

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

20. Deferred income

	Negative goodwill		Net assets obtained		Total	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cost:						
At 1 January and 31 December	33,044	33,044	115,177	115,177	148,221	148,221
Accumulated amortisation:						
At 1 January	13,216	9,912	46,072	34,554	59,288	44,466
Amortisation for the year	3,304	3,304	11,518	11,518	14,822	14,822
At 31 December	16,520	13,216	57,590	46,072	74,110	59,288
	16,524	19,828	57,587	69,105	74,111	88,933

In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB 115,177,000 and was recorded as deferred income in the consolidated financial statements.

21. Bank loans

Bank loans are unsecured and are repayable as follows:

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
After five years	75,966	33,503	51,466	33,503
Between two and five years	2,952,097	2,691,956	2,834,697	2,358,218
Between one and two years	1,562,828	738,288	1,257,639	359,256
	4,590,891	3,463,747	4,143,802	2,750,977
Within one year				
-Current portion of long term loans	777,589	1,076,541	393,386	731,502
-Short term loans	3,094,726	3,029,500	2,830,045	2,643,000
	3,872,315	4,106,041	3,223,431	3,374,502
-Loans from a fellow subsidiary	130,000	-	-	-
	4,002,315	4,106,041	3,223,431	3,374,502
	8,593,206	7,569,788	7,367,233	6,125,479

Details of loans are set out in note 30.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

22. Trade accounts payable

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade creditors	858,398	935,551	581,798	682,016
Bills payable	800,068	795,377	799,727	795,221
Amounts due to parent company and fellow subsidiaries	592,632	591,412	592,632	591,412
	2,251,098	2,322,340	1,974,157	2,068,649

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Due within 1 month or on demand	1,734,592	1,959,114	1,460,077	1,705,422
Due after 1 month and within 3 months	516,506	363,226	514,080	363,227
	2,251,098	2,322,340	1,974,157	2,068,649

23. Amounts due from/to parent company and fellow subsidiaries

Amounts due from/to parent company and fellow subsidiaries are unsecured, interest free and have no fixed repayment terms.

24. Share capital

	The Group and the Company	
	2002 RMB'000	2001 RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

All the A and H shares rank pari passu in all respects.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

25. Reserves

Movements on reserves comprise:

	Note	The Group and the Company	
		2002 RMB'000	2001 RMB'000
Share premium			
At 1 January and 31 December	(a)	2,420,841	2,420,841
Statutory surplus reserve			
At 1 January		831,211	824,051
Appropriation		90,897	7,160
At 31 December	(b)	922,108	831,211
Statutory public welfare fund			
At 1 January		749,122	741,962
Appropriation		90,897	7,160
At 31 December	(c)	840,019	749,122
General surplus reserve			
At 1 January and 31 December	(d)	82,089	82,089
Capital reserve			
At 1 January and 31 December	(e)	4,180	4,180
Discretionary surplus reserve			
At 1 January and 31 December	(f)	1,280,514	1,280,514
Excess over share capital			
At 1 January and 31 December	(g)	(148,604)	(148,604)
Retained profits			
	(h)	1,379,049	644,478
		6,780,196	5,863,831

25. Reserves (continued)

Notes:

- (a) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.
- (b) According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after taxation, as determined under PRC Accounting Rules and Regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve is made before distribution of a dividend to shareholders.

The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

- (c) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. The Directors have resolved to transfer 10% (2001: 10%) of the current year's profit after taxation to the fund.
- (d) When the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund is transferred from the statutory public welfare fund to the general surplus reserve. This reserve is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. In 2002, the Company did not utilise the statutory public welfare fund (2001: RMB Nil). As at 31 December 2002, the net book value of assets acquired utilising the statutory public welfare fund was RMB 43,996,000 (2001: RMB 69,258,000).
- (e) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.
- (f) The transfer to this reserve from the retained profit is subject to the approval by shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.
- (g) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the years prior to the change. As such, certain comparative figures have been reclassified to conform with the current year's presentation. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amounts.
- (h) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As of 31 December 2002, the reserve available for distribution was RMB 1,300,452,000 (2001: RMB 573,281,000). Final dividend of RMB 360,000,000 (2001: RMB Nil) in respect of the financial year 2002 was declared after the balance sheet date.

26. Related party transactions

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2002 have been effected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and other relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2002, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2002 RMB'000	2001 RMB'000
Purchases of crude oil	11,645,363	10,499,582

- (b) Other transactions between the Group and other related parties during the year ended 31 December 2002 were as follows:

	2002 RMB'000	2001 RMB'000
Sales	8,077,376	7,137,458
Purchases other than crude oil	267,228	338,292
Repairing charges	199,077	174,694
Insurance premiums paid	78,104	77,140
Net increase in/(withdrawal from) deposits in related party	257,045	(182,014)
Interest received and receivable	488	1,673
New loans obtained from related parties	530,000	-
Loans repaid to related parties	400,000	-
Interest paid and payable	5,111	-
Transportation fee	40,132	10,464
Construction and installation fees	380,399	718,316

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

26. Related party transactions (continued)

(c) Deposits in related party

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits	461,220	204,175	456,500	203,794

(d) Loans with related party

	The Group	
	2002	2001
	RMB'000	RMB'000
Short-term loans	130,000	-

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the non-executive Directors.

27. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set out a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings accounting according to the plan. The assets of this plan 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. In 2002, the Company's contribution to this plan amounted to RMB 24,781,000 (2001: RMB 25,741,000).

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

28. Capital commitments

The Group and the Company had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

	The Group and the Company	
	2002	2001
	RMB'000	RMB'000
<u>Property, plant and equipment</u>		
Contracted but not provided for	1,186,054	4,631,866
Authorised by the Board but not contracted for	418,000	1,122,193
	1,604,054	5,754,059
<u>Investment</u>		
Contracted but not provided for	1,272,558	1,477,946
	2,876,612	7,232,005

29. Contingent liabilities

At 31 December, the Group and the Company had the following contingent liabilities:

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Guarantees issued to banks in favour of:</u>				
- subsidiaries	-	-	1,181,577	1,164,637
- associates	265,990	315,830	265,990	315,830
- joint ventures	79,442	119,766	40,300	88,530
	345,432	435,596	1,487,867	1,568,997

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2001 and 2002, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

30. Details of bank loans

The interest rates and terms of repayment for bank loans of the Group and the Company are as follows:

Repayment terms and last payment date	Interest rate at 31 December 2002	Interest type	The Group		The Company	
			2002	2001	2002	2001
			RMB'000	RMB'000	RMB'000	RMB'000
Arranged by Central Treasury of the Company:						
U.S. Dollar denominated:						
Payable semi-annually through 2002	6.20%	Fixed	-	49,660	-	49,660
Payable semi-annually from 2001 through 2003	LIBOR+0.6%	Floating	36,021	108,407	36,021	108,407
Payable semi-annually through 2004(Note)	7.10%	Fixed	36,004	54,009	36,004	54,009
Payable semi-annually through 2008(Note)	1.50%	Fixed	81,947	96,836	81,947	96,836
Payable semi-annually through 2015(Note)	LIBOR+0.5%	Floating	29,014	18,054	29,014	18,054
Due in 2004	LIBOR+0.5%	Floating	-	41,383	-	41,383
Japanese Yen denominated:						
Payable semi-annually through 2004	5.7%	Fixed	60,362	87,489	60,362	-
Renminbi denominated:						
Due in 2002	5.94%-6.03%	Floating	-	395,000	-	395,000
Due in 2003	5.94%	Floating	288,840	288,840	288,840	288,840
Due in 2004	5.94%	Floating	1,200,000	900,000	1,200,000	900,000
Due in 2005	5.05%-5.58%	Floating	1,790,000	350,000	1,790,000	350,000
Due in 2006	5.58%-6.03%	Floating	1,000,000	1,000,000	1,000,000	1,000,000
Other loans payable through 2003	Interest free	-	15,000	15,000	15,000	15,000
Arranged by individual plants of the Company:						
Renminbi denominated:						
Loans due in 2002	5.85%-6.03%	Floating	-	165,290	-	165,290
Arranged by subsidiaries:						
U.S. Dollar denominated:						
Payable semi-annually through 2002	LIBOR+0.5%	Floating	-	13,794	-	-
Payable semi-annually through 2004	1.76%	Floating	84,284	160,506	-	-
Payable annually through 2004	Interest free	-	14,065	14,065	-	-
Payable annually through 2004	5.00%	Fixed	10,090	10,090	-	-

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

30. Details of bank loans (continued)

Repayment terms and last payment date	Interest rate at 31 December 2002	Interest type	The Group		The Company	
			2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Arranged by subsidiaries (continued):						
Renminbi denominated:						
Payable semi-annually through 2003	Interest free	-	29,910	59,110	-	-
Payable semi-annually through 2004	5.76%	Floating	136,300	136,300	-	-
Payable annually from 2003 through 2004	7.13%	Floating	45,000	45,000	-	-
Payable annually through 2004	Interest free	-	265,843	335,255	-	-
Payable annually through 2004	5.31%-5.85%	Floating	49,100	46,600	-	-
Payable annually from 2001 through 2005	Interest free	-	22,200	29,600	-	-
Due in 2002	4.95%	Floating	-	15,000	-	-
Due in 2003	6.24%-7.13%	Floating	-	65,000	-	-
Due in 2004	6.24%	Floating	40,000	40,000	-	-
Due in 2005 and thereafter	4.94%-5.58%	Floating	134,500	-	-	-
Total long-term bank loans outstanding			5,368,480	4,540,288	4,537,188	3,482,479
Less: Amounts due within one year (Note 21)			(777,589)	(1,076,541)	(393,386)	(731,502)
Amounts due after one year (Note 21)			4,590,891	3,463,747	4,143,802	2,750,977

Note: Guaranteed by China Petrochemical Corporation

The weighted average short term interest rates for the Group and the Company were 3.87% (2001: 5.85%) at 31 December 2002.

31. Segment reporting

Segment information is presented in respect of the Group's business segments. The format of which is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates performance based on operating profits before income tax and non-operating income and expenses. Certain administrative expenses are allocated based on the percentage of sales.

Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

The Group principally operates in four operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

31. Segment reporting (continued)

- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Reportable information on the Group's operating segments is as follows:

Turnover

	2002 RMB'000	2001 RMB'000
Manufactured Products		
Synthetic Fibres		
-external sales	3,396,652	3,233,010
-intersegment sales	-	1,358
Total	3,396,652	3,234,368
<hr style="border-top: 1px dashed black;"/>		
Resins and Plastics		
-external sales	6,479,166	5,666,218
-intersegment sales	24,948	26,941
Total	6,504,114	5,693,159
<hr style="border-top: 1px dashed black;"/>		
Intermediate Petrochemicals		
-external sales	2,575,668	2,123,670
-intersegment sales	5,655,309	4,584,642
Total	8,230,977	6,708,312
<hr style="border-top: 1px dashed black;"/>		
Petroleum Products		
-external sales	8,482,497	8,225,905
-intersegment sales	603,473	544,370
Total	9,085,970	8,770,275
<hr style="border-top: 1px dashed black;"/>		

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

31. Segment reporting (continued)

Turnover (continued)

	2002	2001
	RMB'000	RMB'000
All others		
-external sales	1,388,913	948,593
-intersegment sales	3,190,159	1,346,082
Total	4,579,072	2,294,675
Eliminations of intersegment sales	(9,473,889)	(6,503,393)
Consolidated turnover	22,322,896	20,197,396

External sales include sales to Sinopec Corp group companies.

Profit before tax

	2002	2001
	RMB'000	RMB'000
Profit from operations		
Synthetic fibres	113,095	7,049
Resins and plastics	438,030	173,193
Intermediate petrochemicals	287,660	51,009
Petroleum products	403,903	100,543
All others	186,941	62,391
Consolidated profit from operations	1,429,629	394,185
Share of profit/(loss) of associates		
All others	16,065	(20,630)
Net financing costs		
All others	(400,656)	(227,758)
Consolidated profit before tax	1,045,038	145,797

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

31. Segment reporting (continued)

Assets	2002 RMB'000	2001 RMB'000
Segment assets		
Synthetic fibres	2,872,995	2,503,998
Resins and plastics	4,426,040	4,513,645
Intermediate petrochemicals	5,903,756	5,348,836
Petroleum products	7,063,384	6,926,731
All others	2,216,993	1,957,317
Total segment assets	22,483,168	21,250,527
Interests in associates		
All others	1,044,217	178,990
Consolidated interests in associates	1,044,217	178,990
Unallocated	2,558,534	2,896,084
Consolidated assets	26,085,919	24,325,601
Liabilities		
	2002 RMB'000	2001 RMB'000
Segment liabilities		
Synthetic fibres	463,353	455,129
Resins and plastics	883,852	857,181
Intermediate petrochemicals	351,358	350,882
Petroleum products	1,157,136	1,425,408
All others	189,468	156,370
Total segment liabilities	3,045,167	3,244,970
Unallocated	8,693,785	7,659,002
Consolidated liabilities	11,738,952	10,903,972

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

31. Segment reporting (continued)

Depreciation and amortisation	2002 RMB'000	2001 RMB'000
Synthetic fibres	217,979	183,969
Resins and plastics	344,525	309,853
Intermediate petrochemicals	520,426	445,212
Petroleum products	346,040	270,013
All others	171,371	150,595
Consolidated depreciation and amortisation	1,600,341	1,359,642

Expenditures for segment long-lived assets

	2002 RMB'000	2001 RMB'000
Synthetic fibres	470,066	470,090
Resins and plastics	79,487	882,146
Intermediate petrochemicals	989,103	1,134,557
Petroleum products	666,423	1,483,291
All others	199,214	388,092
Consolidated expenditures for segment long-lived assets	2,404,293	4,358,176

32. Financial instruments

Financial assets of the Company and the Group include cash and cash equivalents, deposits with banks, investments, trade debtors, bills receivable, deposits, other debtors and amounts due from parent company and fellow subsidiaries. Financial liabilities of the Company and the Group include bank loans, trade creditors, other creditors and amounts due to parent company and fellow subsidiaries. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2002 and 2001.

(a) Interest rate risk

The interest rates and terms of repayment of loans of the Company and the Group are disclosed in note 30.

(b) Credit risk

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of major financial institutions with good credit ratings, and its trade debtors are spread among a number of major industries and customers.

(c) Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in foreign currencies, principally U.S. dollars and Hong Kong dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

(d) Fair value

The following table presents the carrying amounts and fair values of the Group's long-term bank loans as at 31 December 2001 and 2002.

	2002		2001	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities:				
Long-term bank loans	5,368,480	5,370,509	4,540,288	4,551,090

Long-term bank loans - the fair values are estimated based on applying a discounted cash flow using current market interest rates for similar financial instruments.

32. Financial instruments (continued)

(d) Fair value (continued)

Investments are unquoted interests, primarily equity interests in joint ventures. There is no quoted market price for such interest and securities in the PRC, and accordingly a reasonable estimate of fair value could not be made without incurring excessive costs. Further details pertinent to the valuation of these interests are disclosed in note 16.

The fair values of cash, trade debtors, bills receivable, deposits, other debtors, trade creditors, other creditors and amounts due from/to parent company and fellow subsidiaries are not materially different from their carrying amounts.

Time deposits and short-term bank loans - the carrying value is estimated to approximate fair value based on the nature or short-term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

33. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2002 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC.