



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

2005

INTERIM REPORT

### IMPORTANT NOTICE

The board of directors (the “Board”) of Jilin Chemical Industrial Company Limited (the “Company”) collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and believe that there are no misrepresentations or misleading statements in or material omissions from this interim report.

The Company’s financial statements for the first six months of 2005 prepared under the People’s Republic of China (the “PRC”) Generally Accepted Accounting Principles (“GAAP”) and International Financial Reporting Standards (“IFRS”) are unaudited.

Mr. Ni Muhua, Mr. Jiang Jixiang, Mr. Li Chongjie and Ms. Fanny Li, the directors of the Company, did not attend the board meeting. Mr. Ni Muhua, Mr. Jiang Jixiang and Mr. Li Chongjie appointed Mr. Yu Li, the chairman of the Board and Ms. Fanny Li, an independent non-executive director, appointed Mr. Lü Yanfeng, an independent non-executive director, to attend and vote on their behalves in respect of the resolutions considered at the meeting.

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

Pages

<b>COMPANY PROFILE</b>	2
<b>CHANGES IN SHARE CAPITAL STRUCTURE AND MAJOR SHAREHOLDERS</b>	5
<b>DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT</b>	7
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	8
<b>REVIEW OF SIGNIFICANT EVENTS</b>	14
<b>FINANCIAL STATEMENTS</b>	
<b>Prepared Under International Financial Reporting Standards (unaudited)</b>	
– Consolidated Interim Condensed Profit and Loss Account	17
– Consolidated Interim Condensed Balance Sheet	18
– Consolidated Interim Condensed Cash Flow Statement	19
– Consolidated Interim Condensed Statement of Changes in Shareholders’ Equity	20
– Notes to the Consolidated Interim Condensed Financial Statements	21
<b>Prepared Under PRC GAAP (unaudited)</b>	
– Consolidated and Company Balance Sheets	38
– Consolidated and Company Profit and Loss Accounts	40
– Consolidated and Company Profit Appropriation Statements	41
– Consolidated and Company Cash Flow Statements	42
– Notes to the Financial Statements	45
<b>SUPPLEMENTARY INFORMATION</b>	
– Significant Differences between PRC GAAP and IFRS	80
– Significant Differences between IFRS and US GAAP	82
– Asset Impairment Provision	85
<b>DOCUMENTS AVAILABLE FOR INSPECTION AND ADDRESS FOR INSPECTION OF DOCUMENTS</b>	86



Mr. Yu Li, Chairman of the Board of Directors

<b>Chinese Name</b>	: 吉林化學工業股份有限公司
<b>English Name</b>	: JILIN CHEMICAL INDUSTRIAL COMPANY LIMITED
<b>Abbreviation</b>	: 吉林化工
<b>Initials</b>	: JCIC
<b>Registered Address</b>	: No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
<b>Postal Code</b>	: 132021
<b>Website</b>	: <a href="http://www.jcic.com.cn">http://www.jcic.com.cn</a>
<b>E-mail of the Company</b>	: <a href="mailto:jcic@jcic.com.cn">jcic@jcic.com.cn</a>
<b>Legal Representative</b>	: Yu Li
<b>Company Secretary</b>	: Zhang Liyan
<b>Contact Address</b>	: No. 9, Longtan Street, Longtan District, Jilin City, Jilin Province, PRC
<b>Telephone Number</b>	: (86432) 3903651/3903652
<b>Facsimile Number</b>	: (86432) 3028126
<b>E-mail</b>	: <a href="mailto:zly@jcic.com.cn">zly@jcic.com.cn</a>
<b>Newspapers Designated by the Company for Information Disclosure</b>	: China Securities, Securities Times; Wen Wei Po, The Standard
<b>Internet Website Designated by the China Securities Regulatory Commission ("CSRC") for the Company to Disclose its Interim Report</b>	: <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
<b>Internet Website Designated by the Hong Kong Stock Exchange</b>	: <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
<b>Address for Inspection of the Company's Interim Report</b>	: Jilin Chemical Industrial Company Limited The Secretary's Office to the Board of Directors
	Hong Kong : Fortune China Public Relations Ltd. Suite 2003-5 Vicwood Plaza 199 Des Voeux Road Central, Hong Kong

<b>Stock Exchanges Listings</b>	A shares	: Shenzhen Stock Exchange
	Abbreviation	: Jilin Chemical
	Stock Code	: 000618
	H shares	: Hong Kong Stock Exchange
	Abbreviation	: Jilin Chemical
	Stock Code	: 0368
ADR	: New York Stock Exchange	
Stock Code	: JCC	
Ratio	: 1ADR=100H shares	

#### OTHER INFORMATION

<b>Business Registration Number</b>	: 2200001000906
<b>Taxation Registration Number</b>	: Ji Shi Guo Shui: 220203123975078 Ji Di Shui: 220203123975078
<b>Domestic Auditor</b>	: PricewaterhouseCoopers Zhong Tian CPAs Company Limited Registered Accountants in the PRC 11th Floor, PricewaterhouseCoopers Center, 202 Hu Bin Road, Shanghai, PRC
<b>International Auditor</b>	: PricewaterhouseCoopers Certified Public Accountants in Hong Kong 22nd Floor, Prince's Building, Central, Hong Kong

#### FINANCIAL SUMMARY

##### Prepared in Accordance with PRC GAAP

	For the six months ended 30th June,		Increase/ (decrease)
	2005 RMB unaudited	2004 RMB unaudited	
Net profit	123,956,551	605,087,927	(79.51%)
Net profit before non-operating loss	125,884,635	644,854,087	(80.48%)
Earnings per share	0.035	0.17	(79.41%)
Return on net assets (%)	2.07%	15.58%	(13.51)
Net cash flow from operating activities	2,145,757,163	1,478,751,765	45.11%
	<b>As at 30th June, 2005 RMB unaudited</b>	<b>As at 31st December, 2004 RMB audited</b>	<b>Increase/ (decrease)</b>
Current assets	2,198,546,381	3,327,819,333	(33.93%)
Current liabilities	5,999,171,982	7,628,841,391	(21.36%)
Total assets	12,717,874,138	14,392,756,371	(11.64%)
Shareholders' equity (excluding minority interests)	5,977,580,979	5,853,624,428	2.12%
Net assets per share	1.68	1.64	2.44%
Adjusted net assets per share	1.65	1.61	2.48%

Note: Non-operating loss was RMB1,928,084, of which net profit from disposal of fix assets was RMB4,638,282, reversal of assets impairment provision was RMB900,104, subsidy income was RMB2,683,084, other profits were RMB1,170,067, loss on non-seasonal shutdown was RMB12,269,275 and net income tax credit was RMB949,654.

## Prepared in Accordance with IFRS

	For the six months ended 30th June,	
	2005 RMB'000 unaudited	2004 RMB'000 unaudited
Profit attributable to equity holders of the Company	128,536	606,354
Earning per share	RMB 0.04	RMB 0.17
Return on net assets (%)	2.48%	19.45%
	<b>As at 30th June, 2005 RMB'000 unaudited</b>	<b>As at 31st December, 2004 RMB'000 audited</b>
Equity	5,204,372	5,069,342
Net assets per share	RMB1.46	RMB1.42

## SIGNIFICANT DIFFERENCES OF NET PROFIT AND PROFIT BETWEEN PRC GAAP AND IFRS

During the reporting period, net profit and profit under PRC GAAP and IFRS were RMB123,957 thousand and RMB135,030 thousand, respectively. The significant differences between PRC GAAP and IFRS are set out in the 'Supplementary Information' section in this interim report.

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

Profit for the six months ended 30th June, 2005	Return on net assets (%)		Profit per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	9.87	9.97	0.1656	0.1656
Operating profit	2.92	2.95	0.0489	0.0489
Net profit	2.07	2.10	0.0348	0.0348
Net profit before non-operating loss	2.11	2.13	0.0354	0.0354

### CHANGES IN SHARE CAPITAL STRUCTURE

During the reporting period, there was no change in the Company's share capital structure.

### TOTAL NUMBER OF SHAREHOLDERS

As at 30th June, 2005, the Company had a total of 66,753 shareholders.

### MAJOR SHAREHOLDERS

1. As at 30th June, 2005, the ten largest shareholders of the Company were as follows:

Name of shareholders	Class	Number of shares held (shares)	Increase/ (decrease) of shares during the reporting period (shares)	Percentage of holding (%)
1. PetroChina Company Limited	A shares	2,396,300,000	–	67.2914
2. HKSCC Nominees Limited	H shares	822,166,699	2,322,000	23.0876
3. HSBC Nominees (Hong Kong) Limited	H shares	135,627,300	–	3.8086
4. Qiao Liang	A shares	1,450,000	–	0.0407
5. Zhang Li	A shares	1,250,000	220,000	0.0351
6. Huang Sujie	A shares	1,150,000	1,150,000	0.0323
7. Zhao Ying	A shares	1,060,000	180,000	0.0298
8. Shanghai Shi Hong Development Company Limited	A shares	711,550	711,550	0.0200
9. Tian Qiucheng	A shares	706,050	706,050	0.0198
10. Industrial and Commercial Bank of China-Rongtong Shenzheng 100 Index Securities Investment Fund	A shares	656,663	170,000	0.0184

Notes:

- As far as the Company is aware, none of the ten largest shareholders of the Company is connected to or act in concert with each other.
- PetroChina Company Limited ("PetroChina") held 2,396,300,000 state-owned legal person shares issued by the Company, representing approximately 67.29 per cent of the Company's total share capital. Shares held by PetroChina in the Company were not pledged, locked up or held in trust during the six months ended 30th June, 2005.
- There was no shareholder for whom HKSCC Nominees Limited acted as nominees and whose shareholding accounted for 5 per cent or more of the total number of shares issued by the Company.

2. As at 30th June, 2005, the ten largest shareholders of listed shares of the Company were set out as follows:

Name of shareholders	Class	Number of shares held (shares)	Increase/ (decrease) of shares during the reporting period (shares)	Percentage of holding (%)
1. HKSCC Nominees Limited	H shares	822,166,699	2,322,000	23.0876
2. HSBC Nominees (Hong Kong) Limited	H shares	135,627,300	–	3.8086
3. Qiao Liang	A shares	1,450,000	–	0.0407
4. Zhang Li	A shares	1,250,000	220,000	0.0351
5. Huang Sujie	A shares	1,150,000	1,150,000	0.0323
6. Zhao Ying	A shares	1,060,000	180,000	0.0298
7. Shanghai Shi Hong Development Company Limited	A shares	711,550	711,550	0.0200
8. Tian Qiucheng	A shares	706,050	706,050	0.0198
9. Industrial and Commercial Bank of China-Rongtong Shenzheng 100 Index Securities Investment Fund	A shares	656,663	170,000	0.0184
10. Chen Yu	A shares	610,000	610,000	0.0171

Note: None of the ten largest shareholders of listed shares of the Company was found to be connected to or act in concert with each other as defined under the "Administration Rules for Disclosure of Changes in the Shareholdings of the Shareholders of Listed Companies" found. The Company is not aware that the ten largest shareholders of listed shares of the Company and the ten largest shareholders are connected to or act in concert with each other.

### 3. Interests and short positions of major shareholders in the shares and underlying shares of the Company

Save as set out below, as at 30 June 2005, there was no other person (other than the directors, chief executive or supervisors of the Company) who was recorded in the register required to be kept under Section 336 of the SFO as having an interest or short position in the shares or underlying shares of the Company:

#### Interest in ordinary shares of the Company

Name of shareholders	Number and type of shares	% of total issued share capital	% of total issued H shares	% of total issued A shares	% of total issued unlisted shares	Capacity
PetroChina	2,396,300,000 State-owned legal person shares	67.29	–	–	100%	Beneficial owner
HKSCC Nominees Limited	822,166,699 H Shares	23.09	85.22	–	–	Nominee
HSBC Nominees (Hong Kong) Limited	135,627,300 H Shares	3.81	14.06	–	–	Nominee

#### SHARES HELD BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. As at 30th June, 2005, each of Mr. Shi Jianxun and Mr. Ni Muhua, the directors, and Mr. Zou Haifeng, the supervisor, held 3,550 shares in the Company, respectively; Mr. Li Shumin, the supervisor, held 7,000 shares in the Company; and none of the other directors, supervisors and senior management held any shares in the Company.

#### 2. Interests and short positions of directors and supervisors in shares, underlying shares and debentures

Save as set out above, as at 30th June, 2005, none of the directors or supervisors had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

None of the directors, supervisors and senior management (including their spouse and children under 18 years of age) has been granted or has exercised any rights to subscribe for shares or any underlying shares (or warrants or debentures, if applicable) of the Company.

#### 3. Audit Committee

The audit committee and the management of the Company have reviewed the accounting principles, accounting standards and discussed matters relating to auditing, internal supervising and financial reporting, including the unaudited interim report for the six-month period ended 30th June, 2005.

#### APPOINTMENT AND REMOVAL OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Xingfu, a director of the Company, was appointed as the general manager of the Company by the Board on 27th June, 2005. The extraordinary general meeting of the Company was held on 12th August, 2005, at which Ms. Yang Dongyan, Mr. Xiang Ze and Mr. Li Chongjie were elected and appointed as directors of the Company, and Mr. Wang Jianrong and Mr. Xue Feng were elected and appointed as supervisors of the Company (shareholders' representative). Mr. Bai Xuefeng was elected by the Company's employees as a supervisor of the Company (employees' representative). Ms. Yang Dongyan was elected as the deputy chairman of the Board and Mr. Zhang Xinfu was appointed as an authorized representative of the Company on 12th August, 2005.





*Mr. Zhang Xingfu, Executive Director and General Manager*

## PRODUCTION AND OPERATION DURING THE REPORTING PERIOD

### 1. Overall Operation

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

During the first half of 2005, the Company implemented a strategy of vertical integration in refinery to improve and adjust its overall product mix; closely monitored the development of product market and took full advantage of any price movement of products so as to adjust its product sales strategy in a timely manner; continued to improve efficiency, save energy and reduce wastage for the purpose of imposing stringent control on costs and expenses; continued to improve internal control to enhance capital management and increase efficiency in the use of capital.

For the first half of 2005, the sales revenue and sales of the Company and its subsidiaries (together “the Group”) amounted to RMB16,122.195 million and RMB17,992.634 million, respectively, under PRC GAAP and IFRS, representing the increase of 28% and 31% from the same period in 2004. The continuing substantial increase in the price of crude oil drove the price of refined oil to move upward, which unfortunately failed to offset any impacts caused by price rise in crude oil. Actual realized net profits and profits of the Company were RMB123.957 million and RMB135.030 million, respectively, down by 80% and 77% as compared to the corresponding period in 2004.

### 2. Operating Revenues and Profits from Principal Business Activities

For the first half of 2005, in accordance with PRC GAAP, actual realized revenue from the sale of the Group’s petroleum products was RMB7,589.622 million, which accounted for 47% of the revenue from principal business activities and the requisite cost of sales was RMB8,519.813 million, with a gross profit margin of -12%; actual realized revenue from the sale of petrochemical and organic chemical products was RMB7,315.044 million, which accounted for 45% of the revenue from principal business activities and the requisite cost of sales was RMB5,544.427 million, with a gross profit margin of 24%; actual realized revenue from the sale of synthetic rubber products was RMB878.241 million, which accounted for 5% of the revenue from principal business activities and the requisite cost of sales was RMB706.814 million, with a gross profit margin of 20%.

3. The Company conducts its principal business in the PRC and does not engage in any other industry other than the petrochemical industry. During the reporting period, there was no change in the Company’s principal business, nor was the Company engaged in any other business which had material impact on its net profits during such reporting period.
4. During the reporting period, no jointly-invested company had an impact of more than 10% on the net profits of the Company.

### 5. Problems and Difficulties in the Operation of the Company

For the first half of 2005, the continuing substantial increase in the price of crude oil drove the price of refined oil to move upward, which unfortunately failed to offset any impacts caused by price rise in crude oil. As a result, the Group recorded a loss from the sale of its petroleum products, thereby adversely affecting the overall performance of the Company. For the first half of 2005, net profits of the Company decreased by 80% as compared to the same period in 2004.

## OPERATING RESULTS AND FINANCIAL RESULTS ANALYSIS

## I. Under PRC GAAP

1. For the six months ended 30th June 2005, revenue realized from the principal business of the Group was RMB16,122.195 million, an increase of 28% from the same period in 2004. This increase was principally attributable to an increase in the total number of products of the Group, such as petroleum products, petrochemical, organic chemical and synthetic rubber products, and the increase in their price.

- (1) *Petroleum Products*

In the first half of 2005, revenue from the sale of petroleum products was RMB7,589.622 million, an increase of RMB1,157.868 million from the same period in 2004. The increase was primarily attributable to an increase in the volume of the Group's crude oil processing by 16% from last year to 3.5 million tons in the first half of 2005. In addition, the weighted average price of petroleum products grew by 16% from RMB2,416/ton in the first half of 2004 to RMB2,798/ton in the first half of 2005.

- (2) *Petrochemical and organic chemical products*

In the first half of 2005, revenue realized from the sale of petrochemical and organic chemical products was RMB7,315.044 million, representing an increase of RMB2,252.693 million from the same period in 2004. This increase was principally attributable to an increase in the demand of petrochemicals from enterprises engaged in the downstream segment of the petrochemical industry, which has resulted in the sales volume and weighted average price of such products increasing by 16% and 25%, respectively, from the same period in 2004 to 1.07 million tons and RMB6,841/ton.

- (3) *Synthetic rubber products*

In the first half of 2005, revenue realized from the sale of synthetic rubber products was RMB878.241 million, an increase of RMB154.964 million from the same period in 2004. The increase was principally attributable to an increase in the weighted average price of such products by 24% from the same period in 2004.

2. The cost of principal business increased by 38% to RMB15,123.413 million in the first half of 2005 from RMB10,955.477 million in the first half of 2004. This increase was principally attributable to a growth in the sales volume of the Company's products and the volume of crude oil processing, as well as an increase in the price of other raw materials. In the first half of 2005, the weighted average price of the Group's crude oil cost was RMB3,016/ton, which represented an increase of 47% as compared to the same period in 2004.

The cost of sales grew due to the continuing substantial increase in the price of crude oil. Therefore, profits of the Group from its principal business dropped by 52% as compared to the same period in 2004.

3. Financial cost, administrative and operating costs decreased by 35% from RMB548.128 million in the first half of 2004 to RMB357.736 million in the first half of 2005, of which, the financial cost decreased by RMB67.410 million from the same period in 2004. This decrease was primarily due to a reduction in the Group's interest bearing borrowings and the replacement of the Company's high-interest bearing loans with low-interest bearing loans. As a result, interest expenses decreased by RMB58.083 million. The Group realized a net exchange gain of RMB12.197 million due to its foreign currency borrowing being affected by the interest rate fluctuation. Administrative expenses decreased from RMB382.719 million in the first half of 2004 to RMB267.197 million in the first half of 2005. This decrease was principally due to the provision of RMB76.870 million made for the decrease in inventory price and the provision of RMB22.533 million made for bad debts in the same period in 2004 which were not made during the current reporting period.

In the first half of 2005, the Group recorded a loss from other business activities and its profits from operation fell by RMB57,733 million.

Due to the above factors, the Group's profits from its operation decreased from RMB647.149 million in the first half of 2004 to RMB174.272 million in the first half of 2005.

4. Compared to the first half of 2004, the Group's return from investment decreased by RMB2.166 million in the first half of 2005 due to a reduction of the Group's share of profits of its jointly controlled entity. The decrease of RMB56.186 million in non-operating expenses of the Group was principally attributable to no substantial loss incurred in the disposal of fixed assets during the reporting period. In addition, revenue from subsidies and non-operating revenue increased by RMB8.199 million.

Based on the aforesaid, the Group's total profits decreased from RMB592.302 million in the first half of 2004 to RMB181.643 million in the first half of 2005.

In the first half of 2005, the income tax of the Group amounted to RMB51.192 million, which consists of the deferred tax liabilities arising from the acceleration of depreciation and amortization, and the deferred tax assets resulting from taxation loss in the first half of 2005. In the same period in 2004, the Company did not make up in full its accumulated loss for 2002 and the previous years in accordance with applicable taxation laws and no deferred tax assets in respect of such taxation loss had been confirmed. Therefore, there was no income tax in the same period in 2004. In addition, the minority interest of the Group was RMB6.494 million during the reporting period. After deducting the above, the Group recorded a net profit of RMB123.957 million in the first half of 2005.

5. Net increase in cash and cash equivalents amounted to RMB25.671 million in the first half of 2005, and net decrease in cash and cash equivalents amounted to RMB19.221 million in the same period of 2004. This change was primarily attributable to the improvement of capital management and an increase in the turnover of capital of the Company.
6. As at 30th June, 2005, the total assets of the Group was RMB12,717.874 million, representing a decrease of 12% as compared to the percentage as at 31st December, 2004. This decrease was principally attributable to a decrease in inventories and an increase in accumulated depreciation.
7. As at 30th June, 2005, the shareholder's equity of the Group was RMB5,977.581 million, representing an increase of 2% from 31st December, 2004. This increase was primarily attributable to an increase in net profits during the reporting period.

## II. Under IFRS

1. In the first half of 2005, total turnover of the Group was RMB17,992.634 million, up 31% from the same period in 2004. This increase was primarily attributable to an increase in market demand, thus resulting in the simultaneous increase in the Group's sales volume and the weighted average price of its products.

### (1) *Petroleum Products*

Revenue of petroleum products increased by 17% from RMB6,212.553 million in the first half of 2004 to RMB7,263.050 million in the first half of 2005, which accounted for 40% of its total turnover attributable to petroleum products. The increase in revenue was principally attributable to an increase of weighted average price and sales volume of petroleum products by 16% and 2%, respectively, from the same period in 2004.

### (2) *Petrochemical and organic chemical products*

Revenues of petrochemical and organic chemical products increased by 45% from RMB5,493.959 million in the first half of 2004 to RMB7,943.724 million in the first half of 2005, which accounted for 44 % of the total turnover attributable to such products. This increase was principally attributable to an increase in market demand which has caused an increase of weighted average price and sales volume of petrochemical and organic chemical products by 25% and 16%, respectively, from the same period in 2004.

(3) *Synthetic rubber products*

Revenue of synthetic rubber products increased by 27% from RMB800.349 million in the first half of 2004 to RMB1,017.254 million in the first half of 2005. This increase was mainly attributable to an increase in the price of such products by 24% from the same period in 2004.

2. *Cost and expenditure*

The cost of sales increased by 39% from RMB12,615.949 million in the first half of 2004 to RMB17,508.817 million in the first half of 2005. This increase was primarily attributable to an increase in the sales volume of the Company's products, volume of crude oil processing and the price of other raw materials. In the first half of 2005, the weighted average price of the Group's crude oil cost was RMB3,016/ton, which represented an increase of 47% from the same period in 2004, and the volume of crude oil processing was 3.5 million tons, which represented an increase of 16% from the same period in 2004.

The Group's gross profit margin decreased by 5% in the first half of 2005 as compared to the same period in 2004 due to an increase in cost of sales in connection with the continuous surge in crude oil price.

Distribution costs, administrative expenses and other operating expenses dropped by 40% from RMB384.770 million in the first half of 2004 to RMB230.143 million in the first half of 2005. This decrease was primarily attributable to the provisions made for diminution in value of trade and other receivables, construction in progress and intangible assets made in the first half of 2004 which were not made during the reporting period, a net loss of RMB34.158 million incurred from the retirement of fixed assets in the first half of 2004 and a net profit of RMB4.638 million so incurred during the reporting period.

Due to the aforesaid factors, the Group's operating profit decreased from RMB729.256 million in the first half of 2004 to RMB253.674 million in the first half of 2005.

Interest expenses decreased by 38% from RMB152.934 million in the first half of 2004 to RMB94.851 million in the first half of 2005. The decrease was principally attributable to a reduction in the Group's interest bearing borrowings and the replacement of high-interest bearing loans with low-interest bearing loans during the reporting period.

In the first half of 2005, the Group recorded a net foreign exchange gain of RMB12.197 million, which increased by RMB9.1 million from the same period in 2004. This increase was mainly attributable to the foreign exchange rate fluctuation in favour of the Company's foreign currency borrowing during the reporting period.

In the first half of 2005, the Group's shares of profit before taxation of its jointly controlled entity and associate stood at RMB11.396 million, as compared to RMB13.564 million in the first half of 2004. This change was primarily caused by a decrease of profit of its jointly controlled entity and associate during the reporting period.

In the first half of 2005, the income tax of the Group amounted to RMB48.209 million, which consists of the deferred tax liabilities arising from the acceleration of depreciation and amortization, and the deferred tax assets resulting from taxation loss in the first half of 2005. In the same period in 2004, the Company did not make up in full its accumulated loss for 2002 and the previous years in accordance with applicable taxation laws and no deferred tax assets in respect of such taxation loss had been confirmed. Therefore, there was no income tax in the same period in 2004.

### 3. Liquidity and Capital Resources

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

Net cash flows from the Group's operating activities in the first half of 2005 was RMB2,059.624 million, as compared to RMB1,295.921 million in the first half of 2004. The increase of net cash inflows was primarily due to a decrease in inventories during the reporting period.

Net cash used in investing activities in the first half of 2005 was RMB40.426 million, as compared to RMB195.203 million in the first half of 2004. This decrease was due to a decrease in capital expenditure during the reporting period.

Net cash used in financing activities in the first half of 2005 was RMB1,993.527 million, as compared to RMB1,119.939 million in the first half of 2004. The change was due to a decrease in proceeds obtained from borrowings during the reporting period.

As at 30th June, 2005, the Group's current assets amounted to RMB2,198.547 million and the current liabilities amounted to RMB5,999.173 million, which caused a negative working capital of RMB3,800.626 million. The Group regularly reviews its working capital and liquidity position and ensures the short term obligations of the Group are satisfied through the refinancing of indebtedness and other measures. China Petroleum Finance Company Limited, a subsidiary of our ultimate beneficial shareholder, has agreed to extend the term of a RMB8 billion loan facility provided to the Group up to 31st December, 2008. The Company believes that it has sufficient capital resources to meet its foreseeable working capital needs. As at 30th June, 2005, the Group's capital liabilities ratio was 12% as compared to 15% as at 31st December, 2004 (the capital liabilities ratio is calculated by dividing the long-term liabilities by the aggregate of shareholders' equity and long-term liabilities).

As at 30th June, 2005, the Group's liquidity ratio was 37% and its quick ratio was 12%; inventory ratio was 7.66 times, an increase of 0.45 times as compared to the same period in 2004.

As at 30th June, 2005, the Group's aggregate borrowings were RMB1,988.563 million, a decrease of RMB1,993.527 million as compared to the figure as at 31st December, 2004, of which short-term borrowings was RMB1,268.212 million, representing a decrease of RMB1,817.863 million as compared to the level of short-term borrowings as at 31st December, 2004. Long-term borrowings were RMB720.351 million, representing a decrease of RMB175.664 million as compared to the same type of borrowings as at 31st December, 2004. These changes reflected an increase in the repayment amounts of the Group during the first half of 2005 which in turn led to a decrease in liabilities ratio.

The Group does not have seasonal demands for capital.

### 4. Exchange Risk

On 30th June, 2005, the Group's short-term borrowings were denominated in Renminbi and the portion of long-term borrowings denominated in foreign currency that was translated into RMB968.803 million was mainly a foreign currency-denominated loan for the 300,000-ton ethylene facility project. Foreign currency-denominated loans are mainly taken out in United States Dollar, Japanese Yen and Euro Dollar. The Group also experiences foreign exchange risk in making payments related to the import of raw materials and machinery, which needs to be converted into the applicable foreign currency from Renminbi. In addition, dividends for H shares are also payable in foreign currency. Hence, any fluctuation in foreign exchange rates will have a significant impact on the Group. In the first half of 2005, the Group had a net foreign exchange gain of RMB12.197 million.

#### 5. Employees

As at 30th June, 2005, the Company had a total of 20,187 employees. The aggregate remuneration paid to them was RMB378.110 million.

#### 6. Charges of Assets

The Group has not created any charges on any of its principal assets as at 30th June, 2005.

#### 7. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30th June, 2005.

### INVESTMENT (CAPITAL NOT OBTAINED FROM FUND-RAISING ACTIVITIES)

During the first half of 2005, the Company did not carry out any large-scale technological renovation projects. The total investment attributable to such projects was RMB57.174 million as at 30th June, 2005.

### PROSPECTS OF THE SECOND HALF OF 2005

For the second half of 2005, the Company will further strengthen the following: (i) the management of safety production by arranging for installation and overhaul of equipment so as to ensure its production facilities run at full capacity; (ii) the control on capital budget in order to use capital in a safely, reasonable and efficient manner, thereby speeding up the turnover of its capital; (iii) the control on cost budget by continuing to implement a low-cost strategy to reduce the production and operation costs; (iv) the marketing management in order to respond to the changes in petrochemical and chemical products. The Company expects the processing capacity for crude oil to reach 3.5 million tons in the second half of 2005. In view of the continuing increase in the price of crude oil to a high level which may not be offset by the increase in the price of refined oil, the actual realized profits for the period from January to September 2005 is expected to decrease by over 50% as compared to the same period in 2004.

### 1. CORPORATE GOVERNANCE STRUCTURE

The Company's corporate governance structure was in compliance with the requirements of the Listed Company Governance Guidelines.

### 2. PROPOSED INTERIM DISTRIBUTION AND TRANSFER FROM COMMON RESERVE TO SHARE CAPITAL

The directors resolved not to declare any interim dividend and did not make any transfer from the common reserves to the Company's share capital during the first six months ended 30th June, 2005.

### 3. PREVIOUS YEAR'S PROFIT DISTRIBUTION

According to the Company's 2004 annual general meeting of the Company, no final dividend was declared and no transfer was made from the common reserve to the Company's share capital for 2004.

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

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

### 6. SIGNIFICANT CONNECTED TRANSACTION

The prices paid by the Company for utilities and supporting services supplied by Jilin Chemical Group Corporation ("JCGC") were based on the State prices, market prices or actual cost as provided for in the service agreement entered into between the Company and JCGC. The other connected transactions between the Company and JCGC were based on normal commercial terms or on terms that were fair and reasonable so far as the shareholders of the Company are concerned. The connected transactions between the Company and PetroChina were based on the terms approved by shareholders at the extraordinary shareholders' meeting held on 20th January, 2005. The connected transactions of the Group were settled by debit of bank accounts. Such connected transactions were carried out in the normal course of the Group's production and operations, which also increased the Group's profit. Details of these connected transactions are set out in note 16 and VII to the financial statements prepared in accordance with IFRS and PRC GAAP, respectively.

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

	For the six months ended 30th June 2005 (RMB'000)	Percentage of the same type of transactions %
<b>PetroChina:</b>		
Purchase of crude oil	7,381,607	76.52
Purchase of production materials	3,087,316	76.94
Lease of machinery and equipment	15,650	93.62
Production safety insurance funds	16,576	90.23
Sale of gasoline and diesel oil	6,370,666	100
Sale of petrochemical products	5,781,711	46.48
Railway transport and water treatment services	17,093	33.00
<b>JCGC:</b>		
Sale of products	803,708	4.60
Examination and maintenance services	1,552	1.60
Construction of fixed assets	6,406	12.00
Purchase of production materials and spare parts	55,903	23.80
Welfare and supporting services	42,450	20.80
Operating lease rentals on land & property	3,200	100
<b>CNPC:</b>		
Interest receivable	205	24.91
Interest payable	58,392	61.56
Purchase of materials	4,883	0.04

(2) Information relating to the rights, debts and guarantees of related parties are set out in note VII to the financial statements prepared under PRC GAAP.

## 7. MATERIAL CONTRACTS AND PERFORMANCE

- (1) During the reporting period, the Company did not enter into any trust, sub-contracting or lease arrangements in respect of the assets of any third party nor has any third party entered into any trust, sub-contracting or lease arrangements in respect of the assets of the Company.
- (2) The Company had not entered into any significant guarantees during the reporting period and no significant guarantees entered into prior to the reporting period had been extended to the reporting period.
- (3) During the reporting period, the Company did not entrust any party with cash assets administration.

8. Neither the Company nor any shareholder holding an interest of 5 per cent or more in the issued share capital of the Company had provided any undertakings that may have a significant impact on the Company's operating results and financial conditions.

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



#### 10. PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

#### 11. CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not comply with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules during the period.

#### 12. MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions in terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules.

Having made specific enquiries and confirmed by all the directors of the Company, each of the directors had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the reporting period.

#### 13. TRUST DEPOSITS AND TRUST LOANS

As at 30th June, 2005, the Company did not have any trust deposits and trust loans with any financial institutions and did not encounter any difficulty in making withdrawals.

#### 14. HOUSING REFORMS

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

In accordance with IFRS, the above loss was capitalized. The staff cost associated with the Company's employee housing reform programs was amortized on a straight-line basis over the remaining expected average employment period of the relevant employees.

From 1st January, 1998 to 30th June, 2005, the total amount amortized was RMB54.55 million. The amount amortized in the first six months of 2005 was RMB4.66 million. As at 30th June, 2005, the above remaining deferred staff cost was approximately RMB29.54 million. In the opinion of the Board, if the aforesaid deferred staff cost was completely written off in the first half of 2005, the net assets of the Company as at 30th June, 2005 would be reduced by approximately RMB29.54 million. Other than the employees' housing reform programs mentioned above, the Company had not implemented any employees' housing plan.

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

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

During the reporting period, the independent non-executive directors were not aware of any conversion of the other's funds to own use between the Company and the controlling shareholder and related parties, which were out of the ordinary course of production and operating activities of the Company. The independent non-executive directors were not aware of any conversion of the Company's funds used by the controlling shareholder or other related parties, nor any provision of guarantee to any third party where the controlling shareholder and other related parties misused funds belonging to the Company or any instances of third party guarantees.

#### 16. There were no other significant events during the reporting period.

## FINANCIAL STATEMENTS (UNAUDITED)

The Board hereby announces the unaudited interim results of the Group for the six months ended 30th June, 2005 prepared under the PRC GAAP and the IFRS. The Company's Audit Committee and management have reviewed the accounting principles, accounting standards and measures adopted by the Group, and have reviewed internal supervision and financial reports, including the unaudited financial statement prepared under the PRC GAAP and IFRS and the additional information in respect thereof for the six months ended 30th June, 2005.

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

#### FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

(Amounts in thousands except for per share data)

	Notes	Six months ended 30th June,	
		2005 RMB	2004 RMB
<b>Turnover</b>	3	<b>17,992,634</b>	13,729,975
Cost of sales		<u>(17,508,817)</u>	<u>(12,615,949)</u>
<b>Gross profit</b>		<b>483,817</b>	1,114,026
Distribution costs		(8,617)	(16,076)
Administrative expenses		(229,788)	(306,330)
Other operating income/(expenses), net		<u>8,262</u>	<u>(62,364)</u>
<b>Operating profit</b>	4	<b>253,674</b>	729,256
Interest expense		(94,851)	(152,934)
Interest income		823	585
Exchange loss		(29)	(3,829)
Exchange gain		12,226	6,926
Share of profit of a jointly controlled entity		8,443	12,559
Share of profit of an associated company		<u>2,953</u>	<u>1,005</u>
<b>Profit before taxation</b>		<b>183,239</b>	593,568
Taxation	5	<u>(48,209)</u>	<u>—</u>
<b>Profit for the period</b>		<b><u>135,030</u></b>	<b><u>593,568</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		128,536	606,354
Minority interest		<u>6,494</u>	<u>(12,786)</u>
		<b><u>135,030</u></b>	<b><u>593,568</u></b>
<b>Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period</b>	6	<b><u>RMB0.04</u></b>	<u>RMB0.17</u>
<b>Dividend</b>	7	<u>—</u>	<u>—</u>

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

## UNAUDITED CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (PREPARED UNDER IFRS)

AS OF 30TH JUNE, 2005

(Amounts in thousands)

	Notes	30th June, 2005 RMB	31st December, 2004 RMB
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	8,937,297	9,368,990
Interests in a jointly controlled entity		74,278	89,835
Investment in an associated company		12,258	9,305
Intangible assets	8	466,523	515,047
Deferred income tax assets	15	234,993	283,202
		<u>9,725,349</u>	<u>10,266,379</u>
<b>CURRENT ASSETS</b>			
Inventories	9	1,449,954	2,606,053
Accounts receivable	10	317,832	265,245
Prepaid expenses and other current assets	11	390,461	441,891
Cash and cash equivalents	12	40,300	14,629
		<u>2,198,547</u>	<u>3,327,818</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	13	4,633,438	4,429,686
Current income tax liabilities		97,523	113,079
Short-term borrowings	14	1,268,212	3,086,075
		<u>5,999,173</u>	<u>7,628,840</u>
<b>NET CURRENT LIABILITIES</b>		<u>(3,800,626)</u>	<u>(4,301,022)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>5,924,723</u>	<u>5,965,357</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Share capital		3,561,078	3,561,078
Reserves		2,099,372	2,099,858
Accumulated losses		(476,848)	(605,870)
		<u>5,183,602</u>	<u>5,055,066</u>
Minority interest		20,770	14,276
Total equity		<u>5,204,372</u>	<u>5,069,342</u>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	14	720,351	896,015
		<u>5,924,723</u>	<u>5,965,357</u>

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT (PREPARED UNDER IFRS)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

(Amounts in thousands except for per share data)

	Notes	Six months ended 30th June,	
		2005 RMB	2004 RMB
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		135,030	593,568
Adjustments for:			
Taxation	5	48,209	–
Depreciation and amortisation	4	540,316	562,937
(Reversal)/provision for impairment of receivables	4	(882)	11,354
(Reversal)/provision for impairment of prepaid expenses and other current assets	4	(18)	11,179
Inventories writedowns	4	–	79,169
Provision for impairment of property, plant and equipment	4	–	19,814
Provision for impairment of intangible assets	4	–	6,698
Net (profit)/loss on disposal of property, plant and equipment	4	(4,638)	34,158
Share of profit of a jointly controlled entity		(8,443)	(12,559)
Share of profit of an associated company		(2,953)	(1,005)
Interest income		(823)	(585)
Interest expense		94,851	152,934
Changes in working capital:			
Accounts and other receivables (net)		4,390	(221,291)
Inventories		1,156,099	(7,391)
Payables and accrued liabilities (net)		199,352	249,185
<b>CASH GENERATED FROM OPERATIONS</b>		<b>2,160,490</b>	<b>1,478,165</b>
Income tax paid		(15,556)	–
Interest received		823	585
Interest paid		(86,133)	(182,829)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>2,059,624</b>	<b>1,295,921</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures		(69,539)	(196,718)
Dividends received from a jointly controlled entity		24,000	–
Proceeds from disposal of property, plant and equipment		5,113	1,515
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>		<b>(40,426)</b>	<b>(195,203)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	14	2,861,390	4,854,427
Repayments of borrowings	14	(4,854,917)	(5,974,366)
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>		<b>(1,993,527)</b>	<b>(1,119,939)</b>
Increase/(decrease) in cash and cash equivalents		25,671	(19,221)
Cash and cash equivalents at beginning of period		14,629	35,499
Cash and cash equivalents at end of period		<b>40,300</b>	<b>16,278</b>

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

UNAUDITED CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (PREPARED UNDER IFRS)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

(Amounts in thousands)

	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital	Accumulated losses	Reserves		
	RMB	RMB	RMB	RMB	RMB
Balance at 1st January, 2004 as previously represented	3,561,078	(3,151,353)	2,100,831	–	2,510,556
Representation as a result of the adoption of revised IAS 1 and IAS 27 (Note 1)	–	–	–	30,800	30,800
Balance at 1st January, 2004	3,561,078	(3,151,353)	2,100,831	30,800	2,541,356
Profit for the period	–	606,354	–	(12,786)	593,568
Transfer to accumulated losses on realisation of revaluation reserve	–	486	(486)	–	–
Balance at 30th June, 2004	<u>3,561,078</u>	<u>(2,544,513)</u>	<u>2,100,345</u>	<u>18,014</u>	<u>3,134,924</u>
Balance at 1st January, 2005 as previously represented	3,561,078	(605,870)	2,099,858	–	5,055,066
Representation as a result of the adoption of revised IAS 1 and IAS 27 (Note 1)	–	–	–	14,276	14,276
Balance at 1st January, 2005	3,561,078	(605,870)	2,099,858	14,276	5,069,342
Profit for the period	–	128,536	–	6,494	135,030
Transfer to accumulated losses on realisation of revaluation reserve	–	486	(486)	–	–
<b>Balance at 30th June, 2005</b>	<u><b>3,561,078</b></u>	<u><b>(476,848)</b></u>	<u><b>2,099,372</b></u>	<u><b>20,770</b></u>	<u><b>5,204,372</b></u>

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

NOTES TO THE UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

(Amounts in thousands unless otherwise stated)

## I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated interim condensed financial statements are prepared in accordance with International Accounting Standards 34 “Interim Financial Reporting”. The accounting policies and methods of computation used in the preparation of the consolidated interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31st December, 2004 except for the ones modified by the Company as a result of the adoption of the new revised International Financial Reporting Standards (“IFRS”).

In 2005, the Group adopted the new revised IFRS below, which are relevant to its operations. The 2004 comparative numbers have been amended as required, in accordance with the relevant requirements. The adoption of the IFRS did not result in substantial changes to the Group’s accounting policies. In summary:

- IAS 1 and 27 (both revised in 2003) have affected the presentation of minority interest; IAS 1 (revised in 2003) requires the disclosure of critical accounting estimates.
- IAS 2, 8, 10, 16, 17, 21, 28, 31, 32, 33 (all revised in 2003) and 39 (revised in 2004) had no material effect on the Group’s policies.
- IAS 24 (revised in 2003) has affected the identification of related parties and some other related-party disclosures (see the revised accounting policy below).
- IFRS 5 has resulted in a change in the accounting policy relating to the recognition of assets held for sale or discontinued operation, which did not have any material impact on the results and financial positions of the Group as the Group did not hold material assets in this category during the periods presented.

### Related Parties

Related parties include China National Petroleum Corporation (“CNPC”) and its subsidiaries, other state-controlled enterprises and their subsidiaries directly or indirectly controlled by PRC government, corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company, PetroChina Company Limited (“PetroChina”) and CNPC and their close family members.

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

These unaudited consolidated interim condensed financial statements should be read in conjunction with the 2004 annual financial statements where the accounting policies are described in more detail.

The results of operations for the six months ended 30th June, 2005 are not necessarily indicative of the results to be expected for the full year ending 31st December, 2005.

### New accounting developments

In December 2004, the International Financial Reporting Interpretation Committee (“IFRIC”) released IFRIC 4 “Determining whether an arrangement contains a lease”, effective for annual periods on or after 1st January, 2006. The Group is evaluating the matter and effect of adoption of IFRIC 4.

## 2. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within 2005 are discussed below.

### (a) Impairment of property, plant and equipment

The Group assesses its property, plant and equipment for possible impairment whenever events or change in circumstance indicate that the carrying value of the assets may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters, such as future prices of crude oil, refined products and chemical products, production profile, etc. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan. Favourable changes to some assumptions might have avoided the need to impair any assets in these periods, whereas unfavourable changes might have caused an additional unknown number of other assets to become impaired.

### (b) Deferred tax asset

The Group recognises deferred tax assets for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised. Determination as to the probability and to what extent the deferred tax asset should be recognised involves management estimates on the future profitability of the Company. The estimate of the Company's future profitability is in consistent with the Group's business plan and is critical to the recognition of the deferred tax assets. In the case that the future profitability is over-estimated, the deferred tax asset might have not been recognised or only been partially recognised.

Significant assumptions involved in the impairment assessment and deferred tax asset recognition discussed above included the ones for the future prices of crude oil and refined products. The Company made an assumption that the government is to adjust the refined product prices in the next five years to eventually enable the refining business in China to gain a proper margin in line with the international benchmark.

### 3. SEGMENT INFORMATION

#### Six months ended 30th June, 2005

	Petrochemical and organic petroleum products RMB	Chemical fertilisers and organic chemical products RMB	Chemical fertilisers and inorganic products RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Revenues	<u>7,263,050</u>	<u>7,943,724</u>	<u>337,620</u>	<u>1,017,254</u>	<u>1,430,986</u>	<u>17,992,634</u>
Segment results	(1,351,841)	1,571,834	(23,606)	145,611	(88,324)	253,674
Finance costs, net						(81,831)
Share of profit of a jointly controlled entity	-	8,443	-	-	-	8,443
Share of profit of an associated company	-	-	-	-	2,953	<u>2,953</u>
Profit before taxation						<u><u>183,239</u></u>

#### Six months ended 30th June, 2004

	Petrochemical and organic petroleum products RMB	Chemical fertilisers and organic chemical products RMB	Chemical fertilisers and inorganic products RMB	Synthetic rubber products RMB	Other products and services RMB	Total RMB
Revenues	<u>6,212,553</u>	<u>5,493,959</u>	<u>616,306</u>	<u>800,349</u>	<u>606,808</u>	<u>13,729,975</u>
Segment results	(93,733)	818,966	(91,967)	172,965	(76,975)	729,256
Finance costs, net						(149,252)
Share of profit of a jointly controlled entity	-	12,559	-	-	-	12,559
Share of profit of an associated company	-	-	-	-	1,005	<u>1,005</u>
Profit before taxation						<u><u>593,568</u></u>

All assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns. Accordingly, no geographic segment information is presented.



#### 4. OPERATING PROFIT

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

	Six months ended 30th June,	
	2005 RMB	2004 RMB
Crediting		
Government grants and subsidies	(2,683)	–
Charging		
Amortisation of intangible assets	48,524	61,562
Depreciation of property, plant and equipment	491,792	501,375
Net (profit)/loss on disposal of property, plant and equipment (included in “other operating (income)/expenses”)	(4,638)	34,158
Provision for impairment of property, plant and equipment (included in “cost of sales”)	–	19,814
Provision for impairment of intangible assets (included in “cost of sales”)	–	6,698
(Reversal)/provision for impairment of receivables (included in “administrative expenses”)	(882)	11,354
(Reversal)/provision for impairment of prepaid expenses and other current assets (included in “other operating (income)/expenses”)	(18)	11,179
Inventory writedowns (included in “cost of sales”)	–	79,169
Research and development expenditure	279	192
Employee compensation costs	378,110	497,520
Operating lease rentals on land and buildings	3,200	4,320
Operating lease rentals on plant and machinery	15,650	13,867
Repair and maintenance	163,357	304,285

## 5. TAXATION

	Six months ended 30th June,	
	2005	2004
	RMB	RMB
PRC income tax	-	-
Deferred tax	<u>48,209</u>	<u>-</u>
	<u><u>48,209</u></u>	<u><u>-</u></u>

Income tax expense is recognised based on the best estimate of the weighted average annual income tax rate expected for the full financial year. During the six months ended 30th June, 2005 and 2004 there was no current tax expense because of the utilisation of tax loss carryforwards. Tax expense during the six months ended 30th June, 2005 results from changes in the deferred tax assets and liabilities at the expected annual rate of 33%.

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:

	Six months ended 30th June,	
	2005	2004
	RMB	RMB
Profit before taxation	<u>183,239</u>	<u>593,568</u>
Tax calculated at a rate of 33%	<u>60,469</u>	<u>195,877</u>
Utilisation of previously unrecognised deferred tax assets	<u>-</u>	<u>(202,269)</u>
Other	<u>(12,260)</u>	<u>6,392</u>
Tax expense	<u><u>48,209</u></u>	<u><u>-</u></u>

## 6. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the six months ended 30th June, 2005 have been computed by dividing the profit attributable to equity holders of the Company of RMB128,536 (2004: RMB606,354) by the number of 3,561,078,000 shares issued and outstanding for the period.

## 7. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2005 (2004: nil).

## 8. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Property, plant and equipment RMB	Intangible assets RMB
Net book value:		
At 1st January, 2005	9,368,990	515,047
Additions	63,770	–
Disposals	(3,671)	–
Depreciation/amortisation	(491,792)	(48,524)
<b>At 30th June, 2005</b>	<b><u>8,937,297</u></b>	<b><u>466,523</u></b>
Net book value:		
At 1st January, 2004	9,929,535	621,534
Additions	261,460	168
Disposals	(35,673)	–
Depreciation/amortisation	(501,375)	(61,562)
Impairment	(19,814)	(6,698)
At 30th June, 2004	9,634,133	553,442
Additions	270,284	10,129
Disposals	(12,204)	–
Depreciation/amortisation	(535,817)	(48,524)
Impairment	12,594	–
At 31st December, 2004	<u>9,368,990</u>	<u>515,047</u>
Capital commitments contracted but not provided for:		
<b>At 30th June, 2005</b>	<b>12,099</b>	–
At 31st December, 2004	40,646	–

## 9. INVENTORIES

	30th June, 2005 RMB	31st December, 2004 RMB
Raw materials	578,056	1,294,877
Work in progress	530,901	692,320
Finished goods	135,893	460,687
Spare parts	449,000	406,903
Low value consumables and packing materials	12,401	7,563
	<u>1,706,251</u>	<u>2,862,350</u>
Less: Provision of inventory writedowns	(256,297)	(256,297)
	<b><u>1,449,954</u></b>	<b><u>2,606,053</u></b>

## 10. ACCOUNTS RECEIVABLE

	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
Due from third parties	<b>218,325</b>	236,943
Due from related parties		
– PetroChina	<b>287,222</b>	211,530
– JCGC (a fellow subsidiary) Group Companies	<b>172,007</b>	169,077
– An associated company	<b>17,147</b>	23,138
– Other state-controlled enterprises	<b>263,691</b>	265,999
	<b>958,392</b>	906,687
Less: Provision for impairment loss		
– Due from third parties	<b>(205,114)</b>	(211,932)
– Due from related parties	<b>(435,446)</b>	(429,510)
	<b>317,832</b>	265,245

Amounts due from related parties are interest free and unsecured. Related parties are offered credit terms of no more than 30 days.

Provision for impairment of amounts due from related parties charged to profit and loss account was RMB5,936 for the six months ended 30th June, 2005 (Six months ended 30th June, 2004: RMB2,507).

The ageing analysis of accounts receivable at 30th June, 2005 is as follows:

	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
Within 1 year	<b>289,193</b>	222,075
Between 1 to 2 years	–	2,042
Between 2 to 3 years	<b>2,042</b>	299
Over 3 years	<b>667,157</b>	682,271
	<b>958,392</b>	906,687

In 2002, the Group implemented a cash sales policy for the majority of its customers. Certain selected customers are offered credit terms of no more than 30 days. There is no change in this policy during 2004 and the six months ended 30th June, 2005.

## 11. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30th June, 2005 RMB	31st December, 2004 RMB
Other receivables	86,528	97,823
Amounts due from related parties		
– CNPC Group Companies	10,147	7,172
– JCGC (a fellow subsidiary) Group Companies	74,965	138,347
– An associated company	–	239
– Other state-controlled enterprises	274,323	188,895
Down payments to suppliers	15,237	62,940
Prepaid expenses	2,624	19,856
	<u>463,824</u>	<u>515,272</u>
Less: Provision for impairment loss		
– Due from third parties	(52,927)	(52,927)
– Due from related parties	(20,436)	(20,454)
	<u>390,461</u>	<u>441,891</u>

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

Reversal of provision for impairment amounts due from related parties credited to profit and loss account was RMB18 for the six months ended 30th June, 2005 (Six months ended 30th June, 2004: Nil).

## 12. CASH AND CASH EQUIVALENTS

	30th June, 2005 RMB	31st December, 2004 RMB
Cash on hand	18	6
Bank deposits balance		
– China Petroleum Finance Company Limited ( <i>Note (i)</i> )	4	19
– State-controlled banks	40,278	14,604
	<u>40,300</u>	<u>14,629</u>

(i) China Petroleum Finance Company Limited (“CP Finance”) is a subsidiary of CNPC and a non-bank financial institution approved by the People’s Bank of China. The deposits yield interest at prevailing saving deposit rates.

(ii) The weighted average effective interest rate on bank deposits was 0.72% (2004: 0.72%) for the six months ended 30th June, 2005.

## 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
Trade payables	1,205,534	1,548,764
Advances from customers	203,243	545,545
Salaries and welfare payable	194,570	197,094
Other payables and accrued liabilities	200,731	121,461
Amounts due to related parties		
– PetroChina	2,620,436	1,667,303
– CNPC Group Companies	3,718	–
– JCGC (a fellow subsidiary) Group Companies	58,277	85,623
– An associated company	–	9,109
– Other state-controlled enterprises	146,929	254,787
	<u>4,633,438</u>	<u>4,429,686</u>

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

The ageing analysis of trade payables at 30th June, 2005 is as follows:

	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
Within 1 year	1,112,293	1,450,029
Between 1 to 2 years	25,483	33,123
Between 2 to 3 years	12,345	23,267
Over 3 years	55,413	42,345
	<u>1,205,534</u>	<u>1,548,764</u>

## 14. BORROWINGS

	30th June, 2005 RMB	31st December, 2004 RMB
Short-term borrowings	1,268,212	3,086,075
Long-term borrowings	720,351	896,015
	<u>1,988,563</u>	<u>3,982,090</u>

All borrowings are due to related parties, as shown in Note 16 – “Related party transactions”.

The movement in borrowings is analysed as follows:

	Six months ended 30th June, 2005 RMB	2004 RMB
Balance at 1st January,	3,982,090	6,509,897
New borrowings	2,861,390	4,854,427
Repayments of borrowings	(4,854,917)	(5,974,366)
Balance at 30th June,	<u>1,988,563</u>	<u>5,389,958</u>

	30th June, 2005 RMB	31st December, 2004 RMB
Short-term borrowings		
Bank loans – unsecured (Note (i))	44,640	44,640
Loans from a fellow subsidiary (Note (ii))	975,120	2,874,330
	<u>1,019,760</u>	2,918,970
Current portion of long-term borrowings	248,452	167,105
	<u>1,268,212</u>	<u>3,086,075</u>

(i) At 30th June, 2005, bank loans bear interest at the rate ranging from 5.84% to 7.25% (31st December, 2004: from 5.84% to 7.25%) per annum and are guaranteed by Jilin Merchandise Group, a third-party of the Group.

(ii) The outstanding loans are the drawn down part of the borrowing facilities provided by CP Finance totaling RMB8 billion. The loans are unsecured and bear interest at the rate ranging from 4.776% to 5.019% (31st December, 2004: from 4.776% to 5.019%) per annum. On 19th July, 2005, CP Finance agreed to extend the borrowing facilities period to 31st December, 2008.

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

## 14. BORROWINGS (Continued)

	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
Long-term borrowings		
Unsecured long-term borrowings	<b>968,803</b>	1,063,120
Current portion of long-term borrowings	<b>(248,452)</b>	(167,105)
	<b><u>720,351</u></b>	<b><u>896,015</u></b>
The analysis of the above long-term borrowings is as follows:		
Wholly repayable within five years	<b>908,704</b>	984,094
Not wholly repayable within five years	<b>60,099</b>	79,026
	<b><u>968,803</u></b>	<u>1,063,120</u>
Current portion of long-term borrowings	<b>(248,452)</b>	(167,105)
	<b><u>720,351</u></b>	<b><u>896,015</u></b>

Details of long-term borrowings are as follows:

	<b>Interest rate and final maturity</b>	<b>30th June, 2005 RMB</b>	31st December, 2004 RMB
US dollar – denominated loans	Floating interest rate at 0% to 8.66% per annum as of 30th June, 2005, with maturities through 2029	<b>820,401</b>	867,251
Japanese Yen – denominated loans	Fixed interest rate at 4.10% to 5.30% per annum as of 30th June, 2005, with maturities through 2008	<b>123,114</b>	157,746
Euro – denominated loans	Fixed interest rate at 8.30% per annum as of 30th June, 2005, with maturities through 2006	<b>25,288</b>	38,123
		<b><u>968,803</u></b>	<b><u>1,063,120</u></b>



## 15. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 33% (2004: 33%).

Deferred tax balances are attributable to the following items:

	At 1st January, 2005 RMB	Profit and loss account RMB	At 30th June, 2005 RMB
Deferred tax liabilities:			
Non-current:			
Revaluation of fixed assets	2,787	(240)	2,547
Exchange gain in respect of loans borrowed for fixed assets	18,304	(1,206)	17,098
Deferred tax effect on housing subsidy cost	11,288	(1,538)	9,750
Deferred tax effect on accelerated depreciation and amortisation	119,622	111,432	231,054
	<u>152,001</u>	<u>108,448</u>	<u>260,449</u>
Total deferred tax liabilities			
Deferred tax assets:			
Non-current:			
Deferred tax effect on tax losses	–	67,932	67,932
Deferred tax effect on deductible temporary differences	435,203	(7,693)	427,510
	<u>435,203</u>	<u>60,239</u>	<u>495,442</u>
Total deferred tax assets			
Net deferred tax balance	<u>283,202</u>	<u>(48,209)</u>	<u>234,993</u>

## 15. DEFERRED INCOME TAX (Continued)

	At 1st January, 2004 RMB	Profit and loss account RMB	At 30th June, 2004 RMB
Deferred tax liabilities:			
Non-current:			
Revaluation of fixed assets	3,266	(240)	3,026
Exchange gain in respect of loans borrowed for fixed assets	20,717	(1,206)	19,511
Deferred tax effect on housing subsidy cost	14,363	(1,538)	12,825
	<u>38,346</u>	<u>(2,984)</u>	<u>35,362</u>
Total deferred tax liabilities	<u>38,346</u>	<u>(2,984)</u>	<u>35,362</u>
Deferred tax assets:			
Non-current:			
Deferred tax effect on tax losses	38,346	(2,984)	35,362
	<u>38,346</u>	<u>(2,984)</u>	<u>35,362</u>
Total deferred tax assets	<u>38,346</u>	<u>(2,984)</u>	<u>35,362</u>
Net deferred tax balance	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

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 20th September, 2004, the Chinese Ministry of Finance and State Administration of Taxation jointly 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 1st July, 2004. Therefore, at 30th June, 2005, deferred tax liabilities of RMB231,054 (2004: RMB119,622) is recognised cumulatively on the temporary difference arising from accelerated depreciation and amortisation.

## 16. RELATED PARTY TRANSACTIONS

PetroChina, the immediate parent of the Company, is a subsidiary of CNPC. CNPC is a state-controlled enterprise and is directly controlled by PRC government. PRC government is regarded as the ultimate controlling party of the Company. PetroChina produces financial statements available for public use.

The Group has extensive transactions and relationships with members of the CNPC group, including PetroChina, JCGC (a fellow subsidiary) Group companies and other CNPC Group companies. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions with other state-controlled enterprises or wholly unrelated parties.

## 16. RELATED PARTY TRANSACTIONS (Continued)

In addition to the related party information shown elsewhere in these interim condensed financial statements (amounts due from and due to related parties are disclosed in Note 10 – “Accounts receivable”, Note 11 – “Prepaid expenses and other current assets”, Note 12 – “Cash and cash equivalents” and Note 13 – “Accounts payable and accrued liabilities”), the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the periods indicated below:

		Six months ended 30th June,	
		2005	2004
		RMB	RMB
<b>PetroChina (parent)</b>			
Purchase of crude oil	(a)	7,381,607	6,346,803
Purchase of production materials	(a)	3,087,316	889,065
Sale of gasoline and diesel oil	(b)	6,370,666	4,797,825
Sale of petrochemical products	(b)	5,781,711	4,027,540
Railway transport and water treatment services	(b)	17,093	14,950
Lease of machinery and equipment	(c)	15,650	13,867
Production safety insurance fund	(d)	16,576	16,475
<b>CNPC Group Companies</b>			
Interest income	(e)	205	81
Purchase of materials	(f)	4,883	35,763
<b>JCGC (a fellow subsidiary) Group Companies</b>			
Sale of products	(g)	803,708	688,092
Examination and maintenance services	(h)	1,552	2,429
Construction of fixed assets	(i)	6,406	65,294
Purchase of production materials and spare parts	(j)	55,903	46,101
Welfare and supporting services	(k)	42,450	146,837
Operating lease rentals on land and property	(l)	3,200	4,320
<b>An associated company</b>			
Sale of products	(m)	106,970	45,603
Purchase of production materials	(n)	13,101	17,031
<b>Other state-controlled banks and enterprises</b>			
Interest income	(o)	618	504
Sale of products	(p)	704,383	529,564
Purchase of crude oil	(q)	2,432,110	1,195,862
Purchase of production materials	(q)	618,769	421,838

## 16. RELATED PARTY TRANSACTIONS (Continued)

- (a) Represents purchase of crude oil, naphtha, benzene, etc.
- (b) Represents sale of diesel oil, gasoline and petrochemical goods, such as ethylene, propylene, etc and provide railway transport and water treatment services.
- (c) Represents rentals for operating lease on property, plant and equipment.
- (d) 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 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 interest income for deposits from CP Finance.
- (f) Represents purchase of materials and spare parts.
- (g) Represents sale of refinery products, chemical products, etc.
- (h) Represents processing fee for semi-finished products.
- (i) Represents construction fee of property, plant and equipment.
- (j) Represents purchase of spare parts, low value consumables etc.
- (k) Represents fees for welfare and support services.
- (l) Represents rentals for operating lease on land and buildings.
- (m) Represents sale of chemical products, etc.
- (n) Represents purchase of materials and spare parts.
- (o) Represents interest income for deposits from other state-controlled banks.
- (p) Represents sale of refinery products, chemical products, etc.
- (q) Represents purchase of crude oil, materials and spare parts, etc.

## 16. RELATED PARTY TRANSACTIONS (Continued)

Loan from related parties	Six months ended 30th June,	
	2005 RMB	2004 RMB
<b>CNPC Group Companies</b>		
Principal		
Beginning of the period	2,874,330	4,791,900
Loan received during the period	2,861,390	4,438,120
Loan repayments paid	(4,760,600)	(5,031,550)
End of the period	<u>975,120</u>	<u>4,198,470</u>
Interest expenses		
Beginning of the period	-	-
Interest charged during the period	58,392	117,735
Interest paid	(58,392)	(117,735)
End of the period	<u>-</u>	<u>-</u>
<b>JCGC (a fellow subsidiary) Group Companies</b>		
Principal		
Beginning of the period	333,209	441,726
Loan repayments paid	(70,600)	(61,434)
End of the period	<u>262,609</u>	<u>380,292</u>
Interest expenses		
Beginning of the period	14,731	14,503
Interest charged during the period	12,835	12,373
Interest paid	(10,346)	(12,475)
End of the period	<u>17,220</u>	<u>14,401</u>
<b>State-controlled Banks</b>		
Principal		
Beginning of the period	774,551	1,276,271
Loan received during the period	-	416,307
Loan repayments paid	(23,717)	(881,382)
End of the period	<u>750,834</u>	<u>811,196</u>
Interest expenses		
Beginning of the period	11,319	39,225
Interest charged during the period	23,624	22,826
Interest paid	(17,395)	(52,619)
End of the period	<u>17,548</u>	<u>9,432</u>

## 16. RELATED PARTY TRANSACTIONS (Continued)

Key management compensation	Six months ended 30th June,	
	2005	2004
	RMB	RMB
Fee for key management personnel	40	40
Salaries, allowance and other benefits	325	280
Contribution to retirement benefit scheme	22	23
	<hr/>	<hr/>
	387	343
	<hr/> <hr/>	<hr/> <hr/>

## UNAUDITED BALANCE SHEETS (PREPARED UNDER PRC GAAP)

AS AT 30TH JUNE, 2005

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

	30th June, 2005 Group (Unaudited)	31st December, 2004 Group (Audited)	30th June, 2005 Company (Unaudited)	31st December, 2004 Company (Audited)
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and bank (Note V-1)	40,300,488	14,629,219	36,259,808	11,819,321
Short-term investments	–	–	–	–
Notes receivable (Note V-2)	1,971,000	10,545,237	1,911,000	9,456,637
Dividend receivable	–	–	–	–
Interest receivable	–	–	–	–
Accounts receivable (Note V-3)	315,860,595	254,700,444	385,279,727	322,568,028
Other receivables (Note V-4)	33,799,957	45,075,155	7,494,684	19,094,936
Advances to suppliers (Note V-5)	354,036,608	376,959,411	352,314,863	376,874,901
Subsidy receivable	–	–	–	–
Inventories (Note V-6)	1,449,953,644	2,606,053,383	1,406,094,241	2,566,518,007
Prepaid expenses (Note V-7)	2,624,089	19,856,484	1,972,175	19,474,862
Long-term bond investments maturing within one year	–	–	–	–
Other current assets	–	–	–	–
<b>Total current assets</b>	<b>2,198,546,381</b>	<b>3,327,819,333</b>	<b>2,191,326,498</b>	<b>3,325,806,692</b>
<b>LONG-TERM INVESTMENTS</b>				
Long-term equity investments (Note V-8)	86,536,435	99,139,594	165,156,303	169,469,728
Long-term bond investments	–	–	–	–
<b>Total long-term investments</b>	<b>86,536,435</b>	<b>99,139,594</b>	<b>165,156,303</b>	<b>169,469,728</b>
Including: Consolidation difference	–	–	–	–
<b>FIXED ASSETS</b>				
Fixed assets – cost	16,228,024,899	16,196,975,563	15,847,825,984	15,822,513,692
Less: Accumulated depreciation	(7,189,153,350)	(6,719,916,853)	(7,003,001,894)	(6,545,147,557)
Fixed assets – net book value	9,038,871,549	9,477,058,710	8,844,824,090	9,277,366,135
Less: Impairment of fixed assets	(282,023,248)	(282,023,248)	(269,931,112)	(269,931,112)
Fixed assets – net book amount (Note V-9)	8,756,848,301	9,195,035,462	8,574,892,978	9,007,435,023
Construction materials	2,833,640	2,837,473	2,833,640	2,837,473
Construction in progress (Note V-10)	64,217,179	42,555,665	64,217,179	42,555,665
Fixed assets pending disposal	–	–	–	–
<b>Total fixed assets</b>	<b>8,823,899,120</b>	<b>9,240,428,600</b>	<b>8,641,943,797</b>	<b>9,052,828,161</b>
<b>INTANGIBLE AND OTHER ASSETS</b>				
Intangible assets (Note V-11)	1,290,637,730	1,345,139,741	1,289,126,149	1,343,581,225
Long-term deferred expenses (Note V-12)	53,866,319	64,648,462	53,866,319	64,648,462
Other long-term assets	–	–	–	–
<b>Total intangible and other assets</b>	<b>1,344,504,049</b>	<b>1,409,788,203</b>	<b>1,342,992,468</b>	<b>1,408,229,687</b>
<b>DEFERRED TAXES</b>				
Deferred tax assets (Note V-13)	264,388,153	315,580,641	264,388,153	315,580,641
<b>TOTAL ASSETS</b>	<b>12,717,874,138</b>	<b>14,392,756,371</b>	<b>12,605,807,219</b>	<b>14,271,914,909</b>

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

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

AS AT 30TH JUNE, 2005

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

	30th June, 2005 Group (Unaudited)	31st December, 2004 Group (Audited)	30th June, 2005 Company (Unaudited)	31st December, 2004 Company (Audited)
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note V-14)	1,019,760,000	2,918,970,000	975,120,000	2,874,330,000
Notes payable	-	-	-	-
Accounts payable (Note V-15)	2,409,675,322	1,891,153,893	2,403,450,986	1,864,805,946
Advances from customers (Note V-15)	1,711,754,822	2,137,105,902	1,704,000,340	2,119,941,248
Salaries payable	128,491,679	139,240,168	123,976,408	139,183,607
Welfare payable	66,078,191	57,854,011	53,914,480	48,261,501
Dividend payable	-	-	-	-
Taxes payable (Note V-16)	181,876,402	154,334,897	178,690,849	150,912,286
Other levies payable	-	-	-	-
Other payables (Note V-15)	135,460,655	137,027,193	127,048,196	131,685,926
Accrued expenses (Note V-17)	97,622,539	26,049,897	93,221,680	26,049,897
Provisions	-	-	-	-
Long-term liabilities due within one year (Note V-18)	248,452,372	167,105,430	248,452,372	167,105,430
Other current liabilities	-	-	-	-
<b>Total current liabilities</b>	<b>5,999,171,982</b>	<b>7,628,841,391</b>	<b>5,907,875,311</b>	<b>7,522,275,841</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note V-19)	580,557,049	682,499,114	580,557,049	682,499,114
Debentures payable	-	-	-	-
Payables due after one year	-	-	-	-
Special project payables	-	-	-	-
Other long-term liabilities (Note V-20)	139,793,880	213,515,526	139,793,880	213,515,526
<b>Total long-term liabilities</b>	<b>720,350,929</b>	<b>896,014,640</b>	<b>720,350,929</b>	<b>896,014,640</b>
<b>DEFERRED TAXES</b>				
Deferred tax liabilities	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>6,719,522,911</b>	<b>8,524,856,031</b>	<b>6,628,226,240</b>	<b>8,418,290,481</b>
<b>MINORITY INTERESTS</b>				
	20,770,248	14,275,912	-	-
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (Note V-21)	3,561,078,000	3,561,078,000	3,561,078,000	3,561,078,000
Capital surplus (Note V-22)	2,293,618,886	2,293,618,886	2,293,618,886	2,293,618,886
Statutory common reserve fund (Note V-23)	701,442,717	701,442,717	693,730,248	693,730,248
Including: Statutory common welfare fund	126,834,279	126,834,279	125,287,623	125,287,623
Accumulated losses (Note V-24)	(578,558,624)	(702,515,175)	(570,846,155)	(694,802,706)
Foreign exchange difference reserve	-	-	-	-
<b>Total shareholders' equity</b>	<b>5,977,580,979</b>	<b>5,853,624,428</b>	<b>5,977,580,979</b>	<b>5,853,624,428</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>12,717,874,138</b>	<b>14,392,756,371</b>	<b>12,605,807,219</b>	<b>14,271,914,909</b>

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	Zhang Xing Fu	Zhang Li Yan	Wang Chun Xia



## UNAUDITED PROFIT AND LOSS ACCOUNTS (PREPARED UNDER PRC GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

Items	2005 (1-6) Group (Unaudited)	2004 (1-6) Group (Unaudited)	2005 (1-6) Company (Unaudited)	2004 (1-6) Company (Unaudited)
<b>1. SALES REVENUE (Note V-25)</b>	<b>16,122,195,208</b>	12,556,716,553	<b>16,055,223,686</b>	12,545,541,890
Less: Cost of sales (Note V-26)	(15,123,412,908)	(10,955,477,471)	(15,088,226,705)	(10,921,200,679)
Sales tax and other levies (Note V-27)	(409,040,843)	(366,365,066)	(409,040,843)	(366,365,066)
<b>2. GROSS PROFIT ON SALES</b>	<b>589,741,457</b>	1,234,874,016	<b>557,956,138</b>	1,257,976,145
Add: Other operating loss (Note V-28)	(57,733,155)	(39,597,041)	(63,101,688)	(44,951,883)
Less: Selling expenses	(8,616,914)	(16,076,225)	(8,614,199)	(16,069,181)
General and administrative expenses	(267,196,723)	(382,719,213)	(245,913,469)	(371,398,599)
Financial expenses, net (Note V-29)	(81,922,594)	(149,332,739)	(80,792,863)	(146,361,685)
<b>3. OPERATING PROFIT</b>	<b>174,272,071</b>	647,148,798	<b>159,533,919</b>	679,194,797
Add: Investment income/(loss) (Note V-30)	11,396,841	13,563,392	19,686,575	(7,847,024)
Subsidy income	2,683,084	–	2,683,084	–
Non-operating income	7,209,537	1,693,881	7,163,619	1,665,763
Less: Non-operating expenses (Note V-31)	(13,918,158)	(70,103,725)	(13,918,158)	(67,925,609)
<b>4. TOTAL PROFIT</b>	<b>181,643,375</b>	592,302,346	<b>175,149,039</b>	605,087,927
Less: Income tax	(51,192,488)	–	(51,192,488)	–
Minority interests	(6,494,336)	12,785,581	–	–
<b>5. NET PROFIT</b>	<b>123,956,551</b>	605,087,927	<b>123,956,551</b>	605,087,927

## Supplementary Information

	2005 (1-6)		2004 (1-6)	
	Group (Unaudited)	Company (Unaudited)	Group (Unaudited)	Company (Unaudited)
1. Income from sale and disposal of departments or investees	–	–	–	–
2. Loss from natural catastrophe	–	–	–	–
3. Increase in total profit resulting from change in accounting policies	–	–	–	–
4. Increase in total profit resulting from change in accounting estimates	–	–	–	–
5. Loss from debt restructuring	–	–	–	–
6. Other	–	–	–	–

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
<b>Yu Li</b>	<b>Zhang Xing Fu</b>	<b>Zhang Li Yan</b>	<b>Wang Chun Xia</b>

UNAUDITED PROFIT APPROPRIATION STATEMENTS (PREPARED UNDER PRC GAAP)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

Items	2005 (1-6) Group (Unaudited)	2004 (1-6) Group (Unaudited)	2005 (1-6) Company (Unaudited)	2004 (1-6) Company (Unaudited)
<b>1. NET PROFIT</b>	<b>123,956,551</b>	605,087,927	<b>123,956,551</b>	605,087,927
Add: Accumulated losses at the beginning of the period	(702,515,175)	(3,276,275,225)	(694,802,706)	(3,268,562,756)
Transfer from other sources	—	—	—	—
<b>2. ACCUMULATED LOSSES</b>	<b>(578,558,624)</b>	(2,671,187,298)	<b>(570,846,155)</b>	(2,663,474,829)
Less: Transfer to statutory common reserve fund	—	—	—	—
Transfer to statutory common welfare fund	—	—	—	—
Transfer to staff and workers' bonus and welfare fund	—	—	—	—
<b>3. ACCUMULATED LOSSES</b>	<b>(578,558,624)</b>	(2,671,187,298)	<b>(570,846,155)</b>	(2,663,474,829)
Less: Dividend for preference stocks	—	—	—	—
Transfer to discretionary common reserve fund	—	—	—	—
Dividend for common stocks	—	—	—	—
Dividend for common stocks transferred to capital	—	—	—	—
<b>4. ACCUMULATED LOSSES AT THE END OF THE PERIOD</b>	<b><u>(578,558,624)</u></b>	<u>(2,671,187,298)</u>	<b><u>(570,846,155)</u></b>	<u>(2,663,474,829)</u>

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	Zhang Xing Fu	Zhang Li Yan	Wang Chun Xia

## UNAUDITED CASH FLOW STATEMENTS (PREPARED UNDER PRC GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

Items	2005 (1-6) Group (Unaudited)	2004 (1-6) Group (Unaudited)	2005 (1-6) Company (Unaudited)	2004 (1-6) Company (Unaudited)
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services	18,577,643,853	13,575,335,485	18,433,571,643	13,484,432,032
Refund of tax	9,674,715	–	9,674,715	–
Cash received relating to other operating activities	2,919,221	763,975	2,585,083	2,301,971
<b>Sub-total of cash inflows</b>	<b>18,590,237,789</b>	<b>13,576,099,460</b>	<b>18,445,831,441</b>	<b>13,486,734,003</b>
Cash paid for goods and services	(15,050,303,981)	(10,782,067,240)	(14,974,325,328)	(10,730,760,826)
Cash paid to and on behalf of employees	(386,424,308)	(235,213,677)	(349,288,007)	(206,644,741)
Payment of all types of taxes	(971,247,853)	(999,288,984)	(953,334,584)	(994,857,894)
Cash paid relating to other operating activities	(36,504,484)	(80,777,794)	(31,508,819)	(75,840,348)
<b>Sub-total of cash outflows</b>	<b>(16,444,480,626)</b>	<b>(12,097,347,695)</b>	<b>(16,308,456,738)</b>	<b>(12,008,103,809)</b>
<b>Net cash flows from operating activities</b>	<b>2,145,757,163</b>	<b>1,478,751,765</b>	<b>2,137,374,703</b>	<b>1,478,630,194</b>
<b>2. Cash flows from investing activities</b>				
Cash received from sale of investments	–	–	–	–
Cash received from return of investments	24,000,000	–	24,000,000	–
Net cash received from disposal of fixed assets	5,113,098	1,514,731	5,113,098	1,514,731
Cash received relating to other investing activities	–	–	–	–
<b>Sub-total of cash inflows</b>	<b>29,113,098</b>	<b>1,514,731</b>	<b>29,113,098</b>	<b>1,514,731</b>
Cash paid to acquire fixed assets and other long-term assets	(69,538,730)	(196,718,328)	(63,801,686)	(195,192,189)
Cash paid to acquire investments	–	–	–	–
Cash paid relating to other investing activities	–	–	–	–
<b>Sub-total of cash outflows</b>	<b>(69,538,730)</b>	<b>(196,718,328)</b>	<b>(63,801,686)</b>	<b>(195,192,189)</b>
<b>Net cash flows from investing activities</b>	<b>(40,425,632)</b>	<b>(195,203,597)</b>	<b>(34,688,588)</b>	<b>(193,677,458)</b>

UNAUDITED CASH FLOW STATEMENTS (PREPARED UNDER PRC GAAP) (Continued)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

Items	2005 (1-6) Group (Unaudited)	2004 (1-6) Group (Unaudited)	2005 (1-6) Company (Unaudited)	2004 (1-6) Company (Unaudited)
<b>3. Cash flows from financing activities</b>				
Proceeds from issuing shares	–	–	–	–
Including: Cash received from minority shareholders	–	–	–	–
Proceeds from borrowings	2,861,390,000	4,854,427,269	2,861,390,000	4,854,427,269
Cash received relating to other financing activities	–	–	–	–
<b>Sub-total of cash inflows</b>	<b>2,861,390,000</b>	<b>4,854,427,269</b>	<b>2,861,390,000</b>	<b>4,854,427,269</b>
Repayment of borrowings	(4,854,916,769)	(5,974,366,833)	(4,854,916,769)	(5,974,366,833)
Cash paid for interest expense and distribution of dividends	(86,133,493)	(182,829,135)	(84,718,859)	(181,429,548)
Including: Dividends paid to minority shareholders	–	–	–	–
Cash paid relating to other financing activities	–	–	–	–
Including: Cash paid to minority shareholders due to reduction of capital of subsidiaries	–	–	–	–
<b>Sub-total of cash outflows</b>	<b>(4,941,050,262)</b>	<b>(6,157,195,968)</b>	<b>(4,939,635,628)</b>	<b>(6,155,796,381)</b>
<b>Net cash flows from financing activities</b>	<b>(2,079,660,262)</b>	<b>(1,302,768,699)</b>	<b>(2,078,245,628)</b>	<b>(1,301,369,112)</b>
<b>4. Effect of foreign exchange rate changes on cash</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	<b>25,671,269</b>	<b>(19,220,531)</b>	<b>24,440,487</b>	<b>(16,416,376)</b>

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	Zhang Xing Fu	Zhang Li Yan	Wang Chun Xia

UNAUDITED CASH FLOW STATEMENTS (PREPARED UNDER PRC GAAP) (Continued)  
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

Supplementary Information

Items	2005 (1-6) Group (Unaudited)	2004 (1-6) Group (Unaudited)	2005 (1-6) Company (Unaudited)	2004 (1-6) Company (Unaudited)
<b>1. Reconciliation of net profit to cash flows from operating activities</b>				
Net profit	123,956,551	605,087,927	123,956,551	605,087,927
Add: Minority interests	6,494,336	(12,785,581)	-	-
(Reversal)/provision for impairment of assets	(900,104)	128,214,613	(900,104)	127,551,812
Depreciation of fixed assets	470,407,433	454,768,739	459,025,273	443,626,779
Amortization of intangible assets	54,502,011	67,208,626	54,455,076	67,158,685
Amortization of long-term deferred expenses	17,001,633	42,225,822	17,001,633	42,225,822
Decrease/(increase) in prepaid expenses	17,232,395	(4,276,743)	17,502,687	(4,292,406)
Increase in accrued expenses	62,855,438	263,075,625	58,454,579	259,935,408
Gain on disposal of fixed assets	(5,113,098)	(1,514,731)	(5,113,098)	(1,514,731)
Loss on scrapping of fixed assets	474,816	35,672,355	474,816	33,737,001
Financial expenses	94,850,697	152,933,553	93,436,063	151,533,966
Investment (income)/loss	(11,396,841)	(13,563,392)	(19,686,575)	7,847,024
Deferred tax credit	51,192,488	-	51,192,488	-
Decrease/(increase) in inventories	1,156,099,739	(7,391,193)	1,160,423,766	12,668,078
Increase in operating receivables	(12,841,338)	(217,013,842)	(13,459,197)	(229,303,010)
Increase/(decrease) in operating payables	120,941,007	(13,890,013)	140,610,745	(37,632,161)
<b>Net cash flows from operating activities</b>	<b>2,145,757,163</b>	<b>1,478,751,765</b>	<b>2,137,374,703</b>	<b>1,478,630,194</b>
<b>2. Investing and financing activities that do not involve cash receipts and payments</b>				
Purchase of fixed assets	-	-	-	-
Convertible bonds maturing within one year	-	-	-	-
Finance lease of fixed assets	-	-	-	-
<b>3. Net increase/(decrease) in cash and cash equivalents</b>				
Cash at the end of the period	40,300,488	16,278,288	36,259,808	14,258,692
Less: Cash at the beginning of the period	(14,629,219)	(35,498,819)	(11,819,321)	(30,675,068)
Cash equivalents at the end of the period	-	-	-	-
Less: Cash equivalents at the beginning of the period	-	-	-	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>25,671,269</b>	<b>(19,220,531)</b>	<b>24,440,487</b>	<b>(16,416,376)</b>

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

Legal representative:	General manager:	Person in charge of accounting function:	Person in charge of accounting department:
Yu Li	Zhang Xing Fu	Zhang Li Yan	Wang Chun Xia

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

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

#### I. CORPORATE INFORMATION

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

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

As a state-owned enterprise, JCGC was originally controlled and administered by Jilin provincial government, as well as supervised by the National Administration of Petroleum and Chemical Industries. According to the restructuring regulations promulgated by the State Council of the PRC, JCGC, together with certain oil fields and oil distribution companies, became wholly-owned subsidiaries of China National Petroleum Corporation (“CNPC”) since 1st July, 1998. Therefore, CNPC becomes the ultimate holding company of the Company through its control over JCGC. Since then, the Company has been receiving continuing support from CNPC for its working capital requirements. At the date of this report, China Petroleum Finance Company Limited (“CP Finance”), subsidiary of CNPC, has agreed to provide credit facilities of RMB8 billion to the Company (see Note V 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 5th November, 1999. Accordingly, PetroChina becomes the Company’s immediate holding company.

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

##### 1. Basis of preparation of the financial statements

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and the “Accounting System for Business Enterprises” as promulgated by the People’s Republic of China.

##### 2. Accounting period

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

##### 3. Reporting currency

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

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

### 4. Basis of accounting

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

### 5. Foreign currency transactions

Transactions denominated in foreign currencies are translated into RMB at the exchange rates stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates stipulated by the People's Bank of China at the balance sheet date. Exchange differences arising from these translations are expensed, except for those relating to funds borrowed to finance the acquisition of fixed assets during the construction period which have been capitalized.

### 6. Cash and cash equivalents

For the purposes of the cash flow statements, cash refers to all cash on hand and call deposits. Cash equivalents refer to short-term and highly-liquid investments (with original maturities of 3 months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statements, restricted bank balances, including time deposits with maturities in excess of three months, or deposits that have been placed as collateral with banks, are not included as cash and cash equivalents in the cash flow statements.

### 7. Receivables and provision for bad debts

Receivables refer to accounts receivable and other receivables. Provision for bad debts is made for possible bad debt losses using the "allowance method". Accounts receivable are presented at actual amounts net of provision for bad debts.

#### (a) Accounts receivables

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

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

#### (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 (Continued)

### 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.

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

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



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

### 9. Long-term investments (Continued)

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 1st January 2001, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalized as part of the building costs within fixed assets.

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

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

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

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings	10 to 45 years	3%	2.16 – 9.70%
Plant and machinery	10 to 28 years	3%	3.46 – 9.70%
Equipment	8 to 28 years	3%	3.46 – 12.13%
Motor vehicles	12 years	3%	8.08%

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

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

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

### 10. Fixed assets and depreciation (Continued)

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.

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

Technical know-how represents the purchased cost of technical know-how relating to certain production facilities. The costs of know-how are included as part of the total contract price of the construction contract and are distinguishable. They are amortized using the straight-line method over the estimated useful life starting from the date when the underlying facilities are completed and ready for their intended use.

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.

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

### 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.

### 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.

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

### 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.

### 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.

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

### 20. Basis of consolidation (Continued)

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 subject to income tax at 33% from 2004.

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%. From 2005, Songmei is subject to income tax at 33%.

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 and 2005.

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

## IV. MAJOR SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

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

(i) Xinghua has ceased its production and started liquidation in 2000 as it incurred substantial losses and had a negative equity. 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. For the six months ended 30th June, 2005, as the amounts of revenue and total profit for the period and total assets as at 30th June, 2005 of BASF are less than 10% of the respective amounts of the Company, the financial statements of BASF are not consolidated and are accounted for using the equity method of accounting in accordance with circular (1996) No. 2 "Comments on the Consolidation Scope for the Purpose of Consolidated Financial Statements".

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Cash and bank

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Cash on hand	17,900	6,486
Cash in bank	40,282,588	14,622,733
	<u>40,300,488</u>	<u>14,629,219</u>

Cash held in foreign currencies at 30th June, 2005 is as follows:

Currency	Amount	Exchange rate	RMB equivalent
USD	103,311	8.2765	855,053

## 2. Notes receivable

Notes receivable represent bank acceptance notes generated from sales transactions. At 30th June, 2005, no notes receivable were pledged (31st December, 2004: nil).

## 3. Accounts receivable

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Accounts receivable	956,420,073	896,142,211
Less: Specific provision	(640,559,478)	(641,441,767)
	<u>315,860,595</u>	<u>254,700,444</u>

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

	30th June, 2005 (Unaudited)			31st December, 2004 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	287,222,470	30	-	211,529,663	24	-
1-2 years	-	0	-	2,042,308	0	-
2-3 years	2,042,308	0	-	298,777	0	(298,777)
More than 3 years	667,155,295	70	(640,559,478)	682,271,463	76	(641,142,990)
	<u>956,420,073</u>	<u>100</u>	<u>(640,559,478)</u>	<u>896,142,211</u>	<u>100</u>	<u>(641,441,767)</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Accounts receivable (Continued)

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII (g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At 30th June, 2005, the total balance of the five largest accounts receivable was RMB431,347,833, representing 45% of the total accounts receivable balance.
- (d) The Group's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at period end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At 30th June, 2005, accounts receivable aged over 3 years mainly comprise receivables due from third party debtors of RMB17.25 million (31st December, 2004: RMB27.5 million) and JCGC of RMB9.35 million (31st December, 2004: RMB13.63 million) respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at 30th June, 2005, management considers that there has been no change in the assessment results from prior years as these debtors are under stable operation status, have good historical repayment records and have complied with the debt repayment schedules as agreed with the Group. Accordingly, no provision is necessary.

### 4. Other receivables

	<b>30th June, 2005 RMB (Unaudited)</b>	31st December, 2004 RMB (Audited)
Other receivables	<b>107,163,428</b>	118,456,441
Less: Specific provision	<b>(73,363,471)</b>	(73,381,286)
	<b><u>33,799,957</u></b>	<u>45,075,155</u>

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

	30th June, 2005 (Unaudited)			31st December, 2004 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	7,042,904	6	-	24,807,982	21	-
1-2 years	6,472,065	6	-	837,310	0	(127,602)
2-3 years	837,310	1	(127,602)	1,154,676	0	(163,607)
More than 3 years	92,811,149	87	(73,235,869)	91,656,473	79	(73,090,077)
	<b><u>107,163,428</u></b>	<b><u>100</u></b>	<b><u>(73,363,471)</u></b>	<b><u>118,456,441</u></b>	<b><u>100</u></b>	<b><u>(73,381,286)</u></b>

- (b) There are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in other receivables.
- (c) At 30th June, 2005, the total balance of the five largest other receivables was RMB50,000,792, representing 47% of the total other receivables balance.



## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. Advances to suppliers

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

	30th June, 2005 (Unaudited)		31st December, 2004 (Audited)	
	Balance	%	Balance	%
Ageing:				
Within 1 year	336,831,818	95	361,188,190	95
1-2 years	1,652,240	1	7,984,731	3
2-3 years	8,325,568	2	1,918,666	0
More than 3 years	7,226,982	2	5,867,824	2
	<u>354,036,608</u>	<u>100</u>	<u>376,959,411</u>	<u>100</u>

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

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

## 6. Inventories

	31st December, 2004 (Audited)			30th June, 2005 (Unaudited)
Cost:				
Raw materials	1,294,876,600			578,056,228
Work in progress	692,320,089			530,900,953
Finished goods	460,687,071			135,892,654
Spare parts	406,903,650			449,000,023
Low value consumables and packing materials	7,563,052			12,400,865
	<u>2,862,350,462</u>			<u>1,706,250,723</u>
		<b>Additions</b> (Unaudited)	<b>Deductions</b> (Unaudited)	
Provision for diminution in value of inventories:				
Raw materials	(70,820,662)	—	—	(70,820,662)
Work in progress	(5,643,854)	—	—	(5,643,854)
Finished goods	(16,210,129)	—	—	(16,210,129)
Spare parts	(163,262,401)	—	—	(163,262,401)
Low value consumables and packing materials	(360,033)	—	—	(360,033)
	<u>(256,297,079)</u>	<u>—</u>	<u>—</u>	<u>(256,297,079)</u>
	<u>2,606,053,383</u>			<u>1,449,953,644</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Prepaid expenses

	1st January, 2005 (Audited)	<b>Additions</b> (Unaudited)	<b>Amortization</b> (Unaudited)	<b>30th June, 2005 (Unaudited)</b>
Catalyst	14,692,609	9,022,513	(22,853,211)	<b>861,911</b>
Insurance premium	934,351	1,908,371	(1,148,977)	<b>1,693,745</b>
Other	4,229,524	12,093,895	(16,254,986)	<b>68,433</b>
	<u>19,856,484</u>	<u>23,024,779</u>	<u>(40,257,174)</u>	<u><b>2,624,089</b></u>

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

## 8. Long-term equity investments

	1st January, 2005 (Audited)	<b>Additions</b> (Unaudited)	<b>Deduction</b> (Unaudited)	<b>30th June, 2005 (Unaudited)</b>
Jointly controlled entity	89,834,909	8,443,125	(24,000,000)	<b>74,278,034</b>
Associated company	9,304,685	2,953,716	–	<b>12,258,401</b>
	<u>99,139,594</u>	<u>11,396,841</u>	<u>(24,000,000)</u>	<u><b>86,536,435</b></u>

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

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Long-term equity investments (Continued)

(a) Details of long-term investments:

Name of enterprise	Investment period	Percentage of equity held		Original investment			30th June, 2005 (Unaudited)
		1st January, 2005 (Audited) %	30th June, 2005 (Unaudited) %	1st January, 2005 (Audited)	Additions (Unaudited)	Decrease (Unaudited)	
<i>Unconsolidated subsidiary</i> Xinghua (Note IV (i))		-	-	-	-	-	-
<i>Jointly controlled entity</i> BASF	From 18th November, 1995	40	40	60,066,150	-	-	60,066,150
<i>Associated company</i> Lianli	22nd March, 2001 to 22nd March, 2006	47	47	20,042,147	-	-	20,042,147
				<u>80,108,297</u>	<u>-</u>	<u>-</u>	<u>80,108,297</u>

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

	1st January, 2005 book value (Audited)	Additional investment (Unaudited)	Reduction in investment (Unaudited)	Share of net profit (Unaudited)	Dividend received (Unaudited)	30th June, 2005 book value (Unaudited)
<i>Jointly controlled entity</i> BASF	89,834,909	-	-	8,443,125	(24,000,000)	74,278,034
<i>Associated company</i> Lianli	<u>9,304,685</u>	<u>-</u>	<u>-</u>	<u>2,953,716</u>	<u>-</u>	<u>12,258,401</u>
	<u>99,139,594</u>	<u>-</u>	<u>-</u>	<u>11,396,841</u>	<u>(24,000,000)</u>	<u>86,536,435</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. Fixed assets and accumulated depreciation

	Buildings	Plant and machinery	Equipment	Motor vehicles	Total
<b>Cost</b>					
Ist January, 2005 (Audited)	1,758,552,631	11,622,153,893	2,636,382,789	179,886,250	16,196,975,563
Transfer from CIP (Note V 10) (Unaudited)	900,023	22,990,409	6,748,750	2,534,748	33,173,930
Other additions (Unaudited)	2,430,089	–	–	287,540	2,717,629
Reclassifications (Unaudited)	28,184,761	(26,316,528)	(1,868,233)	–	–
Disposals (Unaudited)	–	(3,639,134)	(484,345)	(718,744)	(4,842,223)
<b>30th June, 2005 (Unaudited)</b>	<b>1,790,067,504</b>	<b>11,615,188,640</b>	<b>2,640,778,961</b>	<b>181,989,794</b>	<b>16,228,024,899</b>
<b>Accumulated depreciation</b>					
Ist January, 2005 (Audited)	722,644,107	3,989,998,260	1,904,382,191	102,892,295	6,719,916,853
Depreciation (Unaudited)	40,772,922	333,956,698	87,819,480	7,858,333	470,407,433
Disposals (Unaudited)	–	(288,901)	(370,779)	(511,256)	(1,170,936)
<b>30th June, 2005 (Unaudited)</b>	<b>763,417,029</b>	<b>4,323,666,057</b>	<b>1,991,830,892</b>	<b>110,239,372</b>	<b>7,189,153,350</b>
<b>Net book value</b>					
<b>30th June, 2005 (Unaudited)</b>	<b>1,026,650,475</b>	<b>7,291,522,583</b>	<b>648,948,069</b>	<b>71,750,422</b>	<b>9,038,871,549</b>
31st December, 2004 (Audited)	1,035,908,524	7,632,155,633	732,000,598	76,993,955	9,477,058,710
<b>Provision for Impairment</b>					
Ist January, 2005 (Audited) and 30th June, 2005 (Unaudited)	54,004,790	176,484,961	46,996,897	4,536,600	282,023,248
<b>Net book amount</b>					
<b>30th June, 2005 (Unaudited)</b>	<b>972,645,685</b>	<b>7,115,037,622</b>	<b>601,951,172</b>	<b>67,213,822</b>	<b>8,756,848,301</b>
31st December, 2004 (Audited)	981,903,734	7,455,670,672	685,003,701	72,457,355	9,195,035,462

As at 30th June, 2005, the cost of fully depreciated fixed assets still in use amounted to RMB594,276,933.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Construction in progress

Name of project	Budget (Unaudited)	1st January, 2005 (Audited)	Additions (Unaudited)	Transfer out to fixed assets (Unaudited)	Other transfer out (Unaudited)	30th June, 2005 (Unaudited)	Source of funds (Unaudited)	Total additions as a % of budget (Unaudited)
Improvement project for commutation project	19,998,000	16,276,011	–	–	(2,338,688)	<b>13,937,323</b>	Working capital	70%
Improvement project for F0301 boiler	25,000,000	–	22,543,492	(22,543,492)	–	–	Working capital	90%
Other (a)		33,499,735	34,630,640	(10,630,438)	–	<b>57,499,937</b>		
		49,775,746	57,174,132	(33,173,930)	(2,338,688)	<b>71,437,260</b>		
Less: Provision for construction in progress (b)		(7,220,081)	–	–	–	<b>(7,220,081)</b>		
		<u>42,555,665</u>				<u><b>64,217,179</b></u>		

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

(b) Certain construction in progress has been discontinued for a long period of time and is not expected to restart in the foreseeable future in 2004. Accordingly, an impairment provision was made against the construction in progress based on the excess of the carrying amount over the recoverable amount.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## II. Intangible assets

	Land use rights	Technical know-how	Total
<b>Cost</b>			
Ist January, 2005 (Audited)	1,149,201,148	924,504,667	2,073,705,815
Disposals (Unaudited)	—	(44,804,880)	(44,804,880)
<b>30th June, 2005 (Unaudited)</b>	<b>1,149,201,148</b>	<b>879,699,787</b>	<b>2,028,900,935</b>
<b>Accumulated amortization</b>			
Ist January, 2005 (Audited)	235,599,745	486,268,134	721,867,879
Amortization (Unaudited)	11,265,002	43,237,009	54,502,011
Disposals (Unaudited)	—	(44,804,880)	(44,804,880)
<b>30th June, 2005 (Unaudited)</b>	<b>246,864,747</b>	<b>484,700,263</b>	<b>731,565,010</b>
<b>Net book value</b>			
<b>30th June, 2005 (Unaudited)</b>	<b>902,336,401</b>	<b>394,999,524</b>	<b>1,297,335,925</b>
31st December, 2004 (Audited)	913,601,403	438,236,533	1,351,837,936
<b>Provision for Impairment</b>			
Ist January, 2005 (Audited) and 30th June, 2005 (Unaudited)	—	6,698,195	6,698,195
<b>Net book amount</b>			
<b>30th June, 2005 (Unaudited)</b>	<b>902,336,401</b>	<b>388,301,329</b>	<b>1,290,637,730</b>
31st December, 2004 (Audited)	913,601,403	431,538,338	1,345,139,741
Remaining years of amortization (Unaudited)	40-47 years	3-10 years	

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 12. Long-term deferred expenses

	Cost	Accumulated amortization	1st January, 2005	Additions	Amortization	30th June, 2005	Remaining years of amortization
	(Unaudited)	(Unaudited)	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Catalyst	283,211,846	229,345,527	64,648,462	6,219,490	(17,001,633)	53,866,319	1-5

The useful life for these catalysts is over 1 year.

## 13. Deferred tax assets

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Assets impairment provision and disposal loss (a)	427,510,818	435,203,118
Tax losses (b)	67,932,216	–
Accelerated depreciation and amortisation (c)	(231,054,881)	(119,622,477)
	<u>264,388,153</u>	<u>315,580,641</u>

- (a) At 31st December, 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. In the six months ended 30th June, 2005, deferred income tax assets of RMB8 million are realised for the depreciation of unapproved assets impairment.
- (b) At 30th June, 2005, the Company's deductible taxable loss amounted to RMB206 million. Deferred income tax assets of RMB68 million are recognised under the deferred tax method, as the Company believes that the realisation of the related taxable loss through taxable income in the near future is probable.
- (c) On 20th September, 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 1st July, 2004. As a result, timing differences of RMB338 million relating to the accelerated depreciation and amortization of fixed assets and intangible assets are derived as of 30th June, 2005, which resulted in a deferred tax liability and cumulative balance of RMB111 million and 231 million, respectively.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Short-term loans

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Guaranteed loans – RMB	44,640,000	44,640,000
Unsecured loans – RMB	975,120,000	2,874,330,000
	<u>1,019,760,000</u>	<u>2,918,970,000</u>

As at 30th June, 2005, guaranteed loans totalling RMB45 million were guaranteed by Jilin Merchandise Group, and the interest rate is ranging from 5.84% to 7.25% per annum.

Pursuant to the loan facility commitment letter of 19th July, 2005, CP Finance has confirmed to extend period of RMB8 billion credit facilities to the Company to 31st December, 2008. At 30th June, 2005, total borrowings from CP Finance amounted to RMB975 million, and the average interest rate is ranging from 4.776% to 5.019% 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 construction in progress, a portion of which was aged over 3 years, there were no balances included in other payables of which the age exceeded 3 years at the period end. There were no balances included in advances from customers of which the age exceeded 1 year at the period end.

### 16. Taxes payable

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Value added tax	20,467,192	(53,327,903)
Business tax	340,059	817,735
City construction and maintenance tax	5,313,327	1,457,548
Consumption tax	56,483,542	89,320,743
Income tax	97,523,461	113,079,160
Property tax	(330)	(13,044)
Other	1,749,151	3,000,658
	<u>181,876,402</u>	<u>154,334,897</u>



## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 17. Accrued expenses

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Repair and maintenance expenses	32,445,848	–
Public administration expenses	9,700,000	–
Interest expense on loans	34,767,101	26,049,897
Others	20,709,590	–
	<u>97,622,539</u>	<u>26,049,897</u>

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

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Long-term loans due within one year (Note V 19)		
Guaranteed loans – USD	122,554,833	44,329,941
Unsecured loans – USD	3,082,023	3,082,023
	<u>125,636,856</u>	<u>47,411,964</u>
Other long-term liabilities due within one year (Note V 20)		
Guaranteed loans – USD	46,282,644	46,282,726
– JPY	51,245,042	54,349,108
– EUR	25,287,830	19,061,632
	<u>122,815,516</u>	<u>119,693,466</u>
	<u>248,452,372</u>	<u>167,105,430</u>

## 19. Long-term loans

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Guaranteed loans	508,129,510	608,530,564
Unsecured loans	72,427,539	73,968,550
	<u>580,557,049</u>	<u>682,499,114</u>

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 19. Long-term loans (Continued)

Name of lender	Balance at 30th June, 2005 (Unaudited)	Currency	Foreign currency amount	Exchange rate	Interest rate %	Due date	Conditions
Construction Bank of China, Jilin Branch	121,248,656	USD	14,649,750	8.2765	8.66	30th September, 2009	Guaranteed by JCGC
Construction Bank of China, Jilin Branch (a)	95,610,687	USD	11,552,068	8.2765	8.42	31st July, 2010	Guaranteed by JCGC
Bank of China, Changchun sub-branch	75,509,562	USD	9,123,369	8.2765	–	29th September, 2029	Unsecured
Bank of China, Jilin Branch	413,825,000	USD	50,000,000	8.2765	LIBOR +60bps	14th March, 2007	Guaranteed by PetroChina
	<b>706,193,905</b>						
Current portion of long-term loans (Note V 18)	<b>(125,636,856)</b>						
	<b>580,557,049</b>						

(a) The Company has decided to fully repay the long-term loans in advance in the second half year of 2005. As a result, the Company recorded the full amount in current portion of long-term loans at 30th June, 2005.

## 20. Other long-term liabilities

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

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)	Interest rate per annum
Payables to JCGC – Ethylene Project loans	262,609,396	333,208,992	4.1%-8.3%
Other long-term liabilities due within one year (Note V 18)	(122,815,516)	(119,693,466)	
	<b>139,793,880</b>	<b>213,515,526</b>	

As at 30 June 2005, the payables to JCGC of RMB262,609,396(2004: RMB333,208,992) are bank loans borrowed through JCGC and Guaranteed by PetroChina.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 20. Other long-term liabilities (Continued)

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

	30th June, 2005 (Unaudited)		31st December, 2004 (Audited)	
	Original currency	RMB equivalent	Original currency	RMB equivalent
US Dollar	13,797,880	114,207,308	16,593,913	137,339,517
Japanese Yen	1,638,268,750	123,114,258	1,979,225,000	157,746,212
Euro	2,538,684	25,287,830	3,384,913	38,123,263
		<u>262,609,396</u>		<u>333,208,992</u>

## 21. Share capital

	30th June, 2005 (Unaudited) (Shares in thousand)	31st December, 2004 (Audited) (Shares in thousand)
Non-listed shares:		
– State-owned shares	<u>2,396,300</u>	<u>2,396,300</u>
Listed shares:		
– H shares and ADSs	<u>964,778</u>	<u>964,778</u>
– A shares	<u>200,000</u>	<u>200,000</u>
	<u>1,164,778</u>	<u>1,164,778</u>
Total	<u>3,561,078</u>	<u>3,561,078</u>
Total share capital (RMB)	<u>3,561,078,000</u>	<u>3,561,078,000</u>

- (a) The Company issued 893,027,000 shares, with a par value of RMB1.00 each, in overseas stock exchanges on 23rd May, 1995, of which 89,302,700 shares were H shares and 8,037,243 shares were American Depository Shares (“ADSs”) (1 ADS = 100 H shares). The issue prices for the H shares and ADSs were HK\$ 1.589 per H share and US\$ 20.75 per ADS, respectively.
- (b) The Company issued 71,751,000 H shares, with a par value of RMB1.00 each, to overseas underwriters in the form of 717,510 ADSs on 17th June, 1995. The issue price was US\$20.75 per ADS. These ADSs were issued pursuant to the exercise of the over-allotment option by the underwriters in accordance with the underwriting agreement dated 23rd May, 1995.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 21. Share capital (Continued)

- (c) Pursuant to the approval of China Securities Regulatory Commission Zhengjianfazi 【1996】 No. 234, the Company issued 50,000,000 A shares, with a par value of RMB1.00 each, of which 30,000,000 shares were issued to the public at RMB3.5 per share and the remaining 20,000,000 shares were issued to the Company's employees at the same price. The 30,000,000 A shares issued to the public were traded on the Shenzhen Stock Exchange on 15th October, 1996 and the 20,000,000 A shares issued to the employees were traded on the Shenzhen Stock Exchange on 15th April, 1997.
- (d) Pursuant to a document issued by China Securities Regulatory Commission on 13th December, 1999, approval was granted to the Company to issue an additional 150,000,000 A shares with a par value of RMB1.00 each, of which 22,500,000 shares were issued to investment funds and the remaining 127,500,000 shares were issued to the Company's A shareholders at a ratio of 1:2.55 shares for each share held by such shareholders. The Company issued these shares in January 2000 at a price of RMB3.3 per share. The gross proceeds from the issue totalled RMB495,000,000; after deducting issue expenses, the net proceeds amounted to RMB485,520,000. The Company's total number of issued shares increased from 3,411,078,000 shares to 3,561,078,000 shares.

### 22. Capital surplus

	1st January, 2005 (Audited)	Additions (Unaudited)	Deduction (Unaudited)	30th June, 2005 (Unaudited)
Share premium	2,281,092,338	–	–	2,281,092,338
Reserve for non-cash donations received	8,408,898	–	–	8,408,898
Reserve for equity investments	4,106,100	–	–	4,106,100
Other	11,550	–	–	11,550
	<u>2,293,618,886</u>	<u>–</u>	<u>–</u>	<u>2,293,618,886</u>

### 23. Common reserve funds

	1st January, 2005 (Audited)	Additions (Unaudited)	Deduction (Unaudited)	30th June, 2005 (Unaudited)
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 (after netting off prior years' losses) to the statutory common reserve fund until the fund balance reaches 50% of the registered share capital after which the transfer may cease. Upon approval by the relevant authorities, this reserve can be used to make up losses or to increase share capital. Other than using the reserve to make up losses, the balance remaining after the use of this reserve to increase capital should not be less than 25% of the registered share capital.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23. Common reserve funds (Continued)

In addition, the Company is required to transfer 5% to 10% of each year's net profit (after netting off prior years' losses) to the statutory common welfare fund. This reserve can only be used for employees' collective welfare benefits and is not available for distribution to shareholders. When the funds from the statutory common welfare fund are utilized, the amount utilized is transferred from this fund to the discretionary common reserve fund. The amount utilized is either capitalized as assets or expensed.

The Board of Directors may propose, subject to the approval of the shareholders' general meeting, the transfer to the discretionary common reserve fund. Upon obtaining the relevant approvals, this reserve can be used to make up prior years' losses or to increase share capital.

### 24. Accumulated losses

	Six months ended 30th June, 2005	Six months ended 30th June, 2004
Accumulated losses at the beginning of the period (Audited)	(702,515,175)	(3,276,275,225)
Add: Net profit for the period (Unaudited)	<u>123,956,551</u>	<u>605,087,927</u>
Accumulated losses at the end of the period (Unaudited)	<u>(578,558,624)</u>	<u>(2,671,187,298)</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.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 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.

	<b>Six months ended 30th June, 2005 (Unaudited)</b>	Six months ended 30th June, 2004 (Unaudited)
Petroleum products	7,589,622,286	6,431,753,688
Petrochemical and organic chemical products	7,315,043,811	5,062,350,861
Synthetic rubber products	878,240,816	723,277,372
Chemical fertilizers and inorganic chemical products	339,288,295	339,334,632
	<u>16,122,195,208</u>	<u>12,556,716,553</u>

The sales to the five largest customers of the Group for the six months ended 30th June, 2005 amounted to RMB11,766,968,098, representing 73% of Group's total sales.

### 26. Cost of sales

	<b>Six months ended 30th June, 2005 (Unaudited)</b>	Six months ended 30th June, 2004 (Unaudited)
Petroleum products	8,519,812,965	6,132,236,068
Petrochemical and organic chemical products	5,544,427,085	3,925,907,186
Synthetic rubber products	706,814,460	508,238,015
Chemical fertilizers and inorganic chemical products	352,358,398	389,096,202
	<u>15,123,412,908</u>	<u>10,955,477,471</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 loss

Other operating loss mainly includes sales of material and utilities, repairment and transportation fee.

## V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 29. Financial expenses, net

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Interest expense	94,850,697	152,933,553
Less: Interest income	(822,782)	(584,825)
Exchange loss	28,754	3,828,755
Less: Exchange gain	(12,226,283)	(6,926,029)
Other	92,208	81,285
	<u>81,922,594</u>	<u>149,332,739</u>

## 30. Investment income

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Share of profit of a jointly controlled entity	8,443,125	12,558,430
Share of profit of an associated company	2,953,716	1,004,962
	<u>11,396,841</u>	<u>13,563,392</u>

## 31. Non-operating expenses

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Loss on temporary shutdown	12,269,275	6,045,532
Loss on disposal of fixed assets	474,816	35,672,355
Loss on impairment of construction in progress	-	19,814,260
Loss on impairment of intangible assets	-	6,698,195
Other	1,174,067	1,873,383
	<u>13,918,158</u>	<u>70,103,725</u>

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

## I. Accounts receivable

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Accounts receivable	<b>1,025,172,847</b>	963,343,437
Less: Specific provision	<b>(639,893,120)</b>	(640,775,409)
	<b><u>385,279,727</u></b>	<u>322,568,028</u>

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

	30th June, 2005 (Unaudited)			31st December, 2004 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	358,683,910	35	-	281,439,555	29	-
1-2 years	-	0	-	-	0	-
2-3 years	-	0	-	298,777	0	(298,777)
More than 3 years	666,488,937	65	(639,893,120)	681,605,105	71	(640,476,632)
	<b><u>1,025,172,847</u></b>	<b><u>100</u></b>	<b><u>(639,893,120)</u></b>	<b><u>963,343,437</u></b>	<b><u>100</u></b>	<b><u>(640,775,409)</u></b>

- (b) Except for the receivables due from PetroChina Group Companies as disclosed in Note VII(g), there are no balances due from shareholders who hold more than 5% (including 5%) of the shares of the Company included in accounts receivable.
- (c) At 30th June, 2005, the total balance of the five largest accounts receivable was RMB431,347,833, representing 42% of the total accounts receivable balance.
- (d) The Company's provisioning policy for doubtful debts is based on a detailed review of the collectibility of the receivable balances at year end. This provisioning policy and the basis for recognition of receivables have been consistently applied. At 30th June, 2005, accounts receivable aged over 3 years which have not been provided provision mainly comprise receivables due from third party debtors of RMB17.25 million (31st December, 2004: 27.5 million) and JCGC of RMB9.35 million (31st December, 2004: 13.63 million) respectively. Based on a detailed review of the collectibility of the above un-provided receivable balances at 30th June, 2005, 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.



## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

## 2. Other receivables

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Other receivables	80,858,155	92,476,222
Less: Specific provision	<u>(73,363,471)</u>	<u>(73,381,286)</u>
	<u>7,494,684</u>	<u>19,094,936</u>

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

	30th June, 2005 (Unaudited)			31st December, 2004 (Audited)		
	Balance	%	Provision for bad debts	Balance	%	Provision for bad debts
Ageing:						
Within 1 year	6,782,173	8	-	18,310,771	20	-
1-2 years	-	0	-	302,810	0	(127,602)
2-3 years	302,810	0	(127,602)	772,564	0	(163,607)
More than 3 years	73,773,172	92	(73,235,869)	73,090,077	80	(73,090,077)
	<u>80,858,155</u>	<u>100</u>	<u>(73,363,471)</u>	<u>92,476,222</u>	<u>100</u>	<u>(73,381,286)</u>

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

(c) As at 30th June, 2005, the total balance of the five largest other receivables was RMB25,873,532, representing 32% of the total other receivables balance.

## 3. Long-term equity investments

	1st January, 2005 (Audited)	Additions (Unaudited)	Decrease (Unaudited)	30th June, 2005 (Unaudited)
Subsidiaries (Note (1))	70,330,134	8,289,734	-	78,619,868
Jointly controlled entity (Note (2))	89,834,909	8,443,125	(24,000,000)	74,278,034
Associated company (Note (2))	9,304,685	2,953,716	-	12,258,401
	<u>169,469,728</u>	<u>19,686,575</u>	<u>(24,000,000)</u>	<u>165,156,303</u>

As at 30th June, 2005, total investment of the Company represents 3% of the net assets.

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

## 3. Long-term equity investments (Continued)

## (1) Subsidiaries

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

Name of enterprise	Investment period	Percentage of equity held		Original investment		
		1st January, 2005 (Audited) %	30th June, 2005 (Unaudited) %	1st January, 2005 (Audited)	Additions (Unaudited)	30th June, 2005 (Unaudited)
Winsway	7th August, 1995 to 6th August, 2005	70	70	36,154,000	–	36,154,000
Songmei	26th December, 1997 to 25th December, 2017	66	66	47,660,421	–	47,660,421
Jianxiu	12th February, 2001 to 12th February, 2008	99	99	44,537,759	–	44,537,759
Xinghua	21st February, 1991 to 20th February, 2011	75	75	19,250,000	–	19,250,000
				<u>147,602,180</u>	<u>–</u>	<u>147,602,180</u>

## (b) The movements of investments in subsidiaries accounted for using the equity method of accounting are as follows:

	1st January, 2005 book value (Audited)	Additional investment (Unaudited)	Share of net profit/(loss) (Unaudited)	Dividend received (Unaudited)	30th June, 2005 book value (Unaudited)
Winsway	36,740,580	–	(811,196)	–	35,929,384
Songmei	19,638,596	–	14,797,428	–	34,436,024
Jianxiu	13,950,958	–	(5,696,498)	–	8,254,460
Xinghua (Note IV (i))	–	–	–	–	–
	<u>70,330,134</u>	<u>–</u>	<u>8,289,734</u>	<u>–</u>	<u>78,619,868</u>

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

## VI. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

## 4. Sales revenue

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Petroleum products	7,589,622,286	6,431,753,688
Petrochemical and organic chemical products	7,248,072,289	5,051,176,198
Synthetic rubber products	878,240,816	723,277,372
Chemical fertilizers and inorganic chemical products	339,288,295	339,334,632
	<u>16,055,223,686</u>	<u>12,545,541,890</u>

## 5. Cost of sales

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Petroleum products	8,519,812,965	6,132,236,068
Petrochemical and organic chemical products	5,509,240,882	3,891,630,394
Synthetic rubber products	706,814,460	508,238,015
Chemical fertilizers and inorganic chemical products	352,358,398	389,096,202
	<u>15,088,226,705</u>	<u>10,921,200,679</u>

## 6. Investment income/(loss)

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
Share of profit of a jointly controlled entity	8,443,125	12,558,430
Share of profit of an associated company	2,953,716	1,004,962
Share of profit/(loss) of subsidiaries	8,289,734	(21,410,416)
	<u>19,686,575</u>	<u>(7,847,024)</u>

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS

## (a) Related companies in which control exists

Name of enterprise	Place of registration	Principal activities	Relationship with the Company	Nature of the enterprise	Legal representative
CNPC	PRC	Exploration, development, production and sale of natural resources	Ultimate holding company	State-owned enterprise	Chen Geng
PetroChina	PRC	Exploration, manufacture and sale of petroleum and natural gas; pipeline transportation, manufacture and sale of petrochemical products	Immediate holding company	Joint stock limited company	Chen Geng
Winsway	PRC	Transportation of petrochemical products	Subsidiary	Sino-foreign equity joint venture	Ni Muhua
Songmei	PRC	Manufacture of acetic acid	Subsidiary	Sino-foreign co-operative joint venture	Ni Muhua
Jianxiu	PRC	Machinery repair and installation	Subsidiary	Joint venture	Zhang Xingfu
Jinxiang	PRC	Inspection, research and consultation of pressure vessels	Indirect subsidiary	Limited company	Li Jiangqiang

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

Name	1st January, 2005 (Audited) RMB'000	Additions (Unaudited) RMB'000	Decrease (Unaudited) RMB'000	30th June, 2005 (Unaudited) RMB'000
CNPC	114,900,000	—	—	114,900,000
PetroChina	175,824,180	—	—	175,824,180
Winsway	51,450	—	—	51,450
Songmei	72,000	—	—	72,000
Jianxiu	45,200	—	—	45,200
Jinxiang	2,000	—	—	2,000

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)

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

Name	1st January, 2005		Additions		Decrease		30th June, 2005	
	(Audited)		(Unaudited)		(Unaudited)		(Unaudited)	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PetroChina	2,396,300	67	–	–	–	–	2,396,300	67

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

	Capital or equity held at 1st January, 2005		Additions		Reduction		Capital or equity held at 30th June, 2005	
	(Audited)		(Unaudited)		(Unaudited)		(Unaudited)	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Winsway	36,154,000	70	–	–	–	–	36,154,000	70
Songmei	47,660,421	66	–	–	–	–	47,660,421	66
Jianxiu	44,537,759	99	–	–	–	–	44,537,759	99
Jinxiang	1,881,000	94	–	–	–	–	1,881,000	94

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

Name	Nature of the enterprise	Date of registration	Place of registration	Registered capital RMB'000	Currency	Equity percentage held at	Principal activities
						30th June, 2005	
<i>Jointly controlled entity</i>							
– BASF	Sino-foreign joint venture	18th November, 1995	Jilin	150,000	RMB	40%	Manufacturing of petrochemical products
<i>Associated company</i>							
– Lianli	State-owned	22nd March, 2001	Jilin	42,210	RMB	47%	Wholesale and retail of petrochemical products

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

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)

## (f) Significant related party transactions

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
<b>PetroChina Group Companies</b>		
Purchase of crude oil	7,381,606,716	6,346,802,733
Purchase of production materials	3,087,315,721	889,064,803
Sale of gasoline and diesel oil	6,370,666,069	4,797,824,641
Sale of petrochemical products	5,781,710,572	4,027,539,747
Railway transport and water treatment services	17,093,143	14,950,134
Property safety and insurance fund (Note (1))	16,575,567	16,474,896
Lease of machinery and equipment	15,650,000	13,867,000
<b>CNPC Group Companies</b>		
Loan drawn	2,861,390,000	4,438,120,000
Interest income	205,404	80,824
Interest expenses	58,391,975	117,735,079
Purchase of materials	4,883,238	35,763,456
<b>JCGC Group Companies</b>		
Sale of products	803,707,733	688,092,135
Examination and maintenance services	1,551,967	2,428,644
Construction of fixed assets	6,406,419	65,294,023
Purchase of production materials and spare parts	55,902,999	46,100,792
Welfare and supporting services	42,450,152	146,837,253
Operating rental on land & property	3,200,000	4,320,222
<b>Lianli</b>		
Sale of products	106,970,293	45,603,486
Purchase of production materials	13,100,597	17,031,242

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

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

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)

## (g) Related party balances

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
Accounts receivable from		
– PetroChina Group Companies	287,222,470	211,529,663
– JCGC Group Companies	172,006,595	169,077,379
– Lianli	17,147,018	23,138,266
Accounts receivable due from related parties are for goods sold to these companies.		
Other receivables from		
– JCGC Group Companies	8,634,241	8,633,041
Other receivables due from related parties are mainly for expenses paid on their behalf.		
Advances to suppliers to		
– JCGC Group Companies	66,330,799	129,713,525
– CNPC Group Companies	10,147,018	7,171,710
– Lianli	–	239,298
The balance mainly represents advance payments for import of machinery through JCGC.		
Accounts payable to		
– CNPC Group Companies	1,160,276,272	186,038,691
– PetroChina Group Companies	3,717,784	–
– JCGC Group Companies	16,194,689	32,486,521
– Lianli	–	4,482,628
Advances from		
– PetroChina Group Companies	1,460,160,000	1,481,263,819
– JCGC Group Companies	9,731,236	11,517,711
– Lianli	–	4,625,674
Other payables to		
– JCGC Group Companies	32,350,846	41,618,179
Short-term loans from		
– CP Finance	975,120,000	2,874,330,000
Other long-term liabilities from		
– JCGC Group Companies	262,609,396	333,208,992

## VII. RELATED COMPANIES AND RELATED PARTY TRANSACTIONS (Continued)

## (h) Loans guaranteed by related parties

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Guaranteed by		
– PetroChina Group Companies (Note V 19,20)	<b>676,434,396</b>	747,033,992
– JCGC Group Companies (Note V 19)	<b>216,859,343</b>	239,035,505

## VIII. CAPITAL COMMITMENTS

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

	<b>30th June, 2005 (Unaudited)</b>	31st December, 2004 (Audited)
Property, plant and equipment	<b><u>12,099,300</u></b>	<u>40,646,387</u>

## IX. NET PROFIT BEFORE NON-OPERATING LOSS

	<b>Six months ended 30th June, 2005 (Unaudited)</b>	Six months ended 30th June, 2004 (Unaudited)
Net profit	<b>123,956,551</b>	605,087,927
Add/(Deduct): Non-operating (profit)/loss		
– Net (income)/loss from disposal of fixed assets	<b>(4,638,282)</b>	34,157,624
– Non-seasonal shutdown	<b>12,269,275</b>	6,045,532
– Reversal of assets impairment provision	<b>(900,104)</b>	(1,570,546)
– Subsidy income	<b>(2,683,084)</b>	–
– Other	<b>(1,170,067)</b>	1,133,550
	<b><u>126,834,289</u></b>	<u>644,854,087</u>
Net impact on income tax	<b>(949,654)</b>	–
Net profit before non-operating loss	<b><u>125,884,635</u></b>	<u>644,854,087</u>



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

(Amounts in thousands unless otherwise stated)

Effect of significant differences between PRC GAAP and IFRS on profit and equity is summarised below.

	Notes	Six months ended 30th June,	
		2005 RMB	2004 RMB
Net profit as reported under PRC GAAP		<b>123,957</b>	605,088
Adjustments to conform with IFRS:			
– Depreciation expense due to revaluation of fixed assets at 28th February, 1995	(i)	<b>(726)</b>	(726)
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	<b>(3,655)</b>	(3,655)
– Amortisation of housing subsidy cost	(iv)	<b>(4,660)</b>	(4,660)
– Reversal of amortisation of land use rights	(v)	<b>10,636</b>	10,307
– Tax adjustment	(vi)	<b>2,984</b>	–
– Minority interest	(vii)	<b>6,494</b>	(12,786)
Profit as reported under IFRS		<b>135,030</b>	<b>593,568</b>

  

	Notes	30th June, 2005		31st December, 2004	
		RMB	RMB	RMB	RMB
Shareholders' equity as reported under PRC GAAP		<b>5,977,581</b>		5,853,624	
Adjustments to conform with IFRS:					
– Surplus on revaluation of fixed assets at 28th February, 1995	(i)	<b>29,033</b>		29,033	
– Deferred tax effect on revaluation surplus on revaluation of fixed assets at 28th February, 1995	(i)	<b>(9,580)</b>		(9,580)	
– Depreciation expense due to revaluation at 28th February, 1995	(i)	<b>(15,003)</b>		(14,277)	
– Difference in loss on write-off of fixed assets due to revaluation at 28th February, 1995	(ii)	<b>(6,309)</b>		(6,309)	
– Exchange gains in respect of funds borrowed for fixed assets	(iii)	<b>112,471</b>		112,471	
– Depreciation expense on fixed assets due to difference in exchange gains capitalised	(iii)	<b>(60,661)</b>		(57,006)	
– Housing subsidy cost	(iv)	<b>29,542</b>		34,202	
– Deferred tax effect on housing subsidy cost	(iv)	<b>(23,587)</b>		(23,587)	
– Adjustment of land use rights at 1st January, 2001	(v)	<b>(853,657)</b>		(864,293)	
– Tax adjustment	(vi)	<b>3,772</b>		788	
– Minority interest	(vii)	<b>20,770</b>		14,276	
Equity as reported under IFRS		<b>5,204,372</b>		<b>5,069,342</b>	

## SIGNIFICANT DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC ACCOUNTING REGULATIONS (“PRC GAAP”) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (Continued)

(Amounts in thousands unless otherwise stated)

- (i) In connection with the application for listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company engaged American Appraisal Hong Kong Limited, independent valuers in Hong Kong, to perform a valuation of all of the Group's fixed assets as of 28th February, 1995. The valuation resulted in a surplus of RMB29,033. The surplus arising from the valuation was credited to revaluation reserve. Depreciation expense under IFRS includes the effect of revaluation of fixed assets at 28th February, 1995. Under PRC GAAP, this revaluation, which was not officially approved as part of the 1994 Restructuring, was not recognised. Accordingly, depreciation charge calculated under PRC GAAP is lower than that under IFRS.
- (ii) In prior years, certain fixed assets including those revalued at 28th February, 1995 were written off in connection with the shut down of manufacturing assets. As the effect of the valuation at 28th February, 1995 has not been recognised under PRC GAAP, additional loss on write-off of fixed assets relating to the surplus arising from the 28th February, 1995 revaluation was recorded in the IFRS financial statements.
- (iii) Under IFRS, foreign currency translation gains relating to borrowings to the extent that they are adjustments to the interest costs of funds used to finance the construction of fixed assets are capitalised. Under PRC GAAP, all foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets are capitalised during the construction period. Accordingly, the cost of the underlying fixed assets as reported in the IFRS financial statements is greater than that as determined under PRC GAAP, and thus resulted in additional depreciation charge.
- (iv) As a result of the reorganisation of CNPC and PetroChina, PetroChina agreed to bear the cost of housing subsidy and accordingly the relevant payable to JCGC of RMB84,089, after netting off deferred tax of RMB23,587, was credited to capital reserve under IFRS. Under PRC GAAP, the payable of RMB84,089 was offset against housing subsidy cost brought forward of RMB75,681 and the balance of RMB8,408 was credited to capital reserve. Consequently, there is no amortisation of housing subsidy cost under PRC GAAP.
- (v) Under PRC GAAP, land use rights are recognised at the appraised value and amortised over 50 years. With effect from 1st January, 2001, the Company has applied IAS 17 “Leases”, as clarified by IAS 40 “Investment Property”, to the accounting for land use rights. The Company has therefore reclassified land use rights as operating leases and is now reflecting the carrying value of land use rights at historical cost of RMB nil. Consequently, there is no amortisation of land use rights under IFRS commencing 2001.
- (vi) Adjustment of deferred tax effect of items (i) through (iv) above.
- (vii) In accordance with the revised IAS1 and 27 (both revised in 2003), minority interest becomes part of the profit for the period and total equity of the Group, whereas under PRC GAAP, they are respectively excluded from the net profit and total shareholders' equity of the Group.

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

(Amounts in thousands unless otherwise stated)

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

	Notes	Six months ended 30th June,		
		2005 RMB	2004 RMB	2005 USD
Profit under IFRS		<b>135,030</b>	593,568	<b>16,315</b>
US GAAP adjustments:				
– Depreciation charge on fixed asset revaluation surplus on Restructuring and at 28th February, 1995	(i)	<b>4,541</b>	5,611	<b>549</b>
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	(i)	<b>(12,722)</b>	(12,978)	<b>(1,537)</b>
– Difference in loss on write-off of fixed assets due to writedown in carrying amount of fixed assets	(i)	–	(19,978)	–
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	<b>765</b>	765	<b>92</b>
– Tax effect	(iv)	<b>2,447</b>	–	<b>296</b>
– Minority interest	(v)	<b>(6,494)</b>	12,786	<b>(785)</b>
Profit under US GAAP		<b>123,567</b>	579,774	<b>14,930</b>
Basic and diluted earnings per share		<b>RMB0.03</b>	RMB0.16	<b>USD0.00</b>

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

(Amounts in thousands unless otherwise stated)

		30th June, 2005 RMB	31st December, 2004 RMB	30th June, 2005 USD
Equity as reported under IFRS		5,204,372	5,069,342	628,813
US GAAP adjustments:				
– Fixed asset revaluation on Restructuring and at 28th February, 1995	(i)	(744,007)	(744,007)	(89,894)
– Depreciation charge on fixed assets due to revaluation on Restructuring and at 28th February, 1995	(i)	681,225	676,684	82,308
– Reduction in loss on write-off of fixed assets	(i)	11,532	11,532	1,393
– Reversal of writedown in carrying amount (net of minority interests) of fixed assets, net of impairment of fixed assets	(i)	254,446	254,446	30,743
– Depreciation charge on writedown in carrying amount (net of minority interests) of fixed assets, net of impairment	(i)	(66,121)	(53,399)	(7,989)
– Foreign currency translation difference on interest components capitalised in fixed assets	(ii)	(30,616)	(30,616)	(3,699)
– Depreciation charge on foreign currency translation difference on interest components capitalised in fixed assets	(ii)	13,013	12,248	1,572
– Gain on transfer of fixed assets to Jilian	(iii)	(65,320)	(65,320)	(7,892)
– Tax effect	(iv)	(17,870)	(20,317)	(2,158)
– Minority interest	(v)	(20,770)	(14,276)	(2,510)
Equity as reported under US GAAP		<u>5,219,884</u>	<u>5,096,317</u>	<u>630,687</u>

Changes in equity under US GAAP for the six months ended 30th June, 2005 and 2004 are as follows:

	Six months ended 30th June,		
	2005 RMB	2004 RMB	2005 USD
Equity as reported under US GAAP at beginning of the period	5,096,317	2,609,909	615,757
Profit for the period	<u>123,567</u>	<u>579,774</u>	<u>14,930</u>
Equity as reported under US GAAP at end of the period	<u>5,219,884</u>	<u>3,189,683</u>	<u>630,687</u>

## SIGNIFICANT DIFFERENCES BETWEEN IFRS AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (“US GAAP”) (Continued)

### (i) Revaluation of fixed assets

On 30th September, 1994, the fixed assets transferred to the Company by Jilin Chemical Industrial Corporation as part of the Restructuring were appraised, as required by the relevant PRC regulations, by a firm of independent valuers registered in the PRC. The revaluation of the fixed assets transferred resulted in RMB714,974 in excess of the prior carrying value and was recorded in share capital and capital reserve and not as a revaluation reserve. The depreciation charge on the revaluation surplus for the six months ended 30th June, 2005 was RMB3,815 (2004: RMB4,885), represented the depreciation charge on the revaluation surplus of Jilian (previously a jointly controlled entity of the Company) reclassified since 2003 as a result of the Company's acquisition of the remaining 35% equity interest in Jilian in December 2002. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation and the related depreciation charge is reversed.

On 28th February, 1995, the Group's fixed assets were further revalued by a firm of independent valuers registered in Hong Kong to satisfy the Hong Kong Stock Exchange listing requirements. This revaluation, which resulted in an additional revaluation surplus of RMB29,033, was not recognised by the PRC authorities and was therefore not recorded in the statutory accounting books. The depreciation charge on the revaluation surplus for the six months ended 30th June, 2005 was RMB726 (2004: RMB726). For purposes of reconciling to the US GAAP financial data, the revaluation surplus, the related depreciation charge and the tax effect are reversed.

In prior years, certain fixed assets with a net book value of RMB11,532 related to revaluation surplus recorded in share capital and capital reserve were written off as a charge to the income statement in connection with the shut down of manufacturing assets. For purposes of reconciling to the US GAAP financial data, the effect of the revaluation relating to the write-off of fixed assets is reversed.

As at 31st December, 2002, the directors of the Company compared the carrying amount of the Group's property, plant and equipment to their estimate of its fair value, and on the basis of this review, made an adjustment to reduce the carrying amount by RMB323,844. Under IFRS, the adjustment arising from the comparison, net of minority interests of RMB1,604, amounting to RMB322,240 was charged to the income statement. For purposes of reconciling to the US GAAP financial data, the write-down adjustment is reversed since the related undiscounted cash flows adequately recover the carrying value of these assets despite a decrease in fair value. As at 31st December, 2003, the discounted cash flows of certain fixed assets among the above write-down fixed assets were lower than their carrying value by RMB42,700 and was charged to the income statement for the reconciliation to US GAAP.

In 2004, certain fixed assets of which the carrying amount under IFRS is lower than that under US GAAP by RMB25,094 (for the six months ended 30th June, 2005: nil; for the six months ended 30th June, 2004: RMB19,978) due to the above write-down adjustment of RMB322,240 at 31st December, 2002 were written off. For purposes of reconciling to the US GAAP financial data, the additional loss on fixed assets write-down, amounting to RMB25,094 is charged to the income statement.

The net impact of the above write-down adjustment of RMB254,446 (2004: RMB254,446) is reversed as at 30th June, 2005. The related depreciation of above write-down adjustment for the six months ended 30th June, 2005 of RMB12,722 (2004: RMB12,978) is charged to the income statement.

### (ii) Foreign exchange losses

Under US GAAP, foreign exchange losses are expensed in the period in which they occur.

Under IFRS, the Group capitalised foreign currency translation difference relating to borrowings to the extent that these are adjustments to the interest costs of funds used to finance the construction of fixed assets during the period of construction. For purposes of reconciling to the US GAAP financial data, the effect of the capitalised foreign currency translation difference and the related depreciation charge is reversed.

### (iii) Fixed assets transferred to Jilian

During the period ended 31st December, 1994, certain fixed assets of the Company were appraised and transferred to Jilian, which was 65% owned and jointly controlled by the Company prior to December 2002 when the Company acquired the 35% minority interest. At the time of the 1994 transfer, the Company retained 65% of revaluation surplus arising from the appraisal of these assets which amounted to RMB121,309 within the revaluation reserve and recognized a gain of RMB65,320, representing 35% of revaluation surplus, from the transfer to the other joint venture partner of a 35% interest in the fixed assets. The depreciation charge on the revaluation surplus related to these assets for the six months ended 30th June, 2005 was RMB3,815 (2004: RMB3,815). For purposes of reconciling to the US GAAP financial data, the effect of the revaluation, the related depreciation charge and the gain on the transfer is reversed. In addition, as the Company acquired the remaining 35% equity interest in Jilian in December 2002, Jilian has become a branch of the Company. Therefore, since 2003, the reversed depreciation charge on the revaluation surplus for Jilian's fixed assets has been included in the Company's depreciation charge on fixed assets due to revaluation on Restructuring and at 28th February, 1995 for the reconciliation to US GAAP.

### (iv) Income tax effect

Adjustment to reflect deferred tax effect of US GAAP reconciliation items (i) through (iii) above. In years prior to 2004, a full valuation allowance was established under US GAAP to reduce net deferred tax assets to zero. Beginning 31st December, 2004, the valuation allowance was reversed as it is more likely than not that such deferred tax assets would be realised.

(v) In accordance with the revised IAS1 and 27 (both revised in 2003), minority interest becomes part of the profit for the period and total equity of the Group, whereas under US GAAP, they are respectively excluded from the net profit and total shareholders' equity of the Group.

(vi) Amounts in RMB have been converted into United States dollars at the respective rates of USD1.00 : RMB8.2765 announced by the People's Bank of China as at 30th June, 2005. No representation is made that the RMB amounts could have been or could be converted into US dollars at that rate.

## ASSET IMPAIRMENT PROVISION

## AS AT 30TH JUNE, 2005 (UNAUDITED)

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

Items	As at		Current		Reversal caused by		Other transfer-out		Total		As at	
	1st January, 2005		period addition		increase of		(Note)		Group		30th June, 2005	
	Group	Company	Group	Company	Group	Company	Group	Company	Group	Company	Group	Company
<b>1. Bad debt provision</b>	714,823,053	714,156,695	-	-	-	-	(900,104)	(900,104)	(900,104)	(900,104)	713,922,949	713,256,591
Including:												
Accounts receivable	641,441,767	640,775,409	-	-	-	-	(882,289)	(882,289)	(882,289)	(882,289)	640,559,478	639,893,120
Other receivables	73,381,286	73,381,286	-	-	-	-	(17,815)	(17,815)	(17,815)	(17,815)	73,363,471	73,363,471
<b>2. Provision for impairment of short-term investments</b>												
Including:												
Equity investments												
Bond investments												
<b>3. Inventory provision</b>	256,297,079	255,622,836	-	-	-	-	-	-	-	-	256,297,079	255,622,836
Including:												
Raw materials	70,820,662	70,820,662	-	-	-	-	-	-	-	-	70,820,662	70,820,662
Work in progress	5,643,854	5,643,854	-	-	-	-	-	-	-	-	5,643,854	5,643,854
Finished goods	16,210,129	15,535,886	-	-	-	-	-	-	-	-	16,210,129	15,535,886
Spare parts	163,262,401	163,262,401	-	-	-	-	-	-	-	-	163,262,401	163,262,401
Low value consumables and packing materials	360,033	360,033	-	-	-	-	-	-	-	-	360,033	360,033
<b>4. Provision for impairment of long-term investments</b>												
Including:												
Long-term equity investments												
Long-term bond investments												
<b>5. Provision for impairment of fixed assets</b>	282,023,248	269,931,112	-	-	-	-	-	-	-	-	282,023,248	269,931,112
Including:												
Buildings	54,004,790	54,320,147	-	-	-	-	-	-	-	-	54,004,790	54,320,147
Machinery	176,484,961	175,250,656	-	-	-	-	-	-	-	-	176,484,961	175,250,656
Equipment	46,996,897	39,123,709	-	-	-	-	-	-	-	-	46,996,897	39,123,709
Motor vehicles	4,536,600	1,236,600	-	-	-	-	-	-	-	-	4,536,600	1,236,600
<b>6. Provision for impairment of intangible assets</b>	6,698,195	6,698,195	-	-	-	-	-	-	-	-	6,698,195	6,698,195
Including:												
Technical know-how	6,698,195	6,698,195	-	-	-	-	-	-	-	-	6,698,195	6,698,195
Patent	-	-	-	-	-	-	-	-	-	-	-	-
<b>7. Provision for impairment of construction in progress</b>	7,220,081	7,220,081	-	-	-	-	-	-	-	-	7,220,081	7,220,081
<b>8. Provision for trust loan</b>												

Note: The other transfer-out of bad debt provision in the first half of 2005 represents the reversal of the provision due to the collection of according receivables.

1. The original copy of 2005 interim report of the Company signed by the chairman of the Board.
2. The original copies of financial statements for the six months ended 30th June, 2005 prepared under PRC GAAP and IFRS signed by the legal representative, the chief financial officer and the head of the finance department of the Company.
3. The original copies of all the corporate correspondences and announcements released by the Company in the newspapers designated by CSRC during the reporting period.
4. The articles of association of the Company.
5. The interim report released in Hong Kong.

All the above documents are available for inspection at:

Jilin Chemical Industrial Company Limited

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Note: This interim report is prepared in both Chinese and English. In the event of any inconsistency between the two versions, the Chinese version shall prevail.