

# Special Audit Report Relating to Fund Occupation by the Controlling Shareholder or Other Related Parties

JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED Annual Report 2004

## TO THE BOARD OF DIRECTORS OF JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED

We have accepted the appointment to audit the balance sheets of Jilin Chemical Industrial Company Limited (the "Company") and its subsidiaries (the "Group") as at December 31, 2004 and the profit and loss accounts, profit appropriation statements and cash flow statements of the Company and the Group for the year then ended, and have issued the unqualified audit report "PwC Shen Zi (2005) No. 2" dated March 17, 2005.

In accordance with Circular on certain issues relating to fund transfer between listed companies and their related parties and guarantees provided by listed companies (Zheng Jian Fa 2003 No.56) issued by China Securities Regulatory Commission and the Stated-owned Assets Supervision and Administration Commission, the Company prepared the attached statement relating to fund occupation by its controlling shareholders or other related parties for the year ended December 31, 2004 (hereinafter collectively referred to as the "Statement").

It is the Company's responsibility to prepare and disclose the Statement on the base of being true, legal and complete. We reviewed the information disclosed in the Statement and noted no material difference between the information in the statement and accounting records we reviewed during the audit. Besides the audit of related party transactions we conducted during the audit of financial statements in 2004, we did not conduct any extra audit procedures as regards to the issues presented in the Statement. In order to better understand the issues relating to the fund occupation by the controlling shareholders or other related parties, we suggest the attached statement be read together with the audited consolidated financial statements.

This report is intended solely for the use of disclosing the issues relating to fund occupation by the controlling shareholders or other related parties, and should not be used for any other purpose.

Attachment: The statement of issues relating to fund occupation by the controlling shareholders or other related parties of Jilin Chemical Industrial Company Limited

**PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co.**

March 17, 2005

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(RMB million)

Issues	Name	Relationship	Transaction value	Accounts	Balance at year-end	Notes
Operating Fund Transfers	PetroChina Company Limited and its subsidiaries	Controlling shareholder	22,261.10	Accounts receivable	211.53	Caused by normal sales, the year-end balances are all accounts receivable within credit term.
			1417.14	Accounts receivable	169.08	Caused by normal sales, the year-end balances are all caused by sales in prior years. Since the related debtors have filed for bankruptcy, negative equity or significant cash flow problems and the balances can hardly be recovered, bad debts have been provided by RMB154.87 millions.
	224.93	Advance to suppliers	129.71	The year-end balances mainly represent prepayment for production materials and fixed assets purchase.		
	Jilin Lianli Trading Company Limited	Associated company	56.14	Accounts receivable	23.14	Caused by normal sales, the year-end balance represents sales in prior years and is currently collected step by step.
			26.60	Advance to suppliers	0.24	The year-end balance mainly represents prepayment for raw materials purchase.
	China National Petroleum Corporation	Ultimate controlling shareholder	52.83	Advance to suppliers	7.17	The year-end balances mainly represent prepayment for raw materials purchase.
Others	JCGC and its subsidiaries	Controlled by the same ultimate controlling shareholder	-	Other receivables	8.63	The year-end balance mainly represents prepayment in prior years. Since the related debtors have filed for bankruptcy, negative equity or significant cash flow problems, bad debts have been fully provided.

The statements have been approved by the board of directors on March 17, 2005.