

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

19. Long-term loans (continued)

Long-term loans are analysed as follows:

Repayment terms and last payment date	Interest type	Interest rate at 31 December 2002	Original 2002		The Group		The Company	
			currency '000	Exchange rate	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Arranged by Central Treasury of the Company:								
U.S. Dollar denominated:								
Payable semi-annually through 2002	Fixed	6.20%	6,000	8.2773	-	49,660	-	49,660
Payable semi-annually from 2001 through 2003	Floating	LIBOR+0.6%	4,366	8.2773	36,021	108,407	36,021	108,407
Payable semi-annually through 2004(Note(a))	Fixed	7.10%	4,350	8.2773	36,004	54,009	36,004	54,009
Payable semi-annually through 2008(Note(a))	Fixed	1.50%	9,900	8.2773	81,947	96,836	81,947	96,836
Payable semi-annually through 2015(Note(a))	Floating	LIBOR+0.5%	3,506	8.2773	29,014	18,054	29,014	18,054
Due in 2004	Floating	LIBOR+0.5%	5,000	8.2773	-	41,383	-	41,383
Japanese Yen denominated:								
Payable semi-annually through 2004	Fixed	5.7%	872,598	0.069035	60,362	87,489	60,362	-
Renminbi denominated:								
Due in 2002	Floating	5.94%-6.03%	-	-	-	395,000	-	395,000
Due in 2003	Floating	5.94%	-	-	288,840	288,840	288,840	288,840
Due in 2004	Floating	5.94%	-	-	1,200,000	900,000	1,200,000	900,000
Due in 2005	Floating	5.05%-5.58%	-	-	1,790,000	350,000	1,790,000	350,000
Due in 2006	Floating	5.58%-6.03%	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Other loans due in 2003	-	Interest free	-	-	15,000	15,000	15,000	15,000
Arranged by individual plants of the Company:								
Renminbi denominated:								
Due in 2002	Floating	5.85%-6.03%	-	-	-	165,290	-	165,290
Arranged by subsidiaries:								
U.S. Dollar denominated:								
Payable semi-annually through 2002	Floating	LIBOR+0.5%	-	-	-	13,794	-	-
Payable semi-annually through 2004	Floating	1.76%	10,182	8.2773	84,284	160,506	-	-
Payable annually through 2004	-	Interest free	2,919	8.2773	14,065	14,065	-	-
Payable annually through 2004	Fixed	5.00%	1,219	8.2773	10,090	10,090	-	-

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

19. Long-term loans (continued)

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

Note: (a) Guaranteed by China Petrochemical Corporation

Except for loans indicated as guaranteed, all loans are unsecured loans without guarantee.

20. Other long-term liabilities

Deferred income

	The Group	
	2002 RMB'000	2001 RMB'000
Cost:		
At 1 January and at 31 December	115,177	115,177
Accumulated amortisation:		
At 1 January	46,072	34,554
Amortisation for the year	11,518	11,518
At 31 December	57,590	46,072
Net book value:		
At 31 December	57,587	69,105

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.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

21. Share capital

	The Group and the Company	
	2002 RMB'000	2001 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1 each	2,330,000	2,330,000
	7,200,000	7,200,000
Issued and paid up capital		
Shares not in trade:		
4,150,000,000 A shares of RMB 1 each		
of which:		
Domestic legal persons owned shares	4,150,000	4,150,000
Total shares not in trade	4,150,000	4,150,000
Shares in trade:		
720,000,000 A shares of RMB 1 each		
2,330,000,000 H shares of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	3,050,000	3,050,000
Total share capital	7,200,000	7,200,000

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

22. Capital reserves

	The Group and the Company	
	2002 RMB'000	2001 RMB'000
Balance at 1 January and 31 December	2,856,278	2,856,278

Balance of capital reserves at 31 December is represented by:

	Note	The Group and the Company	
		2002 RMB'000	2001 RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Valuation surplus	(b)	44,887	44,887
Government grants	(c)	386,370	386,370
Total		2,856,278	2,856,278

(a) The safety fund represents gifts or grants received from China Petrochemical Corporation for enhancement of production safety.

(b) Valuation surplus represents the excess of fair value over the carrying value of assets given up in part exchange for investments.

(c) Government grants represent grants received for the purchase of equipment used for technology improvements.

23. Surplus reserves

	Note	The Group and the Company				Total RMB'000
		Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	General surplus reserve RMB'000	Discretionary surplus reserve RMB'000	
Balance at 1 January 2001		824,051	741,962	82,089	1,280,514	2,928,616
Transferred from the income statement	(a)	7,160	7,160	-	-	14,320
Balance at 1 January 2002		831,211	749,122	82,089	1,280,514	2,942,936
Transferred from the income statement	(a)	90,897	90,897	-	-	181,794
Balance at 31 December 2002		922,108	840,019	82,089	1,280,514	3,124,730

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

23. Surplus reserves (continued)

- (a) Appropriation of profit was made in accordance with the relevant rules and regulations of the Company Law and the Articles of Association of the Company.

24. Income from principal operations

The Group's principal activity is the processing of crude oil into petrochemical products for sale and substantially all of its products are sold in the PRC domestic markets.

Income from principal operations represents the invoiced value of goods sold to customers, net of VAT.

For the year 2002, total sales to top five customers are as follow:

	2002	2001
Amount (RMB'000)	8,398,480	8,034,589
Percentage of total sales	37.62%	39.78%

25. Business taxes and surcharges

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Consumption tax	434,513	433,244	434,513	433,244
City construction tax	102,993	102,470	94,866	85,901
Education surcharge and others	62,421	43,916	40,658	36,815
	599,927	579,630	570,037	555,960

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the year.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

26. Financial expenses

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	428,494	330,381	384,807	274,346
Less: Interest income	(25,015)	(40,719)	(17,159)	(30,814)
Exchange loss	11,003	7,988	2,737	4,132
Less: Exchange gain	(7,079)	(17,604)	(5,589)	(211)
Total	407,403	280,046	364,796	247,453

27. Investment income

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Cost method	36,505	44,727	11,650	22,180
Share of profit of subsidiaries	-	-	99,238	87,583
Share of profit/(loss) of associates	32,007	(20,630)	14,343	(39,463)
Amortisation of equity investment differences	(10,144)	(10,144)	(10,144)	(10,144)
Total	58,368	13,953	115,087	60,156

28. Non-operating expenses

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
Net loss on disposal of fixed assets	85,134	15,444	64,880	14,038
Service fee	26,798	7,000	26,798	7,000
Donations	1,699	1,425	1,699	1,425
Employee reduction expenses	-	171,033	-	154,148
Other expenses	27,756	8,991	22,958	6,948
Total	141,387	203,893	116,335	183,559

In accordance with the Group's voluntary employee reduction plan, the Group recorded no employee reduction expenses (2001:RMB 171,033,000) during the year ended 31 December 2002.

29. Appropriated ordinary dividend

Pursuant to a resolution passed at the Directors' meeting held on 26 March 2003, a final dividend of RMB 0.05 per share totalling RMB 360,000,000 (2001: RMB Nil per share) was proposed for shareholders' approval at the Annual General Meeting.

30. Related parties and related party transactions

- (a) Company having the ability to exercise significant influence over the Group

Name of Company	:	China Petroleum & Chemical Corporation ("Sinopec Corp")
Registered Address	:	No. 6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations	:	Oil and gas operations consisting of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations including the manufacturing and marketing of a wide range of chemicals for industrial uses.
Relationship with the Company	:	The immediate parent company
Economic nature	:	Joint stock limited company
Authorised representative	:	Li Yizhong
Registered capital	:	RMB 86.7 billion (2001:RMB 86.7 billion)

As at 31 December 2002, Sinopec Corp held 4 billion shares of the Company.

- (b) Company not having the direct ability to exercise significant influence over the Group.

China Petrochemical Corporation (the ultimate parent company)
Sinopec Finance Company Limited (subsidiary of the ultimate parent company)
Sinopec Zhenhai Refining & Chemical Company Limited (subsidiary of the immediate parent company)
Sinopec Huadong Sales Company (subsidiary of the immediate parent company)

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

30. Related parties and related party transactions (continued)

- (c) 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 Sinopec Corp and other relevant 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, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follow:

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

- (d) Other transactions between the Group and the other related parties during the year were as follows:

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

The sales and purchases transactions between the Group and the other related parties as disclosed in note (b) accounted for approximately 90% of transactions of the similar nature.

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.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

30. Related parties and related party transactions (continued)

(e) At 31 December, the Group's balances with related parties are as follow:

	Immediate Parent Company		Other related parties	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bills receivable	24,955	11,111	-	-
Trade debtors	19,543	38,987	75,218	4,222
Other receivables	6,354	-	7,050	-
Advance payments	-	-	18,515	-
Bills payable	-	192,564	4,770	273,246
Trade creditors	45,135	38,936	473,704	462
Other payables	-	66,695	-	19,509
Receipts in advance	7,782	-	-	-

(f) Deposits in related party

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cash at bank and in hand	461,220	204,175	456,500	203,794

(g) Loans with related party

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

31. Retirement schemes

As stipulated by the relevant regulations, 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 up 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 account 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).

32. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2002	2001
	RMB'000	RMB'000
<hr/>		
<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
<hr/>		

33. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	1,181,577	1,164,637
- associates	265,990	315,830	265,990	315,830
- others	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.

34. Events after the balance sheet date

To the date of this report, the Group has no significant events after the balance sheet date that need to be disclosed.

35. 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 the Group policy.

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.
- (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.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

35. Segment reporting (continued)

Income from principal operations

	2002 RMB'000	2001 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	3,396,652	3,233,010
Intersegment sales	-	1,358
Sub-total	3,396,652	3,234,368
Resins and Plastics		
External sales	6,479,166	5,666,218
Intersegment sales	24,948	26,941
Sub-total	6,504,114	5,693,159
Intermediate Petrochemicals		
External sales	2,575,668	2,123,670
Intersegment sales	5,655,309	4,584,642
Sub-total	8,230,977	6,708,312
Petroleum Products		
External sales	8,482,497	8,225,905
Intersegment sales	603,473	544,370
Sub-total	9,085,970	8,770,275
All others		
External sales	1,388,913	948,593
Intersegment sales	3,190,159	1,346,082
Sub-total	4,579,072	2,294,675
Eliminations of intersegment sales	(9,473,889)	(6,503,393)
Total	22,322,896	20,197,396

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

35. Segment reporting (continued)

Cost of principal operations

	2002	2001
	RMB'000	RMB'000
Synthetic Fibres	3,138,522	3,060,790
Resins and Plastics	5,527,662	4,929,875
Intermediate Petrochemicals	1,955,449	1,848,277
Petroleum Products	7,149,362	7,420,491
All others	972,112	582,187
Total	18,743,107	17,841,620

Gross profit of principal operations

	2002	2001
	RMB'000	RMB'000
Synthetic Fibres	235,730	155,045
Resins and Plastics	913,011	705,822
Intermediate Petrochemicals	599,586	257,065
Petroleum Products	841,881	314,663
All others	389,654	343,551
Total	2,979,862	1,776,146