i>
Non-listed shares:		
– State-owned shares	<b>2,396,300</b>	2,396,300
Listed shares:		
– H shares and ADSs	<b>964,778</b>	964,778
– A shares	<b>200,000</b>	200,000
	<b>1,164,778</b>	1,164,778
Total	<b>3,561,078</b>	3,561,078
Total share capital (RMB)	<b>3,561,078,000</b>	3,561,078,000

- (a) On May 23, 1995, the Company issued 893,027,000 shares, with a par value of RMB1.00 each, in overseas stock exchanges, 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) On June 17, 1995, 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. The issue price was US\$20.75 per ADS. These ADSs were issued pursuant to the exercise of the over-allotment option by the underwriters in accordance with the underwriting agreement dated May 23, 1995.
- (c) Pursuant to the approval of China Securities Regulatory Commission Zhengjianfazi [1996] No. 234, the Company issued 50,000,000 A shares, with a par value of RMB1.00 each, of which 30,000,000 shares were issued to the public at RMB3.5 per share and the remaining 20,000,000 shares were issued to the Company’s employees at the same price. The 30,000,000 A shares issued to the public were traded on the Shenzhen Stock Exchange on October 15, 1996 and the 20,000,000 A shares issued to the employees were traded on the Shenzhen Stock Exchange on April 15, 1997.
- (d) Pursuant to a document issued by China Securities Regulatory Commission at December 13, 1999, approval was granted to the Company to issue an additional 150,000,000 A shares with a par value of RMB1.00 each, of which 22,500,000 shares were issued to investment funds and the remaining 127,500,000 shares were issued to the Company’s A shareholders at a ratio of 1: 2.55 shares for each share held by such shareholders. The Company issued these shares in January 2000 at a price of RMB3.3 per share. The gross proceeds from the issue totalled RMB495,000,000; after deducting issue expenses, the net proceeds amounted to RMB485,520,000. The Company’s total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

# Notes to the Financial Statements

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

### 22. Capital surplus

	January 1, 2004	Additions	Decrease	December 31, 2004
Share premium	2,281,092,338	–	–	2,281,092,338
Reserve for non-cash donations received	8,408,898	–	–	8,408,898
Reserve for equity investments	4,106,100	–	–	4,106,100
Other	11,550	–	–	11,550
	<u>2,293,618,886</u>	<u>–</u>	<u>–</u>	<u>2,293,618,886</u>

### 23. Common reserve funds

	January 1, 2004	Additions	Decrease	December 31, 2004
Statutory common reserve fund	160,154,718	–	–	160,154,718
Statutory common welfare fund	126,834,279	–	–	126,834,279
Discretionary common reserve fund	414,453,720	–	–	414,453,720
	<u>701,442,717</u>	<u>–</u>	<u>–</u>	<u>701,442,717</u>

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, net of losses carried forward, 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 offset losses carried forward, or to increase share capital. Other than using the reserve to offset losses carried forward, 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, net of losses carried forward, 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.

**V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (Cont'd)**23. Common reserve funds** (Cont'd)

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 offset losses carried forward, or to increase share capital.

**24. Accumulated losses**

	2004	2003
Accumulated losses at January 1, 2004	(3,276,275,225)	(3,700,270,377)
Add: Net profit for the year	<u>2,573,760,050</u>	<u>423,995,152</u>
Accumulated losses at December 31, 2004	<u>(702,515,175)</u>	<u>(3,276,275,225)</u>

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

- (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.

# Notes to the Financial Statements

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 25. 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.

	2004	2003
Petroleum products	14,076,504,026	9,948,167,788
Petrochemical and organic chemical products	11,743,834,984	7,814,273,582
Synthetic rubber products	1,416,846,689	1,136,993,183
Chemical fertilizers and inorganic chemical products	665,600,803	165,437,299
	<u>27,902,786,502</u>	<u>19,064,871,852</u>

The sales to the five largest customers of the Group in 2004 amounted to RMB21,298,156,793, representing 76% of Group's total sales.

### 26. Cost of sales

	2004	2003
Petroleum products	13,754,338,869	9,160,272,525
Petrochemical and organic chemical products	8,325,196,060	6,715,182,861
Synthetic rubber products	1,072,712,774	756,766,621
Chemical fertilizers and inorganic chemical products	732,655,385	179,132,220
	<u>23,884,903,088</u>	<u>16,811,354,227</u>

### 27. Sales tax and other levies

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

### 28. Other operating expenses

Other operating expenses were derived from sales of materials and utilities, repairment and transportation business.

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 29. Financial expenses, net

	2004	2003
Interest expense	270,070,785	429,782,134
Less: Interest income	(1,753,286)	(1,531,084)
Exchange loss	19,337,171	37,152,525
Less: Exchange gain	(10,684,854)	(546,325)
Other	441,629	136,886
	<u>277,411,445</u>	<u>464,994,136</u>

### 30. Investment income/(loss)

	2004	2003
Share of profit of a jointly controlled entity	36,112,288	9,663,769
Share of profit/(loss) of an associated company	4,397,015	(14,000,808)
	<u>40,509,303</u>	<u>(4,337,039)</u>

### 31. Non-operating income and expenses

	2004	2003
Non-operating income:		
Gain on disposal of fixed assets	74,290,268	13,335,348
Other	2,564,013	97,241
	<u>76,854,281</u>	<u>13,432,589</u>

	2004	2003
Non-operating expenses:		
Loss on disposal of fixed assets	47,878,367	39,714,147
Loss on temporary shutdown	18,560,533	13,777,231
Loss on impairment of CIP	7,220,081	-
Loss on impairment of intangible assets	6,698,195	-
Other	4,872,642	183,148
	<u>85,229,818</u>	<u>53,674,526</u>



# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 32. Income tax

	2004	2003
Income tax:		
– Company	177,147,262	–
– Approved income tax deduction relating to capital expenditures (a)	(65,560,574)	
– Subsidiaries	198,263	270,108
Deferred tax (Note V 13)	(315,580,641)	–
	<u>(203,795,690)</u>	<u>270,108</u>

- (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 fixed assets can be used to offset the income tax provision. In 2004, such capital expenditures approved by the provincial tax authorities amounted to RMB65.6 million and were recorded as a deduction of income tax expense for the year.

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

### I. Accounts receivable

	December 31, 2004	December 31, 2003
Accounts receivable	963,343,437	1,096,788,839
Less: Specific provision	<u>(640,775,409)</u>	<u>(868,267,608)</u>
	<u><b>322,568,028</b></u>	<u>228,521,231</u>

- (a) Ageing analysis for accounts receivable and provision for bad debts:

	December 31, 2004			December 31, 2003		
	Accounts receivable	%	Provision for bad debts	Accounts receivable	%	Provision for bad debts
Ageing:						
Within 1 year	281,439,555	29	-	127,281,124	9	-
1-2 years	-	0	-	379,324	0	-
2-3 years	298,777	0	(298,777)	35,453,710	3	(30,098,105)
More than 3 years	681,605,105	71	(640,476,632)	933,674,681	88	(838,169,503)
	<u>963,343,437</u>	<u>100</u>	<u>(640,775,409)</u>	<u>1,096,788,839</u>	<u>100</u>	<u>(868,267,608)</u>

In 2004, accounts receivable of RMB237,879,702 (2003: RMB97,656,702) were written off against the provision for bad debts.

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At December 31, 2004, the total balance of the five largest accounts receivable was RMB314,482,741, representing 33% of the total accounts receivable balance.

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 1. Accounts receivable (Cont'd)

- (d) The Company's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at year end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At December 31, 2004, accounts receivable aged over 3 years which have not been provided provision mainly comprise receivables due from third party debtors of RMB27.5 million (2003: RMB78.46 million) and JCGC of RMB13.63 million (2003: RMB17.05 million), respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at December 31, 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

	December 31, 2004	December 31, 2003
Other receivables	92,476,222	87,169,819
Less: Specific provision	<u>(73,381,286)</u>	<u>(72,143,153)</u>
	<u>19,094,936</u>	<u>15,026,666</u>

- (a) Ageing analysis for other receivables and provision for bad debts:

	December 31, 2004			December 31, 2003		
	Other receivables	%	Provision for bad debts	Other receivables	%	Provision for bad debts
Ageing:						
Within 1 year	18,310,771	20	-	2,078,625	1	(1,643,642)
1-2 years	302,810	0	(127,602)	3,520,589	5	(29,813)
2-3 years	772,564	0	(163,607)	2,554,706	3	(2,554,706)
More than 3 years	73,090,077	80	(73,090,077)	79,015,899	91	(67,914,992)
	<u>92,476,222</u>	<u>100</u>	<u>(73,381,286)</u>	<u>87,169,819</u>	<u>100</u>	<u>(72,143,153)</u>

In 2004, other receivables of RMB133,691 (2003: RMB4,095,164) were written off against the provision for bad debts.

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### 2. Other receivables (Cont'd)

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At December 31, 2004, the total balance of the five largest other receivables was RMB25,873,532, representing 28% of the total other receivables balance.

### 3. Long-term equity investments

	January 1, 2004	Additions	Decrease	December 31, 2004
Subsidiaries (Note (1))	102,397,569	—	(32,067,435)	70,330,134
Jointly controlled entity (Note (2))	53,722,621	36,112,288	—	89,834,909
Associated company (Note (2))	4,907,670	4,397,015	—	9,304,685
	<u>161,027,860</u>	<u>40,509,303</u>	<u>(32,067,435)</u>	<u>169,469,728</u>

As at December 31, 2004, total investment of the Company represents 3% of the net assets.

#### (1) Subsidiaries

##### (a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		January 1, 2004 %	December 31, 2004 %	January 1, 2004	Additions	December 31, 2004
Winsway	August 7, 1995 to August 6, 2005	70	70	36,154,000	—	36,154,000
Songmei	December 26, 1997 to December 25, 2017	66	66	47,660,421	—	47,660,421
Jianxiu	February 12, 2001 to February 12, 2008	99	99	44,537,759	—	44,537,759
Xinghua	February 21, 1991 to February 20, 2011	75	75	19,250,000	—	19,250,000
				<u>147,602,180</u>	<u>—</u>	<u>147,602,180</u>

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

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

(1) Subsidiaries (Cont'd)

(b) The movement of investments in subsidiaries accounted for using the equity method of accounting is as follows:

	January 1, 2004 carrying amounts	Additional investment	Share of net profit/ (loss)	Dividend received	December 31, 2004 carrying amounts
Winsway	36,401,231	-	339,349	-	36,740,580
Songmei	41,534,646	-	(21,896,050)	-	19,638,596
Jianxiu	24,461,692	-	(10,510,734)	-	13,950,958
Xinghua (Note IV (i))	-	-	-	-	-
	<u>102,397,569</u>	<u>-</u>	<u>(32,067,435)</u>	<u>-</u>	<u>70,330,134</u>

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

### 4. Sales revenue

	2004	2003
Petroleum products	14,076,504,026	9,948,167,788
Petrochemical and organic chemical products	11,706,115,835	7,736,757,773
Synthetic rubber products	1,416,846,689	1,136,993,183
Chemical fertilizers and inorganic chemical products	665,600,803	165,437,299
	<u>27,865,067,353</u>	<u>18,987,356,043</u>

### 5. Cost of sales

	2004	2003
Petroleum products	13,754,338,869	9,160,272,525
Petrochemical and organic chemical products	8,260,952,413	6,670,615,479
Synthetic rubber products	1,072,712,774	756,766,621
Chemical fertilizers and inorganic chemical products	732,655,385	179,132,220
	<u>23,820,659,441</u>	<u>16,766,786,845</u>

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (CONT'D)

### 6. Investment income/(loss)

	2004	2003
Share of profit of a jointly controlled entity	36,112,288	9,663,769
Share of profit/(loss) of an associated company	4,397,015	(14,000,808)
Share of loss of subsidiaries	<u>(32,067,435)</u>	<u>(8,354,010)</u>
	<u>8,441,868</u>	<u>(12,691,049)</u>

There is no restriction on the transferability of investment income to the Company.

## 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	Duan Liangwei
Jinxiang	PRC	Inspection, research and consultation of pressure vessels	Indirect subsidiary	Limited company	Li Jianqiang

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

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

Name	January 1,	Additions	Decrease	December 31,
	2004			2004
	RMB'000	RMB'000	RMB'000	RMB'000
CNPC	114,900,000	—	—	114,900,000
PetroChina	175,824,180	—	—	175,824,180
Winsway	51,450	—	—	51,450
Songmei	72,000	—	—	72,000
Jianxiu	45,200	—	—	45,200
Jinxiang	2,000	—	—	2,000

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

Name	January 1,		Additions		Decrease		December 31,	
	2004	%	RMB'000	%	RMB'000	%	2004	%
	RMB'000		RMB'000		RMB'000		RMB'000	
PetroChina	2,396,300	67	—	—	—	—	2,396,300	67

### (d) Movement of the capital or equity of subsidiaries controlled by the Company

	Capital or equity held at January 1,		Additions		Reduction		Capital or equity held at December 31,	
	2004	%		%		%	2004	%
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

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### (e) Related companies in which no control exists

Name	Nature of the enterprise	Date of registration	Place of registration	Registered capital RMB'000	Currency	Equity percentage held at December 31, 2004	Principal activities
Jointly controlled entity – BASF	Sino-foreign joint venture	November 18, 1995	Jilin	150,000	RMB	40%	Manufacturing of petrochemical products
Associated company – Lianli	State-owned	March 22, 2001	Jilin	42,210	RMB	47%	Wholesale and retail of petrochemical products

Besides the above jointly controlled entity and associated company, CP Finance, JCGC and its subsidiaries and the Company are subsidiaries of CNPC.



# Notes to the Financial Statements

For the year ended December 31, 2004

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JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### (f) Significant related party transactions

	2004	2003
PetroChina Group Companies		
Purchase of crude oil	11,789,022,188	8,067,989,222
Purchase of raw materials	7,447,892,133	1,266,921,508
Sale of gasoline	2,917,650,505	2,656,296,028
Sale of diesel oil	7,794,523,720	5,615,330,749
Sale of petrochemical goods	11,548,928,343	4,083,317,845
Property safe and insurance fund (1)	32,957,882	35,278,452
Operating lease rentals on fixed assets	27,733,340	2,462,517
CNPC Group Companies		
Loan drawn	8,531,610,000	5,308,460,000
Interest expenses	212,814,226	305,319,225
Purchase of raw materials and spare parts	52,829,582	66,788,969
JCGC Group Companies		
Sale of goods	1,417,140,422	908,009,024
Sub-contracting fees	19,665,874	16,694,354
Construction of fixed assets	76,342,410	65,653,277
Purchase of raw materials and spare parts	148,587,235	290,001,898
Fees for welfare and support services	262,960,978	228,827,631
Operating lease rentals on land & property	7,680,000	10,501,000
Purchase of fixed assets (2)	-	159,500,000
Lianli		
Sale of goods	56,142,216	40,922,202
Purchase of raw materials	26,596,450	18,567,059

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

- (1) The Group participates in the property safe and insurance fund plan established and organised by PetroChina 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.
- (2) As at December 31, 2003, the Group purchased certain equipments such as water filtering system and ammonia liquefier system from JCGC for a consideration of RMB159.5 million based on a revaluation conducted by a professional valuer, China United Appraisal Limited. The consideration was settled by offsetting against the Company's accounts receivable from JCGC of RMB159.5 million. The transaction had been approved by board of directors and minority shareholders.

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

## (g) Related party balances

	December 31, 2004	December 31, 2003
Accounts receivable from		
– PetroChina Group Companies	211,529,663	41,663,413
– JCGC Group Companies	169,077,379	171,926,626
– Lianli	23,138,266	23,759,065
<i>Accounts receivable due from related parties are for goods sold to these companies.</i>		
Other receivables from		
– JCGC Group Companies	8,633,041	8,650,856
<i>Other receivables due from related parties are mainly for expenses paid on their behalf.</i>		
Advances to suppliers to		
– JCGC Group Companies	129,713,525	24,599,505
– CNPC Group Companies	7,171,710	–
– Lianli	239,298	–

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

# Notes to the Financial Statements

For the year ended December 31, 2004

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

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

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

### (g) Related party balances (Cont'd)

	December 31, 2004	December 31, 2003
Accounts payable to		
– CNPC Group Companies	–	3,763,947
– PetroChina Group Companies	<b>186,038,691</b>	155,824,055
– JCGC Group Companies	<b>32,486,521</b>	88,345,816
– Lianli	<b>4,482,628</b>	5,493,144
Advances from		
– PetroChina Group Companies	<b>1,481,263,819</b>	801,480,000
– JCGC Group Companies	<b>11,517,711</b>	9,325,875
– Lianli	<b>4,625,674</b>	3,135,696
Other payables to		
– JCGC Group Companies	<b>41,618,179</b>	42,893,478
Short-term loans from		
– CP Finance	<b>2,874,330,000</b>	3,155,000,000
Long-term loans from		
– CP Finance	–	1,636,900,000
Other long-term liabilities through		
– JCGC Group Companies	<b>333,208,992</b>	441,725,544

### (h) Loans guaranteed by related parties

	December 31, 2004	December 31, 2003
Guaranteed by		
– PetroChina Group Companies (Note V 18, 19)	<b>747,033,992</b>	1,298,430,021
– JCGC Group Companies (Note V 18)	<b>239,035,505</b>	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:

	December 31, 2004	December 31, 2003
Property, plant and equipment	153,564,387	8,680,000

## IX. NET PROFIT BEFORE NON-OPERATING PROFIT/(LOSS)

	2004	2003
Net profit	2,573,760,050	423,995,152
Add/(Deduct): Non-operating (profit)/loss		
– Net (profit)loss from disposal of fixed assets	(26,411,901)	26,378,799
– Non-seasonal shutdown	18,560,533	13,777,231
– Reversal of assets impairment provision	–	(12,866,582)
– Subsidy income	–	(502,000)
– Others	1,116,751	(1,041,678)
	<u>2,567,025,433</u>	<u>449,740,922</u>
Net impact on income tax	2,222,424	–
	<u>2,569,247,857</u>	<u>449,740,922</u>

## X. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year presentation.