AS OF 31ST DECEMBER, 2001
(Amounts expressed in Renminbi unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Sinopec Beijing Yanhua Petrochemical Company Limited ("the Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 23rd April, 1997 subsequent to a reorganisation ("Reorganisation") in preparation for the listing of its shares. Its shares and American Depository Shares ("ADSs") were listed on the Hong Kong Stock Exchange and the New York Stock Exchange respectively in June 1997.

Upon the Reorganisation, the Company became a subsidiary of Beijing Yanshan Petrochemical Group Company of China Petrochemical Corporation. On 25th February, 2000, China Petrochemical Corporation ("Sinopec Group"), underwent a reorganisation, and formed a subsidiary, China Petroleum and Chemical Corporation ("Sinopec"). In accordance with the reorganisation agreement, Beijing Yanshan Petrochemical Group Company of China Petrochemical Corporation, previously the Company's Parent Company, transferred all its 70% equity interest in the Company to Sinopec, which therefore became the Company's Parent Company.

The principal activities of the Company are manufacturing and sales of petrochemical products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company are as follows:

(a) Basis of preparation

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB") effective as of 31st December, 2001. This basis of accounting differs from the Company's statutory accounts, which are prepared in accordance with PRC generally accepted accounting principles ("PRC GAAP"). The differences between PRC GAAP and IFRS are set forth in Note 26.

Financial statements are prepared under the historical cost convention, except for the property, plant and equipment acquired during the Reorganisation, which are carried at revalued amount as disclosed in Note 2(b) hereafter.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Property, plant and equipment

Property, plant and equipment are stated at revalued amount less accumulated depreciation and accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Property, plant and equipment acquired during the Reorganisation were revalued by independent valuers and were stated at revalued amount less accumulated depreciation and accumulated impairment loss. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Property, plant and equipment acquired during periods after the last revaluation are stated at cost less accumulated depreciation and accumulated impairment loss, which approximates the fair value, until the next valuation exercises.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the property, plant and equipment.

Depreciation is computed on a straight-line basis to write off the cost or revalued amount, after taking into account the estimated residual value of each property, plant and equipment over its expected useful life. The depreciation method and the expected useful lives of the property, plant and equipment are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The expected useful lives were as follows:

Buildings	20-40 years
Plant, machinery and equipment	4-20 years
Motor vehicles	8 years
Office equipment and other	5-30 years

When assets are sold or retired, their costs or revalued amounts and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement. Upon the disposal of revalued property, plants and equipment, the relevant portion of the revaluation surplus realised in respect of previous valuation is released from the revaluation reserve directly to retained earnings.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes costs of construction plant and equipment and other direct costs.

Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Land use rights

Land use rights are amortised on a straight-line basis over the term of the lease, which is 50 years.

(d) Inventories

Inventories are valued at the lower of cost and net realisable value, after provision for obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined primarily on the basis of weighted average cost. For processed inventories cost includes the applicable allocation of fixed and variable overhead costs based on a normal operating capacity.

(e) Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortised cost, after provision for impairment.

(f) Cash and cash equivalents

Cash includes cash on hand and cash with banks or other financial institutions.

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(g) Provisions

A provision is recognised when, and only when, the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the increase in provision reflecting the passage of time is recognised as interest expense.

(h) Revenue recognition

Revenue and income are recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

(i) Turnover

Turnover represents the gross invoiced value of goods, net of value-added tax ("VAT"), sales taxes, discounts and returns, and is recognised upon delivery of goods and when transfer of risks and rewards of ownership has been completed.

(ii) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis that reflects the effective yield on the assets.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Research and development costs

Expenditure for research is recognised as an expense when incurred. Expenditure on development is charged against income in the period incurred except for project development costs which comply strictly with all of the following criteria:

* the product or process is clearly defined and costs are separately identified and measured reliably;
* the technical feasibility of the product is demonstrated;
* the product or process will be sold, or used in-house;
* the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in case of internal use is demonstrated); and
* adequate technical, financial and other resources required for completion of the project are available.

Capitalisation of costs starts when the above criteria are first met. Expenditure recognised as an expense in previous accounting periods is not reinstated.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

No research and development costs had been capitalised for the year ended 31st December, 2001 (2000: Nil).

(j) Accounting for operating leases

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases.

(i) The Company as lessee

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

The aggregate benefit of incentives provide by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(ii) The Company as lessor

The Company presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in income on a straight-line basis over the lease term. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognised as an expense in the income statement in the period in which they are incurred.

(k) Foreign currency transactions

The Company maintains its accounting records in Renminbi ("RMB"). Transactions in other currencies are translated into RMB at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at exchange rates prevailing at that date. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognised in the income statement in the period in which they arise.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Taxation

The income tax charge is based on profit for the year and considers deferred taxation. The Company provides for current enterprise income tax on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. The applicable PRC enterprise income tax rate for the Company is 33%.

Deferred taxes are provided using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for enterprise income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follows from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse. Deferred tax assets and liabilities are not discounted and are classified as non-current assets (liabilities) in the balance sheet.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

A deferred tax liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

(m) Borrowing costs

Borrowing costs include interest charges on bank overdrafts, short-term and long-term borrowings and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs.

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Impairment of assets

(i) Financial instruments

Financial instruments are reviewed for impairment at each balance sheet date.

For financial asset carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans, receivables or held-to-maturity investments, an impairment or bad debt loss is recognised in the income statement. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded in income. However, the increased carrying amount is only recognised to the extent it does not exceed what amortised cost would have been had the impairment not been recognised.

(ii) Other assets

Property, plant and equipment and other tangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income or treated as a revaluation decrease for the assets that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same assets. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not possible, for cash-generating unit to which the asset belong.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(o) Related companies

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Employee benefits

(i) Retirement benefits

The Company's full-time employees are covered by a state-sponsored pension scheme, and are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Company is required to make contributions to the retirement plan at a rate of 19% (2000: 19%) of the employees' salaries. Contributions are charged to income statement in the year to which they relate.

The Company provides no retirement benefits other than those described above.

(ii) Termination benefits

The Company pays termination indemnities in cases of termination of employment within the framework of a reorganisation. Expenses related to termination indemnities are accrued when management decides to adopt a plan that will result in future payments of termination benefits and either starts to implement the restructuring plan or communicates the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation that the Company will carry out the restructuring.

(q) Financial instruments

The Company adopted IAS 39, Financial Instruments: Recognition and Measurement on 1st January, 2001. Accordingly, financial assets are classified into the following categories: held-to-maturity, trading and available-for-sale. Financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity assets. Financial assets acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other financial assets, other than loans and receivables originated by the Company, are classified as available-for-sale.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement on initial recognition. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. When the rights and obligations regarding the manner of settlement of financial instruments depend on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder, the financial instrument is classified as a liability unless the possibility of the issuer being required to settle in cash or another financial asset is remote at the time of issuance, in which case the instrument is classified as equity.

(r) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(s) Subsequent events

Post-year-end events that provide additional information about a Company's position at the balance sheet date (i.e., adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are as follows:

	2001						2000
	Buildings	Plant, Machinery and Equipment	Motor Vehicles	Office Equipment and Other	Construction-in-progress	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation							
As of 1st January, 2001	1,725,814	9,353,677	127,872	47,423	1,796,770	13,051,556	11,796,338
Reclassification	(998,951)	676,147	99	322,705	-	-	-
Additions	948	162,712	2,746	7,849	2,497,779	2,672,034	1,454,975
Return from investment in a joint venture (see note 5)	-	19,503	-	-	-	19,503	-
Transfer in (out)	1,063	3,799,677	1,992	12,611	(3,815,343)	-	-
Disposals	-	(812,313)	(13,615)	(57)	-	(825,985)	(199,757)
As of 31st December, 2001	728,874	13,199,403	119,094	390,531	479,206	14,917,108	13,051,556
Representing:							
At cost	28,499	6,306,044	23,711	118,774	479,206	6,956,234	4,284,198
At revaluation	700,375	6,893,359	95,383	271,757	-	7,960,874	8,767,358
	728,874	13,199,403	119,094	390,531	479,206	14,917,108	13,051,556
Accumulated depreciation							
As of 1st January, 2001	(956,618)	(5,788,442)	(72,747)	(28,766)	-	(6,846,573)	(6,495,935)
Reclassification	623,489	(410,635)	(98)	(212,756)	-	-	-
Charge for the year	(19,425)	(442,872)	(8,182)	(54,931)	-	(525,410)	(508,282)
Write-back on disposals	-	811,417	5,628	22	-	817,067	157,644
As of 31st December, 2001	(352,554)	(5,830,532)	(75,399)	(296,431)	-	(6,554,916)	(6,846,573)
Net book value							
Beginning of year	769,196	3,565,235	55,125	18,657	1,796,770	6,204,983	5,300,403
End of year	376,320	7,368,871	43,695	94,100	479,206	8,362,192	6,204,983

(a) Of the property, plant and equipment as of 31st December, 2001, there are no significant idle assets.

(b) Property, plant and equipment at valuation of RMB2,684,459,000 (2000: RMB3,495,962,000) have been fully depreciated but were still in active use as of 31st December, 2001.

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) The property, plant and equipment of the Company was valued by American Appraisal Hong Kong Limited (the "Valuer"), a qualified independent valuer on 23rd April, 1997, using the replacement cost and open market value approach. The valuation was performed in compliance with the PRC laws and regulations as part of the Reorganisation. As a result of the appraisal, an increase in value of the property, plant and equipment of approximately RMB863 million (including approximately RMB28 million for construction-in-progress) was recorded as of 23rd April, 1997, and depreciation on the increment commenced on that date. Additional depreciation on the revaluation surplus was approximately RMB69,323,000 for the year ended 31st December, 2001 (2000: RMB46,735,000). Had the assets been carried at cost less depreciation, their carrying amounts would have been approximately RMB4,553,697,000 as of 31st December, 2001 (2000: RMB4,684,281,000).

The costs of construction-in-progress as of 31st December, 2001 composed of:

	As of 31st December,	
	2001	**2000**
	RMB'000	**RMB'000**
Cost of construction, plant and equipment and other direct costs	469,452	1,752,382
Borrowing costs capitalised		
- interest	9,702	44,327
- foreign exchange loss	52	61
	479,206	1,796,770

Borrowing costs capitalised as construction-in-progress amounted to RMB153,744,000 in 2001 (2000: RMB48,973,000). The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation was ranged from 5.73% to 6.15% in 2001 (2000: 4.50% to 8.50%).

4. LAND USE RIGHTS

Movements of land use rights for the year ended 31st December, 2001 are as follows:

	2001	**2000**
	RMB'000	**RMB'000**
Cost		
As of 1st January	815,327	818,790
Return from investment in a joint venture (see Note 5)	6,055	-
Disposals	-	(3,463)
As of 31st December	821,382	815,327
Accumulated amortisation		
As of 1st January	(60,045)	(43,669)
Charge for the year	(16,257)	(16,376)
As of 31st December	(76,302)	(60,045)
Net book value	745,080	755,282

The land use rights were granted for land situated in the PRC for a period of 50 years with effect from the date of establishment of the Company.

5. INVESTMENT IN A JOINT VENTURE

On 23rd February, 2000, the Company, together with Albemarle TCI Limited, an affiliate of Albemarle Corporation, a company incorporated in the United States of America, formed an equity joint venture company, Beijing Albemarle Yanshan Fine Chemical Company Limited. The joint venture was intended to utilises the BHT unit of the Company and the alkylation technology of Albemarle to produce fine agrochemical products. The amount of investment by the Company is approximately RMB26,205,000, representing 40% of the equity interest of the joint venture.

With a downturn in the petrochemical market in the PRC in 2001, the joint venture never commences operations. The joint venture partners agreed to dissolved the joint venture by a board resolution on 12th June, 2001. The dissolution has been approved by Beijing Foreign Economics and Trading Committee on 6th August, 2001 and was completed on 14th December, 2001. The joint venture has returned to the Company the property, plant and equipment, inventories and land use rights it invested, with a net book value of RMB26,205,000.

Pre-operating design and feasibility study costs of RMB966,000 was charged to other expenses in relations to the investment in the joint venture.

6. INVENTORIES

	As of 31st December,	
	2001	**2000**
	RMB'000	**RMB'000**
Raw materials	370,001	401,221
Work-in-process	151,162	161,284
Finished goods, at cost	15,296	272,270
Finished goods, at net realisable value	29,387	57,646
Spare parts and consumables	222,371	190,039
	788,217	1,082,460
Less: provision for inventory obsolescence	(50,439)	(60,953)
	737,778	1,021,507

The provision for inventory obsolescence is analysed as follows:

	As of 31st December,	
	2001	**2000**
	RMB'000	**RMB'000**
Balance as of 1st January	60,953	60,953
Write-back of provision	(10,514)	-
Balance as of 31st December	50,439	60,953

The cost of inventories recognised as an expense in the income statement was RMB5,691,550,000 in 2001 (2000: RMB6,680,352,000).

7. TRADE RECEIVABLES

	As of 31st December, 2001 RMB'000	As of 31st December, 2000 RMB'000
Trade receivables		
- unrelated companies	388,602	295,144
- related companies	130,757	313,329
- notes receivable	82,921	53,971
	602,280	662,444
Less: provision for doubtful accounts	(188,071)	(149,570)
Trade receivables, net	414,209	512,874

The Company normally grants three months credit period to both its external customers and related parties.

Movements of provision for doubtful accounts:

	Year ended 31st December, 2001 RMB'000	Year ended 31st December, 2000 RMB'000
Balance as of 1st January	149,570	147,714
Additional provision made during the year	45,673	3,973
Less: specific write-off of accounts	(7,172)	(2,117)
Balance as of 31st December	188,071	149,570

Aging analysis of trade receivables is as follows:

	As of 31st December, 2001 RMB'000	As of 31st December, 2000 RMB'000
Within one year	308,184	391,430
Between one and two years	90,481	47,992
Between two and three years	85,748	98,100
Over three years	117,867	124,922
	602,280	662,444

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	As of 31st December,	
	2001	2000
	RMB'000	RMB'000
Prepayments	10,255	16,873
Other receivables	44,966	134,601
Less: provision for doubtful accounts	(8,988)	(2,037)
	46,233	149,437

Movements of provision for doubtful accounts for other receivables is as follows:

	Year ended 31st December,	
	2001	2000
	RMB'000	RMB'000
Balance as of 1st January	2,037	-
Additional provision made during the year	7,424	2,037
Less: specific write-off of accounts	(473)	-
Balance as of 31st December	8,988	2,037

9. BALANCES WITH PARENT COMPANY AND RELATED COMPANIES

Except for a short-term loan of RMB150,000,000 from Parent Company bearing interest at 5.3% per annum, a short-term loan of RMB35,000,000 from a related company bearing interest at 5.58% per annum and a demand deposits of approximately RMB80,552,000 with a related company earning interest at 1.0% per annum, all other amounts due from/to the Parent Company and related companies arose from normal commercial transactions, and are unsecured, non-interest bearing and repayable on demand.

10. SHARE CAPITAL

As of 31st December, 2001, the share capital consisted of:

	Number of Shares	Nominal Value	Percentage of Share Capital
		RMB'000	
Authorised, issued and fully paid (ordinary shares of par value RMB1.00 per share):			
Domestic Shares	2,362,000,000	2,362,000	70%
H Shares	1,012,000,000	1,012,000	30%
	3,374,000,000	3,374,000	100%

The H Shares and Domestic Shares rank pari passu in all respects. Domestic shares are those issued to the Company's Parent Company in the PRC at the date of the Reorganisation. H shares are those issued to foreign investors subsequent to the Reorganisation and traded on the Stock Exchange of Hong Kong and, in the form of ADSs, on the New York Stock Exchange.

11. RESERVES

(a) Statutory reserves

In accordance with the PRC Company Law and the Articles of Association of the Company, when distributing net profit of each year, the Company shall appropriate 10% of its net profit determined in accordance with PRC GAAP (after offsetting prior years' losses) to the statutory surplus reserve. When the balance of such reserve reaches 50% of the Company's share capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or for issuance of bonus shares. However, it shall be maintained at a minimum of 25% of share capital after such issuance.

In accordance with the provisions of the Company's Articles of Association, the Company shall appropriate 5% to 10% of its net profit to the public welfare fund. The fund shall be utilised for collective staff benefits such as construction of staff quarters or housing. No distribution of the fund shall be made other than on liquidation of the Company.

In the determination of the appropriation to the statutory surplus reserve and public welfare fund for a particular year, the statutory net profit determined in accordance with PRC GAAP is used. In accordance with the Articles of Association of the Company, the net profit of the Company for the purpose of dividends is deemed to be the least of the amounts determined in accordance with (a) PRC GAAP, (b) IFRS and (c) the accounting standards of the country in which its shares are listed. As the statutory accounts have been prepared in accordance with PRC GAAP, the unappropriated profit presented in the statutory accounts is different from the amount reported in the accompanying financial statements.

For the year ended 31st December, 2001, the directors did not propose appropriation to statutory reserves:

	Year ended 31st December,			
	2001		2000	
	Percentage of net profit	RMB'000	Percentage of net profit	RMB'000
Statutory surplus reserve	-	-	10%	41,117
Public welfare fund	-	-	10%	41,117
		-		82,234

(b) Distributable reserves

As of 31st December, 2001, the Company has a net deficit of approximately RMB252,550,000 (2000: Accumulated profit of RMB459,852,000) which is the least of the amounts determined in accordance with PRC GAAP, IFRS and US GAAP.

12. BORROWINGS

(a) Short-term loans

Short-term loans are unsecured and bear interest at rates ranging from 5.30% to 5.94% per annum as of 31st December, 2001 (2000: 5.58% to 5.85%) per annum.

(b) Long-term bank loans

	As of 31st December,	
	2001	**2000**
	RMB'000	**RMB'000**
Amounts repayable:		
Within one year	1,500,000	230,474
Between one and two years	182,994	800,000
Between two and five years	64,375	265,803
Over five years	640,833	322,260
Total	2,388,202	1,618,537
Less: Amounts due within one year included under current liabilities	(1,500,000)	(230,474)
Non-current portion	888,202	1,388,063

Long-term bank loans are unsecured and bear interest at rates ranging from 5.10% to 8.56% per annum as of 31st December, 2001 (2000: 5.94% to 8.50%); as of 31st December, 2001 RMB888,202,000 (2000: RMB818,537,000) are denominated in United States dollars.

There was no unutilised banking facilities as of 31st December, 2001 (2000: Nil).

13. DEFERRED TAXATION

The tax effects of significant temporary differences are as follows:

	As of 31st December,	
	2001	2000
	RMB'000	RMB'000
Deferred tax assets		
Enterprises income tax loss carried forward	129,933	-
Provision for doubtful debts	66,587	49,008
Provision for inventory obsolescence	16,781	21,884
Deferred expenses charged to income statement	-	39,309
Write down of inventory to net realisable value	10,438	5,366
Employee housing allowance charged to income statement	-	3,379
Other	3,201	3,201
	226,940	122,147
Deferred tax liabilities		
Initial recognition of net assets upon Reorganisation	(219,930)	(273,786)
Accelerated depreciation	(70,784)	(71,435)
Additional interest capitalisation under IFRS	(16,180)	-
	(306,894)	(345,221)
Deferred tax liabilities, net	(79,954)	(223,074)

The movements of deferred taxation during the year are as follows:

	Year ended 31st December,	
	2001	2000
	RMB'000	RMB'000
Balance as of 1st January	223,074	301,942
Write-back in current year	(143,120)	(78,868)
Balance as of 31st December	79,954	223,074

14. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	As of 31st December, 2001 RMB'000	As of 31st December, 2000 RMB'000
Within 3 months	105,568	110,518
Between 3 and 6 months	18,676	24,826
Over 6 months	-	-
	124,244	135,344

15. ACCRUALS AND OTHER PAYABLES

	As of 31st December, 2001 RMB'000	As of 31st December, 2000 RMB'000
Advances from customers	99,094	59,264
Accrual for salaries and staff benefits	41,935	20,536
Accrual for construction costs	481,028	53,821
Other	15,898	25,089
	637,955	158,710

Accrual for staff benefits is provided at 14% of salaries in accordance with government regulations, and is charged to the income statement of the year in which the salaries are charged.

16. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation is arrived at after charging (crediting) the following:

	Note	Year ended 31st December, 2001 RMB'000	2000 RMB'000
Interest income			
- Bank deposits		(2,034)	(4,423)
- Deposits with a related company		(105)	(106)
Interest expense	(a)	53,347	97,169
Depreciation of property, plant and equipment		525,410	508,282
Amortisation of land use rights		16,257	16,376
(Gain)Loss on disposals of property, plant and equipment		(147,737)	22,750
Operating lease expense		8,925	-
Auditors' remuneration		2,996	3,000
Directors' emoluments	(b)	170	250
Supervisors' emoluments	(b)	257	234
Provision for doubtful accounts and bad debts written-off		53,097	6,010
(Reversal of)Provision for inventory obsolescence and net realisable value		(95)	16,259
Repairs and maintenance costs		147,699	231,862
Research and development costs		53,781	70,499
Salaries and wages		207,173	317,259
Contribution to statutory pension scheme		44,154	37,630
Provision for staff welfare		28,515	44,046
Provision for staff housing fund	(c)	7,318	10,241
Exchange loss, net		452	110

(a) Interest expense

	Year ended 31st December, 2001 RMB'000	2000 RMB'000
Interest expense on		
- Short-term loans	75,889	56,308
- Long-term bank loans repayable within five years	96,580	75,295
- Long-term bank loans repayable after five years	34,622	14,539
Less: Amounts capitalised in construction-in-progress and property, plant and equipment	(153,744)	(48,973)
	53,347	97,169

For the year ended 31st December, 2001, the interest rates on the loans for which interest have been capitalised vary from 5.73% to 6.15% (2000: 4.50% to 8.50%) per annum.

16. PROFIT BEFORE TAXATION (Continued)

(b) Directors', supervisors' and senior executives' emoluments

(1) Directors' and supervisors' emoluments

	Year ended 31st December, 2001 RMB'000	2000 RMB'000
Fees for executive directors	-	-
Fees for non-executive directors	-	-
Fees for supervisors	-	-
Other emoluments for executive directors and supervisors		
- Basic salaries and allowances	139	161
- Bonus	248	289
- Retirement benefits	30	24
- Other	10	10
Other emoluments for non-executive directors	-	-
	427	484

(2) Emoluments to the five highest-paid individuals (including directors, supervisors and employees)

Of the five highest-paid individuals of the Company during the year ended 31st December, 2001, three (2000: four) are either directors or supervisors, whose emoluments have been included above. For the remaining individuals, details of emoluments in 2001 are as follows:

	Year ended 31st December, 2001 RMB'000	2000 RMB'000
Basic salaries and allowances	62	31
Bonus	115	52
Retirement benefits	14	2
Other	-	-
	191	85

No directors or supervisors waived any emoluments during the year ended 31st December, 2001 (2000: Nil).

For the year ended 31st December, 2001, each of the directors, supervisors and employees received less than RMB1,060,600 (equivalent of HK$1,000,000).

During the year, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

16. PROFIT BEFORE TAXATION (Continued)

(c) Employee housing benefits

Pursuant to regulations promulgated by the Beijing Municipal Government related to housing reform, the Company has established a housing scheme for its employees. Under the scheme, before 1999, the Company sold quarters to qualified employees at preferential prices, which were computed based on the prices set by the Beijing Municipal Government and the length of service of the employees. The former parent company and now a related company, was responsible for building the required housing, and sold it through the Company to the employees. The difference between the total cost of these quarters and the preferential prices was borne by the related company. During the year ended 31st December, 2001, no housing was sold to the Company's employees at preferential prices (2000: Nil).

Pursuant to the housing reform policies of the PRC government, the Company began to formulate a new housing plan in 2000, under which additional employee remuneration in the form of a monthly cash subsidy is paid to employees who have not been able to buy subsidised housing under the previous scheme. This cash subsidy is charged to expense as it is incurred. According to the housing reform policies of the PRC government, the Company may be required to pay an additional one-time subsidy to employees who joined the Company before 31st December, 1998, and who have not been able to buy housing at preferential prices under the previous scheme or have bought housing at preferential prices but with living areas less than the standards set by the municipal government. However, as of 31st December, 2001, the Company had not completed its plan or submitted it to the municipal government for approval. Therefore, the amount of the one-time housing subsidy cannot be determined and no provision has been made in the financial statements. Furthermore, as describe in the Company's Prospectus dated 17th June, 1997, the former parent company has undertaken to bear the cost of housing subsidies for the Company's employees through the end of 1998. Therefore, the directors believe the implementation of the new government housing reform policy will not have material effect on the Company's financial position.

In addition to the above housing benefits, the Company is required to make contributions to a state-sponsored housing fund equivalent to a certain percentage of each employee's salary. All of the Company's full-time employees are entitled to participate in the housing fund. The fund can be used by the employees for the purchase of housing, or may be withdrawn upon their retirement. Contributions are charged to expense as they accrue.

17. OTHER INCOME (EXPENSES), NET

Other income (expenses) for the year comprised:

		Year ended 31st December,	
	Note	**2001**	**2000**
		RMB'000	**RMB'000**
Gain (Loss) on disposals of property, plant and equipment	(a)	147,737	(22,750)
Staff redundancy costs	(b)	(246,943)	-
Other		(1,089)	(280)
		(100,295)	(23,030)

(a) On 20th November, 2001, the Company sold a polypropylene production facility of original cost of RMB811,417,000 and zero net book value to a related company at a consideration of RMB167,850,000, with a net gain of RMB156,546,000. The consideration of the transaction was based on a report issued by an independent qualified valuer issued on 17th November, 2001.

17. OTHER INCOME (EXPENSES), NET (Continued)

(b) Following the group policy of Sinopec, the Company established a voluntary staff redundancy program in 2001 for those employees with remaining service lives over 5 years from the statutory retirement age. The qualified employees had to submit their applications to the Company and successful applicants are determined by the Company.

One-time severance payments were made to those successful applicants. For employees who joined the Company before 1st January, 1995, the severance payment is equivalent to 2.5 times of their average monthly salary in 2000 for each year of service rendered. For employees who joined the Company on or after 1st January, 1995, the severance payment is equal to their average monthly salary in 2000 for each year of service rendered. A total compensation of RMB347,725,000 was paid to exployees approved for the program. Approximately RMB100,782,000 of the above staff redundancy costs were approved paid by Sinopec, the Parent Company, and not recorded in the Company's financial statements.

18. TAXATION

(a) Enterprise income tax

Taxation charged to the income statement for the year was as follows:

	Year ended 31st December,	
	2001	2000
	RMB'000	RMB'000
Current taxation	-	239,897
Deferred taxation	(143,120)	(78,868)
	(143,120)	161,029

The reconciliation of the statutory tax rate to the effective tax rate is as follows:

	Year ended 31st December,	
	2001	2000
	RMB'000	RMB'000
Statutory tax rate	33.0%	33.0%
- Technological subsidies from Parent Company	0.6%	-
- Tax benefits for purchasing machinery produced in the PRC	-	(1.4%)
Effective tax rate under IFRS	33.6%	31.6%

The tax rate of 33% is the aggregate of the national income tax rate of 30% and the local income tax rate of 3%.

(b) Value-added Tax ("VAT")

VAT is levied at a general rate of 17% on the gross sales of goods and rendering of processing services. An input credit is available whereby VAT previously paid on the purchase of semi-finished products, raw materials and other direct input can be used to offset the VAT on sales to determine the net VAT payable.

19. RELATED PARTY TRANSACTIONS

A significant portion of the transactions undertaken by the Company are with, and on terms determined by Sinopec Group (the "Ultimate Parent Company", see Note 28), Sinopec (the "Parent Company") and its affiliates and other related companies.

The following is a summary of significant transactions carried out between the Company, Sinopec Group, Sinopec and its related companies:

	Note	Year ended 31st December, 2001 RMB'000	2000 RMB'000
Sales of petrochemical products to Parent Company and its affiliates		185,394	286,648
Sales of petrochemical products to related companies		400,353	498,552
Sales to a related company's national sales network		963,893	1,010,126
Sales of equipment to a related company	(a)	167,850	-
Purchases of materials and supplies from Parent Company and its affiliates		3,142,990	4,326,694
Purchases of materials and supplies from related companies		274,262	250,805
Utilities provided by a related company		767,548	800,336
Provision of transportation and storage services by a related company		-	1,087
Social services (environmental protection, employee housing, health care, education, public security and other ancillary services) provided by a related company		153,618	150,480
Construction and repair services provided by related companies		9,961	231,768
Construction and maintenance materials provided by related companies		310,067	392,997
Loans provided by Parent Company	(b)	150,000	30,000
Loans provided by a related company		35,000	-
Interest expenses paid to Parent Company		2,010	-
Interest expenses paid to a related company		6,823	-
Interest income received from a related company		201	106
Contributions to Parent Company's technological development fund	(c)	30,000	30,000
Technological subsidies received from Parent Company		48,472	25,279
Insurance premium paid to Ultimate Parent Company		30,181	31,342
Insurance premium refunded from Ultimate Parent Company		15,886	13,320
Leasing income received from related companies		6,289	6,969

Except for the transaction explained in Note (a) below, the directors of the Company are of the opinion that the above transactions were carried out in the ordinary course of business and will continue in the future.

19. RELATED PARTY TRANSACTIONS (Continued)

The prices at which the materials and services described above are provided are determined in accordance with a supply agreement. The Parent Company, its affiliates and other related companies provide materials and services to the Company at state, market or cost prices, and the Company provides products to the Parent Company, its affiliates and other related companies at state prices or market prices.

(a) On 20th November, 2001, the Company entered into a Asset Sale Agreement with Beijing Yanshan Petrochemical Group Company ("Yanshan Company") for the sale of the No.1 polypropylene production unit of original cost of RMB811,417,000 with zero net book value by the Company to Yanshan Company. Yanshan Company is a wholly-owned subsidiary of the Ultimate Parent Company.

In order to acclerate the pace of its technology renovation programs and increase the overall efficiency of the Company's production, the Company has decided to shut down its No.1 polypropylene unit on a permanent basis. However, since the No.1 polypropylene production unit can be modified and used in the production of fine petrochemical products, the Company has decided to sell it to Yanshan Company on condition that Yanshan Company would not compete with the Company in its business. The principal activity of Yanshan Company is the manufacturing of fine petrochemical products.

The Directors expect that the sale of the polypropylene production unit will improve the technological standard of the Company's related products, decrease operating losses and therefore increase the profitability of the Company's business. The aggregated consideration for the sale is RMB167,850,000. The gain from this transaction was RMB156,546,000.

Such consideration was determined by reference to the valuation report dated 17th November, 2001 prepared by Zhonglei Certified Public Accountants.

(b) A bank loan of approximately RMB30,000,000 was taken up by Sinopec Group, the Ultimate Parent Company, which then provided the funding to the Company interest-free. Interest expense of approximately RMB1,350,000 (2000: RMB562,000) was borne by Sinopec Group and not charged to the Company.

During the year ended 31st December, 2001, the Parent Company has granted a short-term loan of RMB150,000,000 bearing interest at 5.3% per annum to the Company.

(c) The Company participates in a pooled research and development program with Sinopec and its subsidiaries, under which it is required to pay an annual scientific development fee to Sinopec calculated at a certain percentage of the Company's annual sales revenue. The fee was approximately RMB30,000,000 for the year ended 31st December, 2001 (2000: RMB30,000,000).

(d) During 2001, a related company acted as a guarantor of two bank loans borrowed by the Company amounting to USD77,427,000 and RMB1,450,000,000. (2000: USD38,929,000 and RMB750,000,000)

(e) As stated in Note 17(b), staff redundancy costs of approximately RMB100,782,000 under the voluntary staff redundancy program was paid by the Parent Company.

20. DIVIDENDS

The Board of Directors did not propose a final dividend for the year ended 31st December, 2001.

On 12th April, 2001, the Board of Directors proposed a final dividend of RMB0.04 per share for all outstanding shares of 3,374,000,000 shares, totaling RMB134,960,000 for the year ended 31st December, 2000. The proposed dividend distribution was approved by the shareholders in their general meeting on June 18, 2001.

21. (LOSSES) EARNINGS PER SHARE

The calculation of basic (losses) earnings per share for the year ended 31st December, 2001 was based on the net loss of RMB283,359,000 (2000: net profit of RMB347,759,000) and 3,374,000,000 shares in issue during the year.

No diluted (losses) earnings per share were presented as there were no potential dilutive ordinary shares outstanding.

22. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of loss (profit) before taxation to cash generated from operations:

	Year ended 31st December, 2001 RMB'000	Year ended 31st December, 2000 RMB'000
(Loss) profit before taxation	(426,479)	508,788
Adjustments for:		
Depreciation and amortisation	541,667	557,823
Provision for doubtful accounts and bad debts written-off	53,097	6,010
(Gain) Loss on disposals of property, plant and equipment	(147,737)	22,750
(Reversal of) Provision for inventory obsolescence and net realisable value	(95)	16,259
Interest income	(2,139)	(4,529)
Interest expense	53,347	97,169
Operating profit before working capital changes	71,661	1,204,270
(Increase) Decrease in operating assets		
Trade receivables	52,992	258,079
Inventories	284,471	(225,357)
Prepayments and other current assets	4,442	53,009
Due from Parent Company	13,281	(56,979)
Due from related companies	(139,209)	182,925
Increase (Decrease) in operating liabilities		
Accounts payable	(11,099)	70,786
Accruals and other payables	52,038	64,147
Taxes payable	(50,944)	(72,610)
Due to Parent Company	288,045	-
Due to related companies	91,708	123,515
Other long-term liabilities	10,837	(95,330)
Net decrease in operating assets	596,562	302,185
Cash generated from operations	668,223	1,506,455

(b) Analysis of cash

As of 31st December, 2001, cash of the Company consisted of:

	As of 31st December, 2001 RMB'000	As of 31st December, 2000 RMB'000
Cash in hand	26	58
Demand deposits		
RMB	273,820	283,985
US$ denominated	2,233	2,032
HK$ denominated	61	62
Total cash	276,140	286,137

22. NOTES TO CASH FLOW STATEMENT (Continued)

(c) Significant non-cash transactions

(i) Sales of polypropylene production facility

As stated in Note 17(a) and Note 19(a), on 20th November, 2001, the Company sold a polypropylene production facility of original cost of RMB811,417,000 and zero net book ralue to a related company for a consideration of RMB167,850,000 with a net gain of RMB156,546,000. The consideration of the transaction was based on a report issued by an independent qualified valuer issued on 17th November, 2001. The sales consideration has been offset against the payables to the related company.

(ii) Return of property, plant and equipment and land use rights from a dissolved joint venture.

In 2000, the Company has transferred non-monetary assets of approximately RMB26,205,000 to joint venture to acquire a 40% interest in the joint venture. The joint venture was dissolved in 2001 due to the adverse market condition, property, plant and equipment, land use rights and inventories of net book value of RMB26,205,000 were returned to the Company.

23. FINANCIAL INSTRUMENTS

As of 31st December, 2001, the Company's financial instruments mainly consisted of notes receivable and payables and bank loans. The carrying amounts of the Company's note receivable and payable approximate their fair values because of the short maturity of those instruments. The carrying amounts of the bank loans approximate their fair values based on borrowing rates currently available for bank loans with similar terms and maturity.

24. SEGMENT INFORMATION

All of the Company's production and sales operations are conducted within the PRC.

The Company's reportable operationg segments include resins and plastics, synthetic rubber, basic organic chemical products and other. The resins and plastics unit manufactures and sells petrochemical products including LDPE, polypropylene, HDPE, polyester chips and polystyrene. The basic organic chemical products unit manufactures and sells organic chemical products including phenol, acetone, ethylene glycol, ethylene and propylene. The other segment includes miscellaneous petrochemical products not classified in the other three units.

	Resins and Plastics	Synthetic Rubber	Basic Organic Chemical Products	Other	General Corporate	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net sales to external customers (all in the PRC)						
2001	**3,192,077**	**922,301**	**1,368,437**	**471,711**	**-**	**5,954,526**
2000	4,531,438	848,028	1,964,733	480,348	-	7,824,547
Cost of goods sold						
2001	**3,004,017**	**900,588**	**1,237,069**	**518,517**	**-**	**5,660,191**
2000	3,923,565	769,268	1,529,066	442,194	-	6,664,093
Segment results						
2001	**188,060**	**21,713**	**131,368**	**(46,806)**	**-**	**294,335**
2000	607,873	78,760	435,667	38,154	-	1,160,454
S, G&A expenses						
2001	**-**	**-**	**-**	**-**	**-**	**560,940**
2000	-	-	-	-	-	530,743
Financial expenses						
2001	**-**	**-**	**-**	**-**	**-**	**59,579**
2000	-	-	-	-	-	97,893
Other expenses						
2001	**-**	**-**	**-**	**-**	**-**	**100,295**
2000	-	-	-	-	-	23,030
(Loss) profit before taxation						
2001	**(195,782)**	**(21,239)**	**(138,446)**	**(62,118)**	**(8,894)**	**(426,479)**
2000	271,356	35,158	194,482	17,033	(9,241)	508,788
Provision for taxation						
2001	**-**	**-**	**-**	**-**	**-**	**(143,120)**
2000	-	-	-	-	-	161,029
Net (loss) profit						
2001	**-**	**-**	**-**	**-**	**-**	**(283,359)**
2000	-	-	-	-	-	347,759
Segment assets						
2001	**5,693,830**	**1,482,344**	**2,478,099**	**614,333**	**675,057**	**10,943,663**
2000	3,786,023	1,266,703	2,831,156	505,688	770,353	9,159,923
Segment liabilities						
2001	**2,189,166**	**512,646**	**695,326**	**163,240**	**2,071,232**	**5,631,610**
2000	1,157,211	357,773	460,301	163,571	1,290,695	3,429,551
Capital expenditures						
2001	**2,158,976**	**80,793**	**380,703**	**5,022**	**3,673**	**2,629,167**
2000	69,430	235,173	1,124,184	19,211	555	1,448,553
Depreciation and amortisation						
2001	**345,062**	**50,599**	**119,455**	**20,019**	**6,532**	**541,667**
2000	318,797	79,247	110,363	42,429	6,987	557,823

25. CAPITAL COMMITMENTS

Capital commitments primarily relate to the purchase or construction of production facilities. Capital commitments outstanding as of 31st December, 2001 not provided for in the accounts were as follows:

	As of 31st December,	
	2001	2000
	RMB'000	RMB'000
Authorised and contracted for		
-- Short-term portion	197,510	748,500
-- Long-term portion	327,620	-
	525,130	748,500
Authorised but not contracted for		
-- Short-term portion	382,691	737,340
-- Long-term portion	147,832	473,711
	530,523	1,211,051

26. DIFFERENCES BETWEEN PRC GAAP AND IFRS

The Company's financial statements were prepared in conformity with IFRS. This basis of accounting differs from that used in the local statutory accounts of the Company, prepared in accordance with PRC accounting standards.

The principal adjustments made to conform to IFRS are as follows:

	Net (loss) profit for the year ended 31st December,		Net assets as of 31st December,	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the Company's local statutory accounts	(568,512)	411,170	5,172,776	5,865,751
Impact of IFRS adjustments:				
-- Deferred expenses charged to income statements	115,837	(127,602)	(16,759)	(132,595)
-- Recognition of provision of staff housing benefits	10,241	(10,241)	-	(10,241)
-- Increase in depreciation expenses of property, plant and equipment	(43,569)	-	257,367	300,936
-- Provision for deferred taxation	143,120	78,868	(145,004)	(288,124)
-- Additional interest capitalisation	49,028	-	49,028	-
-- Other	10,496	(4,436)	(5,355)	(5,355)
As reported in the Company's IFRS financial statements	(283,359)	347,759	5,312,053	5,730,372

27. DIFFERENCES BETWEEN IFRS AND US GAAP

The Company's accounting policies conform to IFRS which differ in certain respects from US GAAP. Differences which have a significant effect on net (loss) profit and net assets are set out below:

Effects on the net profit and net assets of significant differences between IFRS and US GAAP are summarised below:

		Net (loss) profit for the year ended 31st December,		Net assets as of 31st December,	
	Note	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Under IFRS		(283,359)	347,759	5,312,053	5,730,372
Impact of US GAAP adjustments:					
-- Reversal of the revaluation surplus on property, plant and equipment	(a)	-	-	(863,425)	(863,425)
-- Employee housing expenses	(b)	(3,664)	(3,664)	7,328	10,992
-- Interest expense borne by Sinopec Group	(c)	(1,350)	(562)	-	-
-- Additional depreciation charges for facilities under renovation	(d)	(83,249)	-	(83,249)	-
-- Reversal of additional depreciation charges arising from the revaluation surplus on property, plant and equipment	(a)	69,323	46,735	451,021	381,698
-- Reversal of transaction of selling facilities to a related company	(e)	(156,546)	-	-	-
-- Additional staff redundancy costs borne by the parent Company	(f)	(100,782)	-	-	-
Under US GAAP		(559,627)	390,268	4,823,728	5,259,637

(a) Revaluation Surplus of property, plant and equipment

As stated in Note 3(c), the Company revalued its property, plant and equipment as part of the Reorganisation. The revaluation surplus of property, plant and equipment was recorded by the Company on that date.

Under IFRS, revaluation of property, plant and equipment is permitted and depreciation is based on the revalued amount. Additional depreciation arising from the revaluation related to property, plant and equipment was approximately RMB69 million for the year ended 31st December, 2001 (2000: RMB47 million).

Under US GAAP, property, plant and equipment is required to be stated at cost. Hence, no additional depreciation from the revaluation is recognised under US GAAP.

(b) Employee housing expenses

In prior years, the Company sold housing to certain employees at preferential prices, and the related subsidy was borne by a related company and not charged to the Company. Under US GAAP, these expenses are charged to the income statement of the Company as an additional employee benefit over the estimated service life of related employees, with a corresponding increase in shareholders' equity.

27. DIFFERENCES BETWEEN IFRS AND US GAAP (Continued)

(c) Interest expense borne by Sinopec Group

As stated in Note 19(b), a bank loan of approximately RMB30 million was taken up by Sinopec Group, the Ultimate Parent Company which then provided the funding to the Company interest-free. Under US GAAP, related interest expense borne by Sinopec Group is required to be charged to the Company with a corresponding increase in shareholders' equity.

(d) Additional depreciation charge

The butyl rubber plant was suspended for production during the year for a renovation project. Under US GAAP, temporally idle facilities should continue to be depreciated.

(e) Reversal of transaction of selling facilities to a related company

As stated in Note 19(a), the Company sold a polypropylene production facility of original cost of RMB811,417,000 and zero net book value to a related company at a consideration of RMB167,850,000, with a net gain of RMB156,546,000. Under US GAAP transfer of assets between entities under common control should be recorded at book value.

(f) Additional staff redundancy cost

As stated in Note 17(b), the parent Company has borne staff redundancy cost of approximately RMB100,782,000. Under US GAAP, the amount is treated as expense of the Company with a corresponding increase in shareholders' equity.

28. ULTIMATE PARENT COMPANY

The directors consider China Petrochemical Corporation ("Sinopec Group") to be the ultimate parent company.

29. FINANCIAL RISK MANAGEMENT

Risk management policies are approved by the Board of Directors and carried out by respective operating units in the Company.

(a) Business risk

The Company conducts its operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities in the United States of America and Western European companies. These include risks associated with, among others, the political, economic and legal environment.

29. CONCENTRATION OF RISK (Continued)

(b) Credit risk

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics.

The carrying amounts of deposits with financial institutions, trade receivables, and other current assets, represent the Company's maximum exposure to credit risk in relation to financial assets.

The majority of the Company's trade receivables relate to sales of petrochemical products to related parties and third parties. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Company maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

(c) Interest rate risk

The interest rates and terms of repayment of the bank loans are disclosed in Note 12.

(d) Foreign currency risk

All of the Company's businesses are conducted in RMB. Dividends to shareholders holding H Shares are declared in RMB and paid in Hong Kong dollars. As at 31st December, 2001, all of the Company's assets and liabilities were denominated in RMB except that bank deposits of approximately RMB2,294,000 (2000: RMB2,094,000) and bank loans of approximately RMB888,202,000 (2000: RMB818,537,000) were denominated in foreign currencies.

30. CONTINGENT LIABILITIES

The Company has no significant contingent liabilities as of 31st December, 2001.

31. ADDITIONAL FINANCIAL INFORMATION

As at 31st December, 2001, net current liabilities and total assets less current liabilities amounted to approximately RMB2,784 million (2000: net current assets RMB387 million) and RMB6,323 million (2000: RMB7,373 million), respectively.