

Supplemental Information for North American Shareholders

The Company's accounting policies conform to IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Differences which have a significant effect on profit/(loss) attributable to shareholders and shareholders' equity are set out below. The US GAAP reconciliation presented below is unaudited and included as supplemental information and is not required as part of the basic financial statements.

(a) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Company were revalued in 1997. Under IFRS, such revaluations result in an increase in shareholders' equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical bases. In addition, a deferred tax liability related to the non-tax deductibility of certain revaluation surplus has been recorded under IFRS.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. In prior years, there was an error in the amount of the revaluation surplus of property, plant and equipment and related depreciation expense that was reversed under US GAAP. The effect of this error resulted in a decrease to shareholders' equity of RMB 649,305,000 at 31 December 2001 and an increase to loss attributable to shareholders of RMB 8,513,000 for 2001. In addition, in prior years, the deferred tax liability related to the non-tax deductibility of certain revaluation surplus recorded under IFRS was not eliminated under US GAAP. The effect of this error resulted in an increase in shareholders' equity of RMB 219,930,000 at 31 December 2001 and an increase to loss attributable to shareholders of RMB 26,928,000 for 2001.

In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain or loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings. In prior years, no such reconciling adjustment was recorded under US GAAP. The effect of this error resulted in an increase in shareholders' equity of RMB 91,626,000 at 31 December 2001 and a decrease in loss attributable to shareholders of RMB 69,398,000 for 2001.

(b) Depreciation for facilities under renovation

During 2001, the Company's butyl rubber plant was suspended for production for a renovation project. Under US GAAP, temporarily idle facilities should continue to be depreciated.

(c) Sale of property, plant and equipment

On 20 November 2001, the Company sold a polypropylene production facility to Yanshan Company and recorded a gain of RMB 156,546,000. Under US GAAP, as the parties to the transaction are entities under common control, the transaction is accounted for as a credit to shareholders' equity. In 2001, the tax effect of this reconciling adjustment, which was recorded under IFRS, was not eliminated with a corresponding debit to shareholders' equity. The effect of this error resulted in a decrease in loss attributable to shareholders of RMB 51,660,000 for 2001.

(d) Employee reduction expenses

As described in Note 5 to the financial statements, Sinopec made additional payments of RMB 100,782,000 to the Company's staff in connection with the Sinopec's voluntary employee reduction plan during 2001. Under IFRS, the payment made by Sinopec was not recorded in current earnings. Under US GAAP, such payment made by Sinopec is charged to current earnings with a corresponding increase in shareholders' equity. The payment made by Sinopec was tax deductible in the consolidated tax return of Sinopec, which includes the results of the Company. In 2001, the tax effect of this reconciling adjustment was not recorded with a corresponding debit to shareholders' equity. The effect of this error resulted in a decrease in loss attributable to shareholders of RMB 33,258,000 for 2001.

(e) Others

Others mainly represented certain expenses of the Company that were borne by Sinopec Group. Under US GAAP, such payment made by Sinopec Group was charged to current earnings with a corresponding increase in shareholders' equity. In 2001, the tax effect of this reconciling adjustment was not recorded with a corresponding debit to shareholders' equity. The effect of this error resulted in a decrease in loss attributable to shareholders of RMB 446,000 for 2001.

(f) Related party transactions

Under IFRS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 25 only refer to transactions with enterprises over which Sinopec Group and Sinopec are able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Company's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Company believes that it has provided meaningful disclosure of related party transactions in Note 25.

(g) Recently issued accounting standards

SFAS No. 143

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. The Company is also required to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on 1 January 2003. The Company does not expect the adoption of SFAS No. 143 will have a material impact on its financial statements.

SFAS No. 145

In April 2002, the FASB issued SFAS No.145, which rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". SFAS No. 145 also rescinds SFAS No. 44, "Accounting for Intangible Assets of Motor Carriers". SFAS No. 145 amends SFAS No.13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No.145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions.

The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 shall be applied in fiscal years beginning after 15 May 2002. The provisions in paragraphs 8 and 9(c) of SFAS No. 145 related to Statement 13 shall be effective for transactions occurring after 15 May 2002. All other provisions of SFAS No. 145 shall be effective for financial statements issued on or after 15 May 2002. The Company does not expect the adoption of SFAS No. 145 will have a material impact on its financial statements.

SFAS No. 146

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" which applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. SFAS No. 146 requires an entity to record a liability for cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. Commitment to an exit plan or a plan of disposal expresses only management's intended future actions and does not meet the requirement for recognising a liability and the related expense. An entity is required to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated and in any subsequent period until the activity is completed. The Company is required to adopt SFAS No.146 on 1 January 2003. The provisions of SFAS No.146 are required to be applied prospectively after the adoption date to newly exit or disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS No. 146 will have on the Company's financial statements.

FIN No. 45

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognise, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after 31 December 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after 31 December 2002. The Company does not expect the application of this Interpretation will have a material effect on its financial statements.

FIN No. 46

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after 31 January 2003, and to variable interests in variable interest entities obtained after 31 January 2003. The Interpretation requires certain disclosures in financial statements issued after 31 January 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The Company does not expect the application of this Interpretation will have a material impact on its financial statements.

SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

Reconciliation to US GAAP

The effect on profit/(loss) attributable to shareholders and shareholders' equity of significant differences between IFRS and US GAAP is as follows:

Note	Profit/(loss) attributable to shareholders for the years ended 31 December			Shareholders' equity at 31 December		
	2002	2002	2001	2002	2002	2001
	US\$'000	RMB'000	RMB'000	US\$'000	RMB'000	RMB'000
			(restated)			(restated)
As reported under IFRS	25,262	209,099	(272,467)	606,713	5,021,947	4,812,848
US GAAP adjustments:						
Revaluation of property, plant and equipment	(a)	-	-	(119,468)	(988,872)	(988,872)
Depreciation on revalued property, plant and equipment	(a)	5,994	49,615	49,918	57,505	475,983
Disposal of revalued property, plant and equipment	(a)	506	4,190	103,579	17,028	140,945
Depreciation for facilities under renovation	(b)	-	-	(124,252)	(15,011)	(124,252)
Sale of property, plant and equipment	(c)	-	-	(156,546)	-	-
Employee reduction expenses	(d)	-	-	(100,782)	-	-
Others	(e)	(635)	(5,254)	(5,014)	443	3,664
Effect of the above adjustments on taxation		(3,357)	(27,786)	65,258	22,651	187,493
As reported under US GAAP (Note 2)		<u>27,770</u>	<u>229,864</u>	<u>(440,306)</u>	<u>569,861</u>	<u>4,716,908</u>
Basic and diluted earnings/ (loss) per share under US GAAP		<u>US\$0.008</u>	<u>RMB0.068</u>	<u>(RMB0.130)</u>		
Basic and diluted earnings/ (loss) per ADS under US GAAP (Note 1)		<u>US\$0.412</u>	<u>RMB3.406</u>	<u>(RMB6.525)</u>		

Note 1: Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 50 shares.

SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

Note 2: As discussed above, in prior years, certain differences between IFRS and US GAAP were not identified and reconciled or were mathematically reconciled in error. A summary of the amount previously reported and as restated under US GAAP is described below.

		Profit/(Loss) attributable to shareholders for the year ended 31 December 2001 RMB'000	Shareholders' equity at 31 December 2001 RMB'000
	Note		
As previously reported under US GAAP		(559,627)	4,823,728
Correction of errors:			
Depreciation on revalued property, plant and equipment, net of taxes	(a)	(8,513)	(649,305)
Deferred tax liability of property, plant and equipment	(a)	(26,928)	219,930
Disposal of revalued property, plant and equipment, net of taxes	(a)	69,398	91,626
Tax effect of sale of property, plant and equipment	(c)	51,660	-
Tax effect of employee reduction expenses	(d)	33,258	-
Tax effect of others	(e)	446	-
As restated under US GAAP		<u><u>(440,306)</u></u>	<u><u>4,485,979</u></u>