



**To The Shareholders Of
Sinopec Yizheng Chemical Fibre Company Limited**

We have accepted the appointment and have audited the Company's consolidated balance sheet and balance sheet as of 31 December 2002, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. These financial statements are the responsibility of the Company. Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with the "Independent Auditing Standards for Chinese Certified Public Accountants." In the course of our audit, we considered the circumstances of the Company and its subsidiaries, and carried out such audit procedures, including an examination of the accounting records on a test basis, as we deemed necessary.

In our opinion, the above-mentioned financial statements comply with the relevant requirements of "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises" and present fairly, in all material respects, the consolidated financial position and financial position of the Company as of 31 December 2002, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended, and the accounting policies have been consistently applied.

KPMG Huazhen

Level 16
China World Tower 2
China World Trade Centre
No. 1, Jian Guo Men Wai Avenue
Beijing, the People's Republic of China
Post Code: 100004

*Certified Public Accountants
Registered in the People's Republic of China*

Luo Zheng

Jin Naiwen

4 April 2003

Consolidated Balance Sheet

ANNUAL REPORT 2002

As at 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2002 Rmb'000	2001 Rmb'000
Assets			
Current Assets			
Cash at bank and in hand	4	1,205,374	1,233,771
Bills receivable	5	445,294	355,590
Trade receivables	6	93,428	92,403
Other receivables	7	42,290	61,469
Advance payments	8	50,712	77,376
Inventories	9	1,186,850	998,164
Total current assets		<u>3,023,948</u>	<u>2,818,773</u>
Long-term Investments			
Long-term equity investments (Including: equity investment difference of Rmb29,341,000 (2001: Rmb32,384,000))	10	<u>33,159</u>	<u>30,116</u>
Fixed Assets			
Fixed assets, at cost	11	13,144,962	12,478,274
Less: Accumulated depreciation	11	<u>(5,703,627)</u>	<u>(4,940,547)</u>
Net book value of fixed assets	11	7,441,335	7,537,727
Construction in progress	12	1,021,353	323,673
Construction materials	13	<u>614,652</u>	<u>427,475</u>
Total fixed assets		<u>9,077,340</u>	<u>8,288,875</u>
Intangible Assets and Other Assets			
Intangible assets	14	41,194	55,304
Long-term deferred expenses		<u>3,361</u>	<u>8,426</u>
Total intangible assets and other assets		<u>44,555</u>	<u>63,730</u>
Total Assets		<u><u>12,179,002</u></u>	<u><u>11,201,494</u></u>

The notes on pages 101 to 126 form part of these financial statements.

Consolidated Balance Sheet

ANNUAL REPORT 2002

As at 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Renminbi)

	Note	2002 Rmb'000	2001 Rmb'000
Liabilities and Shareholders' funds			
Current Liabilities			
Short-term loans	16(a)	685,776	580,020
Bills payable	17	683,528	5,000
Trade payables	17	349,404	261,122
Receipts in advance	17	153,184	113,361
Wages payable		154,743	155,611
Staff welfare payable		66,624	67,373
Dividend payable	15	60,000	80,000
Taxes payable	3(d)	142,246	256,396
Other payables		10,697	10,241
Other creditors	17	232,755	165,427
Accrued expenses	18	866	1,155
Current portion of long-term loans	16(b)	400,000	150,000
Total current liabilities		<u>2,939,823</u>	<u>1,845,706</u>
Long-term Liabilities			
Long-term loans	16(b)	<u>300,000</u>	<u>500,000</u>
Total liabilities		<u>3,239,823</u>	<u>2,345,706</u>
Minority Interests			
		<u>57,478</u>	<u>53,920</u>
Shareholders' funds			
Share capital	19	4,000,000	4,000,000
Capital reserve	20	3,078,825	3,078,825
Surplus reserves			
(Including: statutory public welfare fund of Rmb301,153,000 (2001: Rmb288,464,000))	21	1,360,813	1,334,237
Undistributed profits		442,063	388,806
Total shareholders' funds		<u>8,881,701</u>	<u>8,801,868</u>
Total Liabilities and Shareholders' Funds		<u>12,179,002</u>	<u>11,201,494</u>

The financial statements are approved by the Board of Directors on 4 April 2003.

Fu Xing-tang
Chairman
(Legal representative)

Xu Zheng-ning
Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Head of
Accounting Department

The notes are on pages 101 to 126 form part of these financial statements.

	Note	2002 Rmb'000	2001 Rmb'000
Assets			
Current Assets			
Cash at bank and in hand	4	992,653	1,024,416
Bills receivable	5	420,261	328,870
Trade receivables	6	32,085	35,789
Other receivables	7	302,269	442,989
Advance payments	8	42,073	67,822
Inventories	9	1,012,206	791,240
Total current assets		<u>2,801,547</u>	<u>2,691,126</u>
Long-Term Investments			
Long-term equity investments (Including: equity investment difference of Rmb29,341,000 (2001: Rmb32,384,000))	10	(57,516)	(84,529)
Receivables due after 1 year	10(d)	800,000	800,000
Total long-term investments		<u>742,484</u>	<u>715,471</u>
Fixed Assets			
Fixed assets, at cost	11	12,041,168	11,421,574
Less: Accumulated depreciation	11	(5,280,711)	(4,575,785)
Net book value of fixed assets	11	6,760,457	6,845,789
Construction in progress	12	982,233	280,553
Construction materials	13	614,652	427,475
Total fixed assets		<u>8,357,342</u>	<u>7,553,817</u>
Intangible Assets and Other Assets			
Intangible assets	14	41,194	55,304
Long-term deferred expenses		3,361	8,426
Total intangible assets and other assets		<u>44,555</u>	<u>63,730</u>
Total Assets		<u>11,945,928</u>	<u>11,024,144</u>

The notes on pages 101 to 126 form part of these financial statements.

Balance Sheet

ANNUAL REPORT 2002

As at 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Renminbi)

	Note	2002 Rmb'000	2001 Rmb'000
Liabilities and Shareholders' funds			
Current Liabilities			
Short-term loans	16(a)	611,000	550,000
Bills payable	17	670,000	–
Trade payables	17	286,288	220,207
Receipts in advance	17	149,626	81,246
Wages payable		143,538	145,969
Staff welfare payable		57,519	58,039
Dividend payable	15	60,000	80,000
Taxes payable	3(d)	147,694	269,345
Other payables		10,644	9,978
Other creditors	17	219,342	147,663
Accrued expenses	18	866	1,155
Current portion of long-term loans	16(b)	400,000	150,000
Total current liabilities		2,756,517	1,713,602
Long-term Liabilities			
Long-term loans	16(b)	300,000	500,000
Total liabilities		3,056,517	2,213,602
Shareholders' funds			
Share capital	19	4,000,000	4,000,000
Capital reserve	20	3,078,825	3,078,825
Surplus reserves			
(Including: statutory public welfare fund of Rmb301,153,000 (2001: Rmb288,464,000))	21	1,360,813	1,334,237
Undistributed profits		449,773	397,480
Total shareholders' funds		8,889,411	8,810,542
Total Liabilities and Shareholders' Funds		11,945,928	11,024,144

These financial statements are approved by the Board of Directors on 4 April 2003.

Fu Xing-tang
Chairman
(Legal representative)

Xu Zheng-ning
Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Head of
Accounting Department

The notes on pages 101 to 126 form part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

ANNUAL REPORT 2002

For the year ended 31 December 2002
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2002 Rmb'000	2001 Rmb'000
Income from principal operations	22	8,009,669	7,808,658
Less: Cost of sales from principal operations		7,263,424	7,050,075
Business tax and surcharges	3(c)	32,389	30,493
Profit from principal operations		713,856	728,090
Less: Loss from other operations		1,657	6,078
Selling expenses		167,646	138,933
Administrative expenses		362,589	277,510
Financial expenses	23	34,360	28,824
Operating profit		147,604	276,745
Add: Net income from investment	24	6,293	6,043
Non-operating income		6,868	28,037
Less: Non-operating expenses	25	9,300	97,450
Total profit		151,465	213,375
Less: Income tax	3(b)	6,364	40,087
Minority interests		5,268	2,499
Net profit		139,833	170,789
Add: Undistributed profits at the beginning of the year		388,806	340,952
Distributable profits		528,639	511,741
Less: Transfer to statutory surplus reserve	21	13,887	21,937
Transfer to statutory public welfare fund	21	12,689	20,998
Distributable profits to shareholders		502,063	468,806
Less: Dividend	15	60,000	80,000
Undistributed profits		442,063	388,806

The notes on pages 101 to 126 form part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

ANNUAL REPORT 2002

For the year ended 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Renminbi)

	Note	2002 Rmb'000	2001 Rmb'000
Income from principal operations	22	7,265,370	7,103,532
Less: Cost of sales from principal operations		6,617,867	6,424,846
Business tax and surcharges	3(c)	30,364	29,667
Profit from principal operations		617,139	649,019
Less: Loss from other operations		4,759	8,501
Selling expenses		139,269	114,558
Administrative expenses		341,002	250,961
Financial expenses	23	24,776	15,449
Operating profit		107,333	259,550
Add: Net income/(loss) from investments	24	30,263	(30,748)
Non-operating income		6,626	15,359
Less: Non-operating expenses	25	9,004	43,092
Total profit		135,218	201,069
Less: Income tax	3(b)	(3,651)	37,275
Net profit		138,869	163,794
Add: Undistributed profits at the beginning of the year		397,480	356,621
Distributable profits		536,349	520,415
Less: Transfer to statutory surplus reserve	21	13,887	21,937
Transfer to statutory public welfare fund	21	12,689	20,998
Distributable profits to shareholders		509,773	477,480
Less: Dividends	15	60,000	80,000
Undistributed profits		449,773	397,480

The notes on pages 101 to 126 form part of these financial statements.

Consolidated Cash Flow Statement

ANNUAL REPORT 2002

For the year ended 31 December 2002
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	<i>Notes to the consolidated cash flow statement</i>	Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods		10,004,216
Refund of taxes and levies received		10,161
Other cash received relating to operating activities		5,302
		<hr/>
Sub-total of cash inflows		10,019,679
		<hr/>
Cash paid for purchase of goods		7,049,074
Cash paid to and on behalf of employees		586,266
Various taxes paid		752,262
Other cash paid relating to operating activities		164,053
		<hr/>
Sub-total of cash outflows		8,551,655
		<hr/>
Net cash flow from operating activities	(a)	1,468,024
		<hr/>
Cash flows from investing activities:		
Cash received from investment income		3,250
Cash received from disposal of fixed assets		1,535
Other cash received relating to investing activities		111,703
		<hr/>
Sub-total of cash inflows		116,488
		<hr/>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		1,531,165
		<hr/>
Sub-total of cash outflow		1,531,165
		<hr/>
Net cash flow from investing activities		(1,414,677)
		<hr/>
Cash flows from financing activities:		
Proceeds from borrowings		3,478,285
		<hr/>
Sub-total of cash inflow		3,478,285
		<hr/>
Repayment of borrowings		3,322,529
Cash paid relating to dividend distributed and repayment of interest		161,766
Other cash paid relating to financing activities		1,710
		<hr/>
Sub-total of cash outflows		3,486,005
		<hr/>
Net cash flow from financing activities		(7,720)
		<hr/>
Net increase in cash and cash equivalents	(b)	45,627
		<hr/>

The notes on pages 101 to 126 form part of these financial statements.

Consolidated Cash Flow Statement

ANNUAL REPORT 2002

For the year ended 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Renminbi)

Notes to the consolidation cash flow statement

Rmb'000

(a) Reconciliation of net profit to net cash flow from operating activities

Net profit	139,833
Add: Provision for bad and doubtful debts or bad debts written off	3,353
Depreciation of fixed assets	767,906
Amortisation of intangible assets	14,110
Amortisation of long-term deferred expenses	5,065
Investment income	(6,293)
Financial expenses	30,350
Loss on disposal of fixed assets	1,760
Increase in inventories	(188,686)
Increase in operating receivables	(63,292)
Increase in operating payables	758,650
Minority interests	5,268

Net cash flows from operating activities

1,468,024

(b) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the year	490,804
Less: Cash and cash equivalents at the beginning of the year	(445,177)

Net increase in cash and cash equivalents

45,627

The notes on pages 101 to 126 form part of these financial statements.

Cash Flow Statement

ANNUAL REPORT 2002
For the year ended 31 December 2002
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	<i>Notes to the cash flow statement</i>	Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods		8,747,876
Refund of taxes and levies received		10,161
Other cash received relating to operating activities		126,688
		<hr/>
Sub-total of cash inflows		8,884,725
		<hr/>
Cash paid for purchase of goods		6,042,052
Cash paid to and on behalf of employees		543,949
Various tax paid		708,470
Other cash paid relating to operating activities		136,318
		<hr/>
Sub-total of cash outflows		7,430,789
		<hr/>
Net cash flow from operating activities	(a)	1,453,936
		<hr/>
Cash flows from investing activities:		
Cash received from investment income		3,250
Cash received from disposal of fixed assets		1,313
Other cash received relating to investing activities		116,095
		<hr/>
Sub-total of cash inflows		120,658
		<hr/>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		1,486,343
		<hr/>
Sub-total of cash outflows		1,486,343
		<hr/>
Net cash flow from investing activities		(1,365,685)
		<hr/>
Cash flows from financing activities:		
Proceeds from borrowings		3,164,736
		<hr/>
Sub-total of cash inflows		3,164,736
		<hr/>
Repayment of borrowings		3,053,736
Cash paid relating to the dividend distributed and repayment of interest		159,064
		<hr/>
Sub-total of cash outflows		3,212,800
		<hr/>
Net cash flow from financing activities		(48,064)
		<hr/>
Net increase in cash and cash equivalents	(b)	40,187
		<hr/> <hr/>

The notes on pages 101 to 126 form part of these financial statements.

Cash Flow Statement

ANNUAL REPORT 2002

For the year ended 31 December 2002

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Renminbi)

Notes to the cash flow statement

Rmb'000

(a) Reconciliation of net profit to cash flows from operating activities

Net profit	138,869
Add: Provision for bad and doubtful debts or bad debts written off	943
Depreciation of fixed assets	708,291
Amortisation of intangible assets	14,110
Amortisation of long-term deferred expenses	5,065
Investment income	(30,263)
Financial expenses	21,182
Loss on disposal of fixed assets	1,715
Increase in inventories	(220,966)
Decrease in operating receivables	62,786
Increase in operating payables	752,204

Net cash flows from operating activities

1,453,936

(b) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the year	347,653
Less: Cash equivalents at the beginning of the year	(307,466)

Net increase in cash and cash equivalents

40,187

The notes on pages 101 to 126 form part of these financial statements.

1. Company information

Sinopec Yizheng Chemical Fibre Company Limited (the “**Company**”) was established in the People’s Republic of China (the “**PRC**”) on 31 December 1993 as a joint stock limited company as part of the restructuring of the Yihua Group Corporation (“**Yihua**”). On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other governmental authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited (“**CEUPEC**”) became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“**CITIC**”) continues to hold the 18% of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares.

Following the State Council’s approval of the reorganisation of China Petrochemical Corporation (“**CPC**”) on 21 July 1998, CEUPEC joined CPC. As a result of the reorganisation, Yihua replaced CEUPEC as the holder of the 42% of the Company’s issued share capital, and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“**Sinopec**”), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec and Sinopec became the largest shareholder of the Company.

By a special resolution passed in the Shareholders’ Meeting on 18 October 2000, the name of the Company was changed from “Yizheng Chemical Fibre Company Limited” to “Sinopec Yizheng Chemical Fibre Company Limited”.

The principal activities of the Company and its subsidiaries (the “**Group**”) are the manufacturing and sale of polyester chips and polyester staple fibre.

2. Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of the financial statements conform with the “Accounting Standards for Business Enterprises” and the “Accounting Regulations for Business Enterprises”.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group’s consolidated financial statements are prepared in accordance with the “Accounting Regulations for Business Enterprise” and Cai Kuai Zi [1995] No.11 “Temporary regulations on consolidated financial statement” issued by the Ministry of Finance.

2. Significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries made up to 31 December each year. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

(c) Basis of preparation and measurement basis

The Group's basis of preparation is on an accrual basis. Unless specifically stated, the measurement basis is under the historical cost convention.

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is Renminbi.

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rates quoted by the People's Bank of China ruling at the dates of the transactions ("PBOC rates").

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable PBOC rates ruling at that date. Except for exchange differences directly relating to the purchase or construction of fixed assets (including exchange differences on borrowed funds specifically for the purchase or construction of fixed assets), are capitalised before they are ready for use, other foreign exchange differences are recognised as exchange gains or losses in the income statement for the period.

(e) Cash equivalents

Cash equivalents are short-term, highly liquid investments, readily convertible into known amounts of cash without notice, with low risk of fluctuation in value, which comprise time deposits with financial institutions with an initial term of less than three months.

(f) Provision for bad debts

Bad debt expenses are accounted for based on allowance method under which bad debt expenses are estimated periodically.

2. Significant accounting policies (Continued)

(f) Provision for bad debts (Continued)

Bad debts losses are estimated by identifying trade receivables showing signs of uncollectibility individually, and allowance is then made based on the probability of the related uncollectible amount; in respect of trade receivables showing no sign of uncollectibility, allowance is made based on the ageing analysis and a reasonable portion as determined by the directors with reference to their past experience. Allowances for other receivables are determined based on their specific nature and the corresponding estimated collectibility. Specific approval from the directors is necessary for allowances made in respect of significant specific receivables.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories.

Cost of inventories includes the cost of purchase of raw materials computed using the weighted average method. In addition to the purchase costs of raw materials, work in progress and finished goods include direct labour and an appropriate share of production overheads computed using the weighted average method based on normal operating capacity. Net realisable value is determined based on the estimated selling price of inventories less estimated cost of completion, estimated selling expenses and related taxes payable in the ordinary course of business.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are amortised in full when received for use.

The Group adopts a perpetual inventory system.

(h) Long-term equity investments

Long term investments are stated at the lower of the amortised cost and the recoverable amount. A provision for impairment is made on the difference between the amortised cost and the lower recoverable amount.

The group accounts for its investment in subsidiaries under the equity method of accounting, which is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of shareholders' equity of the investee enterprise. Equity-investment difference, which is the difference between initial investment cost and the share of shareholders' equity value of the investee companies, is amortised on a straight-line basis. Amortisation for the period is recognised as investment income. When the agreement specifies the investment period, it is amortised over the investment period. When the agreement does not specify the investment period, it is amortised over 10 years.

The Group adopts the cost method to account for investments of less than 20% of the shareholdings or if the Group does not exercise significant influence over the investee despite holding more than 20% of the shareholdings. Investment income is recognised when investee company declares cash dividend or distributes profit.

On disposals or transfers of long-term equity investments, differences between the disposal proceeds and the carrying amount of the investments are recognised in the income statement.

2. Significant accounting policies (Continued)

(i) Fixed assets

Fixed assets are relatively high-valued assets with useful lives over one year held by the Group for the production and operation purposes.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations and fixed assets are adjusted to the revalued amounts accordingly.

The Group's fixed assets are depreciated using the straight-line method, which is the fixed assets' costs less their estimated residual values over their estimated useful lives. The respective estimated useful lives and the estimated rate of net residual values adopted for fixed assets are as follows:

	Depreciation life	Rate of net residual values
Land and buildings	25 to 50 years	3%
Plant, machinery and equipment	8 to 22 years	3%
Motor vehicles and other fixed assets	5 to 20 years	3%

(j) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated in the balance sheet at cost less impairment losses. All direct and indirect costs related to the acquisition or construction of fixed assets, including interest expenses and the related foreign exchange differences on specific borrowings for the construction during the construction period (see note 2(m)) incurred before the assets are ready for their intended uses, are capitalised as construction in progress.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets and long-term deferred expenses

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses. The cost of intangible assets is amortised on a straight-line basis over the contractual or legal period, being the shorter of the beneficial period as specified in the relevant contracts or laws, or if in the absence of contractual or legal period, amortised over 10 years.

(ii) Long-term deferred expenses

Long-term deferred expenses are capitalised when incurred and amortised on a straight line period over the benefit period.

2. Significant accounting policies (Continued)

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Interest income

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the asset.

(m) Borrowing costs

Borrowing costs represent interest expenses and foreign exchange difference on loans. Borrowing costs incurred in relation to the purchase and construction of fixed assets are capitalised before the asset is ready for its intended use. Other borrowing costs are expensed in the income statement in the period in which they are incurred.

(n) Repairs and maintenance expenses

Repairs and maintenance expenses, (including cost of major overhaul) are expensed as incurred.

(o) Research and development costs

Research and development costs are recognised as expenses in the income statement in the period in which they are incurred.

(p) Retirement benefits

Contribution payable under the retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan.

(q) Impairment of assets

The carrying amounts of all assets are reviewed by the Group periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The provision for asset impairment is recognised as an expense in the income statement.

2. Significant accounting policies (Continued)

(q) Impairment of assets (Continued)

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. The provision for impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced. The reversed amount is credited to the income statement in the period in which the reversal is recognised.

(r) Taxes

Income tax is provided using the tax-effect accounting method. Income tax expense comprises current and deferred tax.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year and the applicable tax rates.

(ii) Deferred tax

Deferred tax is provided using the liability method. This method provides for temporary differences between the amounts stated in the financial statements and the amounts used for taxation purposes. When the initial recognition of assets or liabilities which affect neither the accounting profit nor taxable profit/loss, no deferred tax is provided for in this regard.

The tax value of losses, expected to be available for utilisation against future taxable income is set off against the deferred tax liability (within the same legal tax unit and within the same jurisdiction). When the related tax benefit of the deferred tax assets cannot be realised, the net deferred tax assets are reduced to the realisable amount.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. Taxation

- (a) The applicable tax rates of the Group related to sales and services include income tax, value added tax, business tax ("VAT"), city development tax and education surcharge.

The VAT rate is 17%.

The business tax rate is either 3% or 5%.

City development tax is paid at a rate of 7% of the sum of business tax and value added tax paid.

Education surcharge is paid at a rate of 4% of the sum of business tax and value added tax paid.

3. Taxation (Continued)

(b) Income tax

Pursuant to the directive "Cai Shui Zi [1994] No.17" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 18 April 1994, the company's income tax is calculated at 15%. As notice from the State Administration of Taxation whether this tax rate is still applicable for 2003 has not yet been received, the tax rate applicable to the company for 2003 may increase.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%; two of its subsidiaries are sino-foreign investment enterprises and entitled to a tax holiday of tax-free period for the first two years and 50% reduction in income tax liability for the following three years.

Pursuant to the directive "Cai Shui Zi [1999] No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company is entitled to an income tax credit relating to the purchase of equipment produced in the PRC for technological improvement. Income tax credit relating to the purchase of equipment produced in the PRC of Rmb25,141,000 has been deducted in arriving at the provision for taxation for the year ended 31 December 2002 (2001: Rmb Nil).

(c) Business tax and surcharges:

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
City construction tax	19,968	18,878	19,309	18,878
Education fee and surcharges	11,406	10,789	11,055	10,789
Others	1,015	826	-	-
	<u>32,389</u>	<u>30,493</u>	<u>30,364</u>	<u>29,667</u>

(d) Taxes payable:

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Income tax payable	89,951	148,178	84,730	146,573
Business tax and surcharges payable	157	143	157	143
VAT payable	34,808	93,899	49,043	110,719
Other taxes payable	17,330	14,176	13,764	11,910
	<u>142,246</u>	<u>256,396</u>	<u>147,694</u>	<u>269,345</u>

(e) Deferred taxation

No deferred taxes have been provided for in the financial statements as the effect of all temporary differences or unused tax losses available for set-off against future taxable income of the subsidiaries is considered not material.

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4. Cash at bank and in hand

	Original Currency '000	The Group		2001 Renminbi Equivalent Rmb'000
		2002 Exchange Rate	Renminbi Equivalent Rmb'000	
<i>Cash in hand</i>				
Renminbi			109	270
<i>Cash at bank</i>				
Renminbi			325,020	438,566
Hong Kong Dollars	2,379	1.06	2,522	893
US Dollars	5,352	8.28	44,313	26,538
<i>Cash at bank and in hand</i>			371,964	466,267
<i>Deposits with related companies</i>			833,410	767,504
			1,205,374	1,233,771

	Original Currency '000	The Company		2001 Renminbi Equivalent Rmb'000
		2002 Exchange Rate	Renminbi Equivalent Rmb'000	
<i>Cash in hand</i>				
Renminbi			48	97
<i>Cash at bank</i>				
Renminbi			163,170	280,076
Hong Kong Dollars	135	1.06	143	144
US Dollars	5,218	8.28	43,212	24,078
<i>Cash at bank and in hand</i>			206,573	304,395
<i>Deposits with related companies</i>			786,080	720,021
			992,653	1,024,416

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Details are set out in Note 26.

5. Bills receivable

Types of bills receivable are as follows:

	The Group				The Company			
	2002 Rmb'000	%	2001 Rmb'000	%	2002 Rmb'000	%	2001 Rmb'000	%
Bank acceptance bills of exchange	390,074	88	355,590	100	365,041	87	328,870	100
Commercial acceptance bills of exchange	55,220	12	—	—	55,220	13	—	—
	<u>445,294</u>	<u>100</u>	<u>355,590</u>	<u>100</u>	<u>420,261</u>	<u>100</u>	<u>328,870</u>	<u>100</u>

At 31 December 2002, the above bank and commercial acceptance bills of exchange were not pledged.

Balances due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 26.

6. Trade receivables

	The Group				The Company			
	2002 Rmb'000	%	2001 Rmb'000	%	2002 Rmb'000	%	2001 Rmb'000	%
Trade receivables								
Within one year	82,696	79	87,006	80	28,737	68	31,817	71
Between one to two years	7,069	7	6,310	6	2,145	5	4,700	10
Between two to three years	7,100	7	2,624	2	4,617	11	2,589	6
Over three years	7,395	7	13,026	12	6,651	16	5,805	13
	<u>104,260</u>	<u>100</u>	<u>108,966</u>	<u>100</u>	<u>42,150</u>	<u>100</u>	<u>44,911</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Within one year	—	—	—	—	—	—	—	—
Between one and two years	(644)	9	(1,963)	31	(644)	30	(1,764)	38
Between two and three years	(2,793)	39	(1,574)	60	(2,770)	60	(1,553)	60
Over three years	(7,395)	100	(13,026)	100	(6,651)	100	(5,805)	100
	<u>(10,832)</u>	<u>10</u>	<u>(16,563)</u>	<u>15</u>	<u>(10,065)</u>	<u>24</u>	<u>(9,122)</u>	<u>20</u>
Trade receivables, net	<u>93,428</u>		<u>92,403</u>		<u>32,085</u>		<u>35,789</u>	

During the year ended 31 December 2002, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.

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6. Trade receivables (Continued)

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 26.

	2002 Rmb'000	%	2001 Rmb'000	%
Total of the five largest trade receivables	<u>29,802</u>	<u>32</u>	<u>20,353</u>	<u>22</u>

7. Other receivables

	The Group				The Company			
	2002 Rmb'000	%	2001 Rmb'000	%	2002 Rmb'000	%	2001 Rmb'000	%
Other receivables								
Within one year	26,233	40	45,846	47	17,272	5	65,889	14
Between one and two years	2,752	4	16,002	17	2,131	1	136,258	30
Between two and three years	14,290	22	336	–	45,037	14	194,143	42
Over three years	22,637	34	34,699	36	255,432	80	64,578	14
	<u>65,912</u>	100	<u>96,883</u>	100	<u>319,872</u>	100	<u>460,868</u>	100
Less: Provision for bad and doubtful debts								
Within one year	–	–	–	–	–	–	–	–
Between one and two years	–	–	(2,868)	18	–	–	(2,868)	2
Between two and three years	(2,592)	18	(330)	98	(2,592)	6	(330)	–
Over three years	(21,030)	93	(32,216)	93	(15,011)	6	(14,681)	23
	<u>(23,622)</u>	36	<u>(35,414)</u>	37	<u>(17,603)</u>	6	<u>(17,879)</u>	4
Other receivables, net	<u>42,290</u>		<u>61,469</u>		<u>302,269</u>		<u>442,989</u>	

During the year ended 31 December 2002, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 26.

	2002 Rmb'000	%	2001 Rmb'000	%
Total of the five largest other receivables	<u>8,116</u>	<u>19</u>	<u>24,720</u>	<u>40</u>

8. Advance payments

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 26.

All advance payments are aged within one year.

9. Inventories

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
At cost				
Raw materials	727,591	537,707	666,969	447,894
Work in progress	56,473	52,649	52,820	49,509
Finished goods	199,038	216,642	113,232	125,890
Goods in transit	32	323	32	323
Spare parts and consumables	250,902	234,986	223,939	209,367
	<u>1,234,036</u>	<u>1,042,307</u>	<u>1,056,992</u>	<u>832,983</u>
Less: Provision for diminution in value of inventories				
Raw materials	(8,800)	(1,800)	(7,000)	–
Finished goods	(8,643)	(12,600)	(8,043)	(12,000)
Spare parts and consumables	(29,743)	(29,743)	(29,743)	(29,743)
	<u>(47,186)</u>	<u>(44,143)</u>	<u>(44,786)</u>	<u>(41,743)</u>
	<u>1,186,850</u>	<u>998,164</u>	<u>1,012,206</u>	<u>791,240</u>

Analysis on provision for diminution in value of inventories is as follows:

	The Group			The Company		
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000
At 1 January 2002	1,800	12,600	29,743	–	12,000	29,743
Charge for the year	7,000	14,000	–	7,000	14,000	–
Write back for the year	–	(17,957)	–	–	(17,957)	–
At 31 December 2002	<u>8,800</u>	<u>8,643</u>	<u>29,743</u>	<u>7,000</u>	<u>8,043</u>	<u>29,743</u>

The above inventories are either purchased or self-produced.

The majority of the cost of inventories has been included in cost of sales in the income statement.

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10. Long-term equity investments

	Equity- investment difference	The Group Other unlisted equity investment	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>Note (b)</i>	<i>Note (c)</i>	
At 1 January 2002	(32,384)	62,500	30,116
Amortisation (<i>Note 24</i>)	3,043	–	3,043
At 31 December 2002	<u>(29,341)</u>	<u>62,500</u>	<u>33,159</u>

	Consolidated equity in subsidiaries	Equity- investment difference	The Company Other unlisted equity investment	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>Note (a)</i>	<i>Note (b)</i>	<i>Note (c)</i>	
At 1 January 2002	(114,645)	(32,384)	62,500	(84,529)
Share of profits less losses from investments accounted for under the equity method (<i>Note 24</i>)	23,970	–	–	23,970
Amortisation (<i>Note 24</i>)	–	3,043	–	3,043
At 31 December 2002	<u>(90,675)</u>	<u>(29,341)</u>	<u>62,500</u>	<u>(57,516)</u>

10. Long-term equity investments (Continued)

- (a) The particulars of subsidiaries which principally affect the results, assets and liabilities of the Group are as follows:

Name of company	Registered capital <i>in thousands</i>	Percentage of equity held		Types of legal entity	Principal activity
		directly by the Company %	held by subsidiary %		
Foshan Chemical Fibre Complex	Rmb32,933	100	–	Wholly-owned legal person	Management and administration
Yizheng Chemical Fibre Foshan Polyester Company Limited (“Foshan Polyester”)	USD85,427	59	41	Limited company	Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after-sales services
Yihua Kangqi Chemical Fibre Company Limited	Rmb60,000	95	5	Limited company	Investment holding and trading of polyester chips and polyester fibre

All of the above principal subsidiaries are established and operated in the PRC.

- (b) The difference between the company's initial cost of investments in subsidiaries, which were acquired in 1995, and its share of their net asset values was treated as an “equity-investment difference”. The “equity-investment difference” is amortised on a straight-line basis over 15 years. The remaining period of amortisation is approximately 10 years.
- (c) Other unlisted equity investment

At 31 December 2002, the other unlisted equity investment of the Group and the Company is as follows:

Name of investee	Investment Period	Total investment <i>Rmb'000</i>	Percentage Shareholdings %	Provision for diminution in value <i>Rmb'000</i>
Sinopec Finance	–	62,500	3.3	–

- (d) The amounts due from subsidiaries of Rmb800 million (2001: Rmb800 million) are expected to be recovered after more than one year.

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11. Fixed assets

	Land and buildings <i>Rmb'000</i>	The Group Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2002	2,500,133	9,399,966	578,175	12,478,274
Additions	–	2,426	1,682	4,108
Transferred from construction in progress (Note 12)	62,054	591,413	17,234	670,701
Disposals	–	(5,300)	(2,821)	(8,121)
Reclassifications	(1,805)	(10,410)	12,215	–
At 31 December 2002	<u>2,560,382</u>	<u>9,978,095</u>	<u>606,485</u>	<u>13,144,962</u>
Accumulated depreciation:				
At 1 January 2002	533,013	4,093,892	313,642	4,940,547
Charge for the year	79,849	620,339	67,718	767,906
Written back on disposal	–	(2,343)	(2,483)	(4,826)
Reclassifications	(345)	(1,811)	2,156	–
At 31 December 2002	<u>612,517</u>	<u>4,710,077</u>	<u>381,033</u>	<u>5,703,627</u>
Net book value:				
At 31 December 2002	<u>1,947,865</u>	<u>5,268,018</u>	<u>225,452</u>	<u>7,441,335</u>
At 31 December 2001	<u>1,967,120</u>	<u>5,306,074</u>	<u>264,533</u>	<u>7,537,727</u>

11. Fixed assets (Continued)

	Land and buildings <i>Rmb'000</i>	The Company Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2002	2,184,326	8,687,570	549,678	11,421,574
Additions	1,889	1,612	401	3,902
Transferred from construction in progress (Note 12)	60,486	545,458	16,141	622,085
Disposals	–	(5,250)	(1,143)	(6,393)
Reclassifications	105	839	(944)	–
At 31 December 2002	<u>2,246,806</u>	<u>9,230,229</u>	<u>564,133</u>	<u>12,041,168</u>
Accumulated depreciation:				
At 1 January 2002	482,514	3,794,934	298,337	4,575,785
Charge for the year	70,671	574,462	63,158	708,291
Written back on disposal	–	(2,299)	(1,066)	(3,365)
Reclassifications	105	839	(944)	–
At 31 December 2002	<u>553,290</u>	<u>4,367,936</u>	<u>359,485</u>	<u>5,280,711</u>
Net book value:				
At 31 December 2002	<u>1,693,516</u>	<u>4,862,293</u>	<u>204,648</u>	<u>6,760,457</u>
At 31 December 2001	<u>1,701,812</u>	<u>4,892,636</u>	<u>251,341</u>	<u>6,845,789</u>

All the Group's buildings are located in the PRC.

As at 31 December 2002, the Group do not have any material amount of unutilised fixed assets.

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12. Construction in progress

Construction in progress comprises expenditure incurred on buildings, plant, machinery and equipment not yet commissioned.

The projects not yet completed at 31 December 2002 are as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance at 1 January 2002 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Transferred out <i>Rmb'000</i> (Note 11)	Balance at 31 December 2002 <i>Rmb'000</i>	Source of fund	Percentage of completion	Borrowing costs capitalised <i>Rmb'000</i>
Phrase 4 project	2,055,035	205,707	681,797	–	887,504	Bank loans / surplus fund	43%	39,372
Improvements and expansion of existing plants	834,804	74,000	598,658	(595,417)	77,241	Surplus fund	9%	–
Other construction projects	161,653	846	43,310	(26,668)	17,488	Surplus fund	11%	–
Total for the Company		280,553	1,323,765	(622,085)	982,233			
Miscellaneous project of the subsidiaries		43,120	44,616	(48,616)	39,120	Surplus fund		
Total for the Group		<u>323,673</u>	<u>1,368,381</u>	<u>(670,701)</u>	<u>1,021,353</u>			

The borrowing costs of the Group for the year have been capitalised at an average rate of 5.1% (2001: 5.94%).

13. Construction materials

	The Group and The Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Equipment and accessories	613,659	424,740
Other construction materials	993	2,735
	<u>614,652</u>	<u>427,475</u>

14. Intangible assets

	The Group and The Company	
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Cost of patent rights		
At the beginning and end of the year	<u>141,097</u>	141,097
Amortisation:		
At the beginning of the year	85,793	71,683
Charge for the year	14,110	14,110
At the end of the year	<u>99,903</u>	<u>85,793</u>
Net balance at the end of the year	<u>41,194</u>	<u>55,304</u>

The Company acquired patent rights in 1995 and 1999, which are amortised over ten years. The remaining periods of amortisation are 4 and 6 years respectively.

15. Dividend

	The Group and The Company	
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Final dividend proposed of Rmb1.5 cents per share (2001: Rmb2 cents per share)	<u>60,000</u>	<u>80,000</u>

16. Short-term and long-term loans

(a) Short-term bank loans:

Short-term loans are denominated in Renminbi general credit facilities. At 31 December 2002, the weighted-average annual interest rate of the Group and the Company are 4.4% (2001: 5.2%) and 4.5% (2001: 5.3%) respectively. At 31 December 2002, the Group and the Company did not have any significant overdue short-term loans (2001: Nil). Short-term loans are unguaranteed and unsecured loans.

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16. Short-term and long-term loans (Continued)

(b) Long-term bank loans

Lender	Period	Interest rate	Interest type	The Group and The Company	
				At 31 December 2002 Rmb'000	At 31 December 2001 Rmb'000
Bank of China Industrial and Commercial	Due in 2002	5.94%	Floating	–	100,000
Bank of China Industrial and Commercial	Due in 2002	5.94%	Floating	–	50,000
Bank of China Industrial and Commercial	Due in 2003	5.94%	Floating	–	250,000
Bank of China	Due in 2003	4.94%	Fixed	400,000	–
Bank of China Industrial and Commercial	Due in 2003	5.94%	Floating	–	50,000
Bank of China Industrial and Commercial	Due in 2004	4.94%	Fixed	150,000	–
Bank of China	Due in 2004	5.94%	Fixed	–	150,000
Construction Bank Industrial and Commercial	Due in 2004	5.35%	Floating	–	50,000
Bank of China	Due in 2005	4.94%	Fixed	150,000	–
Total long-term bank loans				700,000	650,000
Less: Long-term bank loans (Current portion)				400,000	150,000
Long-term bank loans (Long-term portion)				300,000	500,000

The above long-term bank loans are denominated in Renminbi.

The repayment terms of the long term bank loans are as follows:

	The Group and The Company	
	2002 Rmb'000	2001 Rmb'000
Due within one year	400,000	150,000
Due between 1-2 years	150,000	300,000
Between 2-3 years	150,000	200,000
Total bank loans	700,000	650,000

(c) At 31 December 2002, CPC did not give guarantees to banks in respect of long-term loans granted to the Company (2001: Rmb50,000,000).

17. Bills payable, trade payables, receipts in advance and other creditors

Bills payable are mainly issued for the purchase of raw materials, goods or products by the Group, with the repayment terms generally ranging from three to six months:

	The Group				The Company			
	2002 Rmb'000	%	2001 Rmb'000	%	2002 Rmb'000	%	2001 Rmb'000	%
Bills payable								
Bank acceptance bills of exchange	-	-	5,000	100	-	-	-	-
Commercial acceptance bills of exchange	<u>683,528</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>670,000</u>	<u>100</u>	<u>-</u>	<u>-</u>
	<u>683,528</u>	<u>100</u>	<u>5,000</u>	<u>100</u>	<u>670,000</u>	<u>100</u>	<u>-</u>	<u>-</u>

There is no material payable aged over three years included in trade payables and other creditors.

There is no material balance aged over one year included in receipts in advance.

In the accounts of bills payable, trade payables, receipts in advance and other creditors, balances due to substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 26.

The ageing analysis of bills payable, trade payables, and receipts in advance is as follows:

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Within one month or on demand	640,197	309,687	585,914	256,657
Due after one month but within six months	<u>545,919</u>	<u>69,796</u>	<u>520,000</u>	<u>44,796</u>
	<u>1,186,116</u>	<u>379,483</u>	<u>1,105,914</u>	<u>301,453</u>

18. Accrued expenses

Accrued expenses represent interest accrual.

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19. Share capital

	The Group and The Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Registered, issued and paid up capital:		
2,400,000,000 "Legal person A" shares of Rmb1 each	2,400,000	2,400,000
200,000,000 "Social public A" shares of Rmb1 each	200,000	200,000
1,400,000,000 "H" shares of Rmb1 each	1,400,000	1,400,000
	<u>4,000,000</u>	<u>4,000,000</u>

All the "Legal Person A", "Social public A" and "H" shares rank pari passu in all material respects.

20. Capital reserve

Capital reserve represents share premium.

21. Surplus reserves

	The Group and The Company			Total <i>Rmb'000</i>
	Statutory surplus reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Discretionary surplus reserve <i>Rmb'000</i>	
At 1 January 2001	429,289	267,466	594,547	1,291,302
Transfer from retained profits	21,937	20,998	–	42,935
At 31 December 2001	<u>451,226</u>	<u>288,464</u>	<u>594,547</u>	<u>1,334,237</u>
At 1 January 2002	451,226	288,464	594,547	1,334,237
Transfer from retained profits	13,887	12,689	–	26,576
At 31 December 2002	<u>465,113</u>	<u>301,153</u>	<u>594,547</u>	<u>1,360,813</u>

Transfers from the distributable profits to the above surplus reserves were made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

22. Income from principal operations

For the year ended 31 December 2002, revenue from sales to the top five customers amounted to Rmb1,671,000,000 (2001: Rmb1,839,702,000) which accounts for 21% of the total income from sales of goods of the Group (2001: 24%).

23. Financial expenses

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Interest expenses incurred	81,477	75,554	78,775	75,451
Less: Interest expenses capitalised	(28,501)	(16,330)	(28,501)	(16,330)
Interest expenses	52,976	59,224	50,274	59,121
Interest income	(22,626)	(34,682)	(29,092)	(47,830)
Net exchange loss/(gain)	16	(355)	(297)	(142)
Others	3,994	4,637	3,891	4,300
	34,360	28,824	24,776	15,449

24. Investment income

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Accounted for under the equity method (Note 10)	-	-	23,970	(36,791)
Amortisation of equity investment difference (Note 10)	3,043	3,043	3,043	3,043
Dividend from other equity investment	3,250	3,000	3,250	3,000
	6,293	6,043	30,263	(30,748)

25. Non-operating expenses

	The Group		The Company	
	2002 Rmb'000	2001 Rmb'000	2002 Rmb'000	2001 Rmb'000
Loss on disposal of fixed assets	1,760	1,236	1,715	637
Employee reduction expenses	-	87,800	-	34,150
Others	7,540	8,414	7,289	8,305
	9,300	97,450	9,004	43,092

There were no employee reduction expenses incurred during the year ended 31 December 2002. In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb87,800,000 during the year ended 31 December 2001 in respect of the voluntary resignation of approximately 1,170 employees.

26. Related parties and related transactions

(a) Related party having the ability to exercise significant influence:

Name of Company	:	China Petroleum & Chemical Corporation ("Sinopec")
Registered Address	:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal operations	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information
Relationship with the Company	:	The immediate holding company
Economic nature	:	Joint stock limited company
Authorised representative	:	Li Yizhong
Registered capital	:	Rmb86.7 billion

The above mentioned related party, having the ability to exercise significant influence over the Group, has registered share capital of Rmb86,707,439. There was no change during the year.

The equity holding of the company having the ability to exercise significant influence over the Group and the Company is as follows:

	Number of shares	Percentage
As at 31 December 2001 and 2002	1,680,000,000	42%

(b) Related parties not subject to direct control

Name of company	Relationship with Company
CPC	Ultimate holding company
CITIC	Shareholder
Yihua	Common ultimate holding company
Sinopec Yangzi Petrochemical Company Limited (" Yangzi ")	Common immediate holding company
Sinopec Finance	Common ultimate holding company
CITIC Industrial Bank	Subsidiary of CITIC
Nanjing Chemical Industrial Group Limited (" Nanhua ")	Common ultimate holding company
Sinopec Maoming Petrochemical Corporation (" Maoming ")	Common ultimate holding company

26. Related parties and related transactions (Continued)

(c) Significant transactions between the Group and the related parties during the year were as follows:

Yangzi

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Purchase of raw materials	<u>2,082,970</u>	<u>2,028,719</u>

Yihua and its subsidiaries ("Yihua Group")

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Sales	921,641	1,070,203
Purchases	109,218	103,945
Miscellaneous service fee charges (see note below)	132,487	118,360
Miscellaneous service fee income (see note below)	28,947	27,597
Trademark licence fee (see note below)	10,000	10,000
Payments relating to the construction and maintenance work	<u>102,501</u>	<u>79,199</u>

Notes: The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 12 December 2001 and 27 November 2002 signed between the Company and Yihua.

In accordance with the agreement dated 27 November 2002 signed between the Company and Yihua, the Company transferred its existing 634 employees working in the security and catering functions to Yihua which then provides the security and catering services to the Company.

Sinopec and its subsidiaries, excluding Yangzi

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Service charges for the purchase of import equipments	2,594	–
Purchase of equipments	4,000	–
Purchase of raw materials	168,127	111,884
Subsidy received in respect of technological research and development	<u>5,400</u>	<u>12,080</u>

CPC Group (excluding Yihua Group, Sinopec and its subsidiaries)

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Payments for construction work	127,726	–
Purchase of equipment	12,832	6,659
Purchase of raw materials	41,890	24,161
Insurance premium paid	<u>13,834</u>	<u>13,507</u>

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26. Related parties and related transactions (Continued)

- (c) Significant transactions between the Group and the related parties during the year were as follows: (Continued)

Sinopec Finance

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Interest income	<u>11,362</u>	<u>13,732</u>

CITIC Industrial Bank

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Interest income	<u>557</u>	<u>374</u>

The Directors of the Company are of the opinion that the above transactions with related parties were entered into in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing these transactions.

- (d) At 31 December 2002, CPC did not give guarantees to banks in respect of bank loans granted to the Company (2001: Rmb50,000,000).

- (e) Deposits with Sinopec Finance

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Cash at bank and in hand	<u>772,439</u>	<u>715,728</u>

- (f) Deposits with CITIC Industrial Bank

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Cash at bank and in hand	<u>60,971</u>	<u>51,776</u>

- (g) Details of amounts due from/(to) Yihua Group are as follows:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Trade receivables	4,434	7,139
Bills receivable	43,841	35,912
Other receivables	917	53
Trade payables	(2,548)	(8,379)
Receipts in advance	(8,126)	(6,800)
Other creditors	<u>(17,217)</u>	<u>(57,160)</u>
	<u>21,301</u>	<u>(29,235)</u>

26. Related parties and related transactions (Continued)**(h) Details of amounts due from/(to) other related parties are as follows:**

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Advance payment	8,291	–
Other receivables	1,791	8,257
Trade payables	(30,024)	(38,795)
Other creditors	(37,105)	(36,690)
Bills payable	(670,000)	–
	<u>(727,047)</u>	<u>(67,228)</u>

27. Contingent liabilities

- (a) At 31 December 2002, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans granted to certain wholly owned subsidiaries amounted to Rmb74,776,000 (2001: Rmb30,020,000).
- (b) At 31 December 2002, the Group discounted commercial acceptance bills of exchange totalled Rmb42,900,000 (2001: Nil).

28. Capital commitments

At 31 December 2002, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Authorised and contracted for	455,682	690,890	451,262	665,652
Authorised but not contracted for	740,849	1,416,623	740,849	1,393,669
	<u>1,196,531</u>	<u>2,107,513</u>	<u>1,192,111</u>	<u>2,059,321</u>

These capital commitments are for construction of purified terephthalic acid production plant and improvement to existing plants.

29. Retirement benefits

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution retirement schemes organised by their respective Municipal Governments under which they are governed. Details of these schemes of the Company and its principal subsidiary, Foshan Polyester, are as follows:

Administrator	Beneficiary	Contribution rate	
		2002	2001
Yizheng Municipal Government Jiangsu Province	Employees of the Company	17%	16%
Foshan Municipal Government Guangdong Province	Employees of Foshan Polyester	19%	19%

All employees are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. Based on the salaries, bonuses and certain allowances of its employees, the Group has to make contributions according to the contributions rate stated above. Except for the above, the Group is not required to bear any other material obligation on the basic retirement benefits.

Other than the above, pursuant to a directive "Lao Bu Fa [1995] No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company's management. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2002 was 9% (2001: 9%).

30. Post balance sheet event

Up to the approval date of these financial statements, there were no material post balance sheet events for the Group.