

A. Operating Results (Financial information extracted from financial statements prepared under IFRS)

General

In the past, the performance of the Company had been affected by certain factors beyond its control stemming from its operation within the framework of a planned economic system. With China's entry into the WTO, the impact of such factors is fading.

In 2002, the world economy was recovering gradually, whereas China's economy continued to grow rapidly. Spurred by the rise of oil prices and increase in demand, the petrochemical industry witnessed a price recovery in most of its products since February 2002, improving, to a certain extent, the general business environment of the Company. In addition, the production capacity of the Company further grew and consequently unit production costs decreased effectively, with the commissioning of the Company's capital expenditure projects, represented by its "Phase IV Project". As a result, the business performance of the Company in 2002 improved by a relatively large margin compared with that of the previous year.

Overview

The following table sets forth our sales volumes and net sales, net of sales taxes, for the years indicated:

	For the years ended 31 December								
	2000			2001			2002		
	Net Sales			Net Sales			Net Sales		
	Sales Volume			Sales Volume			Sales Volume		
('000 tons)	(Millions of RMB)	% of Total	('000 tons)	(Millions of RMB)	% of Total	('000 tons)	(Millions of RMB)	% of Total	
Synthetic Fibres	359	3,612	17.4	358	3,216	16.4	363	3,374	15.5
Resins and Plastics	863	6,006	29.0	918	5,636	28.7	1,146	6,441	29.6
Intermediate									
Petrochemicals	566	2,232	10.8	653	2,105	10.8	786	2,555	11.8
Petroleum products	3,458	7,429	35.8	3,958	7,735	39.4	4,100	7,991	36.8
Trading and Others	-	1,450	7.0	-	926	4.7	-	1,362	6.3
Total	5,246	20,729	100.0	5,887	19,618	100.0	6,395	21,723	100.0

The following table sets forth a summary statement of income for the years under IFRS:

	For The Years Ended 31 December					
	2000		2001		2002	
	Millions of RMB	% of Net Sales	Millions of RMB	% of Net Sales	Millions of RMB	% of Net Sales
Net Sales	20,728.6	100.0	19,617.7	100.0	21,723.0	100.0
Cost of Sales	(19,040.0)	(91.9)	(18,803.0)	(95.8)	(19,853.9)	(91.4)
Gross Profit	1,688.6	8.1	814.7	4.2	1,869.1	8.6
Selling and Administrative Expenses	(360.9)	(1.7)	(363.2)	(1.9)	(421.2)	(1.9)
Operating Income	1,327.7	6.4	451.5	2.3	1,447.9	6.7
Other Operating Income	155.4	0.7	160.0	0.8	136.6	0.6
Other Operating Expenses	(65.8)	(0.3)	(217.3)	(1.1)	(154.8)	(0.7)
Share of Profit/(Losses) of Associates	(64.5)	(0.3)	(20.6)	(0.1)	16.1	0.1
Net Financing Costs	(272.2)	(1.3)	(227.8)	(1.2)	(400.7)	(1.9)
Profit Before Tax	1,080.6	5.2	145.8	0.7	1,045.1	4.8
Income Tax	(200.8)	(1.0)	(1.2)	(0.0)	(84.5)	(0.4)
Profit After Tax	879.8	4.2	144.6	0.7	960.6	4.4
Minority Interests	(23.3)	(0.1)	(28.6)	(0.1)	(44.2)	(0.2)
Profit Attributable To Shareholders	856.5	4.1	116.0	0.6	916.4	4.2

Major suppliers and customers

Total purchases from top 5 suppliers	RMB10,910 million	Percentage of total purchase	68%
Total sales to top 5 customers	RMB8,398 million	Percentage of total sales	38%

Results of operations

Year Ended 31 December 2002 Compared with Year Ended 31 December 2001

Net sales

Net sales increased by 10.73% to RMB21,723 million in 2002 compared with RMB19,618 million in 2001. In 2002, the prices of most petrochemicals bottomed out and prices began to increase again with the recovery of the petrochemical industry while the production volumes and sales of primary products of the Company grew by a great margin with the completion and commissioning of its main capital expenditure projects represented by "Phase IV Project". The sales of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products for 2002 increased by 1.40%, 24.84%, 20.37% and 3.59% respectively as compared with 2001.

Synthetic fibres

Net sales of synthetic fibres increased by 4.93% to RMB3,374.3 million in 2002 from RMB3,215.8 million in 2001, primarily due to a 3.47% and 1.4% increase, respectively, in their weighted average prices and sales volumes. Of synthetic fibres, the sales volume of polyester products increased at a great ratio due to capacity expansion in the polyester plant. Compared with 2001, the Company's acrylic fibres and staples experienced increases respectively of 23.89% and 29.25%. However, the sales of polyester staples and POY filaments declined by 2.19% and 36.12%, respectively.

In 2002, the proportion of synthetic fibres in the total sales of the Company decreased to 15.53%, or 0.86% less than 2001 as a result of production suspension and market conditions.

Resins and plastics

Net sales of resins and plastics increased by 14.28% to RMB6,440.7 million against 2001. Its proportion of total sales slightly increased to 29.65%, or a 0.92% increase compared with 2001. This is primarily attributable to the completion and commissioning of such projects as our polyester resin plant renovation, the new 250,000-ton polyethylene plant and the 200,000-ton polypropylene plant. As a result, the total sales volumes of resins and plastics increased by 24.84%, and despite the weighted average price decreasing by 8.56%, sales increased. In 2002, sales volumes of the Company's resin chips, polyethylene and polypropylene grew, respectively, by 18.96%, 32.31% and 49.31%, with the average sales prices of resin chips and polypropylene increasing, respectively, by 5.73% and 0.78% and the same for PVA, polyethylene and polyethylene film decreasing by 18.92%, 11.38% and 13.09%.

Intermediate petrochemicals

Net sales of intermediate petrochemicals increased by 21.37% to RMB2,555 million from RMB2,105.3 million in 2001, or 11.76% of total sales. The weighted average price increased slightly by 0.84%, and the sales volume grew by 20.33% against the previous year due to the completion and commissioning of the ethylene expansion and MEG renovation projects. Among intermediate petrochemicals, the average selling prices of ethylene, and MEG decreased, respectively, by 10.49% and 12.31% while the same for benzene and butadiene increased by 21.68% and 27.30%, respectively. The sales volumes of these products increased by 35.18%, 274.22% , 15.31%and 46.39% compared with 2001 .

Petroleum products

Net sales of petroleum products slightly increased by 3.31% to RMB7,991.2 million as compared with 2001. This was primarily the result of greater sales volume. Compared with 2001, the sales volume of petroleum products increased by 3.59%. The sales volumes for our gasoline, diesel and jet oil increased by 9.19%, 2.12% and 72.57%, respectively, compared to 2001 while the weighted average price of petroleum products slightly increased as compared to 2001 .

In 2002, petroleum products accounted for 36.79% of the net sales of the Company, representing a 2.64% decline as compared to 2001 .

Trading and other activities

Revenues from trading and other activities increased by 47.10% to RMB1,361.8 million.

Cost of sales

Cost of sales increased by 5.59% to RMB19,853.9 million, or 91.40% of net sales in 2002, which represents a slight improvement from 2001 . This was primarily due to our further strengthening the operation and administration of our production facilities and stringent controls over materials, energy consumption and purchase prices in the process, in line with the production capacity expansion of the Company. Thereby, the unit production and sales costs was effectively lowered.

Crude oil

In 2002, we processed 7,428,400 tons of crude oil, representing an increase of 796,300 tons from 2001. The weighted average cost of crude oil per ton decreased by 6.83% to RMB1,540.67 in 2002. Total crude oil costs increased by 4.33% to RMB11,444.8 million in 2002, accounting for 57.64% of the total costs of sales.

The supply and price of crude oil are key factors in determining our profitability. From March 2001, the base price of local crude oil has been determined by Sinopec Group and CNPC based on principles and approaches mandated by the State Planning Commission, incorporating the prices prevailing on the international market. Imported and local offshore oils are purchased by the Company at the crude oil prices of the international market. In general, local crude oil pricing is consistent with that of the international market. In 2002, the Company processed 5,201,400 tons, 672,800 tons, 179,000 tons and 1,375,200 tons, respectively, of imported crude oil, local offshore oil, Daqing oil and Shengli oil, of which the average processing costs are RMB1,588 per ton, RMB1,537 per ton, RMB1,340 per ton and RMB1,390 per ton, respectively.

Other expenses

In 2002, expenses for other ancillary materials increased to RMB3,071.6 million, representing a 27.27% increase against the previous year. Depreciation costs increased from RMB1,359.6 million in 2001 to RMB1,585.8 million in 2002. This was primarily due to increased depreciation costs attributable to more fixed assets of the Company resulting from completion of certain capital expenditure projects including, among others, parts of the "Phase IV Project" in 2002.

Selling and administrative expenses

Selling and administrative expenses increased from RMB363.2 million in 2001 to RMB421.2 million in 2002 resulting from an increase of marketing activities and the subsequent increase in our product sales volumes.

Operating profit

Operating profit increased dramatically by 220.67% from RMB451.5 million in 2001 to RMB1,447.8 million in 2002. This dramatic increase was primarily resulted from the growth of sales of key products and decrease of unit sales costs during the year.

Other operating income

Other operating income amounted to RMB136.6 million, representing a 14.62% decrease against 2001.

Other operating expenses

Other operating expenses decreased by 28.76% from RMB217.3 million in 2001 to RMB154.8 million in 2002.

Net financing costs

Net financing costs rose from RMB227.8 million in 2001 to RMB400.7 million in 2002. This was mainly because upon the completion of construction projects, the Company ceased the capitalisation of interest expenses arisen from the use of long term loan facilities from banks to finance the capital expenditure projects, which were then charged to current year's finance costs.

Profit before tax

Profit before tax increased by 616.78% from RMB145.8 million in 2001 to RMB1,045.0 million in 2002.

Income tax

Income tax in 2002 was RMB84.5 million (2001: RMB1.16 million). This increase is primarily due to a substantial increase in profit. We continue to pay income tax at a preferential rate of 15%. This preferential rate was first applied to the Company under approval from Chinese tax authorities effective from 1 January 1993. According to a circular issued by the Ministry of Finance and the State Taxation Bureau, the first nine H-Share listed companies (including the Company) were permitted to pay income tax at a 15% tax rate for years in 1996 and 1997. In 1998, 1999, 2000, 2001 and 2002, the tax privilege was not revoked by the relevant government authorities. However, we cannot be sure whether the Ministry of Finance will maintain the 15% tax rate in 2003. In accordance with relevant national policies, during the year the Company received tax refunds in respect of purchases of state-owned assets for technological improvement of RMB66.4 million (2001: RMB19.3 million).

Profit after tax

Profit after tax increased by 564.09% from RMB144.6 million in 2001 to RMB960.5 million in 2002.

B. Segment reporting prepared in accordance with PRC Accounting Rules and Regulations

Summary of segmental results:

By segment	Income from principal operations	Cost of sales	Gross profit margin (%)	Increase/decrease of income from principal operations compared to last year (%)	Increase/decrease of cost of sales compared to last year (%)	Increase/decrease of gross profit margin compared to last year (%)
Synthetic fibres	3,396,652	3,138,522	7.60	5.06	2.54	2.27
Resins and plastics	6,479,166	5,527,662	14.69	14.35	12.13	1.69
Intermediate						
petrochemicals	2,575,668	1,955,449	24.08	21.28	5.80	11.11
Petroleum products	8,482,497	7,149,362	15.72	3.12	-3.65	5.93
Others	1,388,913	972,112	30.01	46.42	66.98	-8.62
Including: connected transactions	8,077,376	7,043,422	12.80	13.17	6.32	5.62

C. Liquidity and capital resources (Financial information extracted from financial statements prepared under IFRS)

Our primary sources of capital are operating cash flow and loans from unaffiliated banks. Our primary uses of capital are costs of goods sold, operating expenses and capital expenditures. We expect that these sources of capital will remain sufficient in 2003.

Cash generated from operating activities

Net cash generated from operating activities in 2002 declined by RMB589.6 million to RMB1,798.3 million, of which a cash inflow of RMB2,630.8 million was attributable to the profit before tax net of depreciation, representing an increase of RMB1,125.4 million in cash flow as compared with the previous year. Certain new plants, including the "Phase IV Project" were commissioned in 2002 and more crude oil was purchased by the end of the year. As a result, the Company built up a high level of year-end inventory, which consequently reduced cash flow by RMB503.8 million in turn. In contrast, cash flow increased by RMB617.4 million in 2001 due to dwindling year-end inventories. Cash flow was reduced by another RMB200.2 million due to the year-end change in the year end trade creditors, other creditors and bills payable. Corresponding changes in 2001 resulted in an increase of the Company's cash flow by RMB745.9 million. As debtors, bills receivable and deposits at the year end decreased, cash flow increased by RMB80.8 million in 2002. In 2001, cash flow was reduced by RMB72.2 million because of an increase in corresponding balances.

Borrowings

The Company's borrowings increased by RMB1,023.4 million to RMB8,593.2 million in 2002. Short-term borrowings amounted to RMB4,002.3 million, which decreased by RMB103.7 million during 2002, were used mainly to satisfy the Company's demand for working capital in relation to its operations. Short-term loans were all at floating rates denominated in Renminbi and USD. Long-term borrowings also increased by RMB1,127.1 million to RMB4,590.9 million in 2002. These were generally used for capital expansion projects including the "Phase IV Project", among others. The remaining were interest free. 82% of long term borrowings were in Renminbi, mainly at floating rates.

The Company managed to maintain its asset-liability ratio at a safe level by consolidating control over both liabilities, including bank borrowings, and financing risks. The Company generally does not experience any seasonality in borrowings. Rather, due to the planned nature of capital expenditures, long-term borrowings can be arranged comfortably in advance of expenditures while short-term borrowings are used to meet operational needs. The terms of the Company's existing bank loans do not restrict its ability to pay dividends on its shares.

Debt-equity ratio

The debt-equity ratio of the Company was 24.72% in 2002 compared to 20.96% in 2001. The ratio is computed by long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

D. Other items(Financial information extracted from financial statements prepared under IFRS)

Fluctuation of exchange rates

The Company purchases the majority of its materials (including crude oil) from abroad and exports a portion of its products, in each case through Sinopec. Therefore, any fluctuation in exchange rates will have a direct impact on the prices at which the Company purchases materials and exports products, which may be further translated into impacts on the profitability of the Company. In addition, a small portion of the debts of the Company were denominated in foreign currencies. Such change in the exchange rates will also affect the interest payments by the Company, and the profitability of the Company in turn.

Capital expenditures

In 2002, the Company incurred capital expenditures of RMB2,404 million, or a decrease of RMB1,954 million compared with 2001. Such projects include, among others, the expansion of the ethylene plant, which was commissioned to operation in 2002, the new polypropylene and polyethylene plants, extension to Phase I of the power plant, renovation of the processing equipment for crude oil with sulfur content, technical renovation to the combining MEG plant, and upgrading of the polyester staple plant, as well as renovation of the acrylonitrile plant now in progress.

The estimated capital expenditure to be incurred by the Company in 2003 will be RMB2,200 million. In addition to completion of renovation of the acrylonitrile plant, the Company will invest in the renovation of the synthetic resin plant, the expansion of the industrial polyester filament plant, other technical upgrading projects and its external investment.

Major projects

Project name	Project amount (RMB)	Stage of completion
700,000 ton/year ethylene project	3,985,000,000	Completed
Thermal power plant phase 2 expansion	810,000,000	Completed
High sulphur-content crude oil processing unit	736,000,000	Under construction
Acrylonitrile expansion project	325,000,000	Under construction
Total	<u>5,856,000,000</u>	

Ethylene joint venture

In the second half of 2001, the Company, BP Chemicals East China Investments Limited ("BP") and Sinopec established a joint venture in China, in which the Company owns a 20% equity interest while BP and Sinopec respectively own 50% and 30% equity interests. The total registered capital of such joint venture is US\$901,440,964. The Company has to make a capital contribution of the Reminbi equivalent of US\$180,287,952, of which an amount of RMB224 million has been paid in 2001 and 2002. By the completion of the project in 2005, the Company will have made full payment of its capital contribution in accordance with the construction progress of the project.

The planned capital expenditure of the Company may be financed by cash flow from its operations, credit lines from banks and other means.

Contingent liabilities

As of 31 December 2002, the outstanding guarantees we had issued to banks in favor of our associates and joint ventures amounted to RMB345.4 million. In 2001, outstanding guarantees were RMB435.6 million. Such guarantees were issued to the extent of our interests in such entities.

Acquisition, divestiture and investment

Except for any disclosure in the annual report, we have not made any material acquisition, divestiture or investment in relation to any of our subsidiaries or associates or material investments in 2002.

Charge on assets

During 2002, we did not create any charge on the material assets of the Company.

Reconciliation between IFRS and accounting principles generally accepted in the United States of America ("U.S. GAAP")

The accounting policies of the Company conform with IFRS, which differ in certain significant aspects from U.S. GAAP. See the information provided in section D. As a result of these differences and the related tax effect, our net income reported under U.S. GAAP was higher than net income reported under IFRS by RMB208 million in 2002. The corresponding difference for 2001 and 2000 were RMB184.1 million and RMB163.4 million, respectively. Shareholders' equity reported under U.S. GAAP was RMB13,703 million at 31 December 2002 and RMB12,579 million at 31 December 2001.