

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Sinopec Beijing Yanhua Petrochemical Company Limited ("the Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 23 April 1997 as part of the reorganisation ("Reorganisation") of Beijing Yanshan Petrochemical Group Company ("Yanshan Company") in preparation for the listing of the Company's shares. The Company's shares and American Depository Shares ("ADSs") were listed on the Hong Kong Stock Exchange and the New York Stock Exchange respectively in June 1997.

Upon the Reorganisation, the Company became a subsidiary of Yanshan Company. On 25 February 2000, China Petrochemical Corporation ("Sinopec Group" or "Ultimate Parent Company"), underwent a reorganisation, and formed a subsidiary, China Petroleum and Chemical Corporation ("Sinopec" or "Immediate Parent Company"). In accordance with the reorganisation agreement, Yanshan Company, previously the Company's parent company, transferred its 70% equity interest in the Company to Sinopec.

The principal activities of the Company are the manufacturing and sale of petrochemical products in the PRC.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited.

### (b) Basis of preparation

These financial statements are prepared on the historical cost convention as modified by the revaluation of property, plant and equipment as stated in accounting policy (d).

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Translation of foreign currencies

The functional and reporting currency of the Company is Renminbi. Transactions in foreign currencies are translated into Renminbi at the applicable exchange rates quoted by the People's Bank of China ("PBOC rates") prevailing on the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable PBOC rates at the balance sheet date.

Foreign currency translation differences relating to funds borrowed to finance the acquisition and construction of property, plant and equipment are capitalised during the construction period to the extent that they are regarded as an adjustment to interest costs. All other exchange differences are dealt with in the income statement.

### (d) Property, plant and equipment

(i) Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses (refer to accounting policy (j)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 11(a)), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer to accounting policy (j)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction.

Capitalisation of these borrowing costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Property, plant and equipment (Continued)

(ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

### (iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment after taking into account the asset's estimated residual value. The estimated useful lives are as follows:

Buildings	20-40 years
Plant, machinery and equipment	4-20 years
Motor vehicles	8 years
Office equipment and other	5-30 years

No depreciation is provided in respect of construction in progress.

### (e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumable are stated at cost less provision for obsolescence.

### (f) Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months at time of purchase.

### (h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (i) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of the 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Impairment loss

The carrying amounts of long-lived assets are reviewed 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 recorded 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 amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Company 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. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

### (k) Research and development costs

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

### (l) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income on bank deposits, foreign exchange gains and losses, and other related costs incurred in connection with borrowings.

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the applicable rate.

Interest and other related costs incurred in connection with borrowings are expensed as incurred, except to the extent that they are capitalised as being directly attributable to the acquisition and construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

### (n) Repairs and maintenance expenses

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

### (o) Retirement benefits

The contributions payable under the Company's retirement scheme are charged to the income statement according to the contribution determined by the scheme. Further information is set out in Note 24.

### (p) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rate. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the income statement.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (q) Dividends

Dividends are recognised as liability in the period in which they are declared.

### (r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

### (s) Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

## 3. TURNOVER

Turnover represents revenue from sales of goods to customers, net of value added tax.

## 4. NET GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

On 20 November 2001, the Company sold a polypropylene production facility to Yanshan Company and recorded a gain on disposal of RMB 156,546,000. The consideration of the transaction was determined based on a report issued by an independent qualified valuer issued on 17 November 2001.

## 5. EMPLOYEE REDUCTION EXPENSES

In accordance with Sinopec's voluntary employee reduction plan, the Company recorded employee reduction expenses of RMB 246,943,000 during the year ended 31 December 2001. In addition, Sinopec made an additional payment of RMB 100,782,000 to the Company's staff in connection with this voluntary employee reduction plan. No employee reduction expenses were recorded during the year ended 31 December 2002.

# NOTES TO THE FINANCIAL STATEMENTS

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## 6. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

### (a) Net financing costs

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Interest expense	220,918	207,091
Less: Amount capitalised as construction in progress*	<u>(25,805)</u>	<u>(153,744)</u>
Interest expense, net	195,113	53,347
Interest income	(2,063)	(2,139)
Foreign exchange loss, net	142	452
Others	<u>17,638</u>	<u>7,919</u>
	<u>210,830</u>	<u>59,579</u>

\* Borrowing costs have been capitalised at a rate of between 3.31% to 5.31% (2001: 5.73% to 6.15%) per annum for construction in progress.

### (b) Other items

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Cost of inventories#	8,368,029	5,660,191
Depreciation#	806,124	525,410
Repairs and maintenance expenses#	283,491	147,699
Research and development costs	59,028	53,781
Staff costs#		
--Wages and salaries, welfare and other costs	274,968	243,006
--Contributions to defined contribution retirement scheme	40,654	44,154
Auditors' remuneration	2,352	2,996
Operating lease expenses in respect of machinery and equipment	16,024	8,925

# Cost of inventories includes RMB 1,249,170,000 (2001:RMB 800,016,000) relating to staff costs, depreciation, repairs and maintenance expenses, which amount is also included in the respective total amounts disclosed separately.



# NOTES TO THE FINANCIAL STATEMENTS

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## 7. INCOME TAX (EXPENSE)/BENEFIT

Income tax (expense)/benefit in the income statement represents:

	<u>2002</u> RMB'000	<u>2001</u> RMB'000
Provision for PRC income tax for the year	-	-
Deferred taxation (Note 12)	<u>(121,629)</u>	<u>137,756</u>
	<u>(121,629)</u>	<u>137,756</u>

The provision for PRC income tax is calculated at the rate of 33% (2001: 33%) on the estimated assessable income of the Company determined in accordance with relevant income tax rules and regulations of the PRC. The Company did not carry on business overseas or in Hong Kong and therefore did not incur overseas and Hong Kong income taxes.

A reconciliation of the expected income tax with the actual income tax (expense)/benefit is as follows:

	<u>2002</u> RMB'000	<u>2001</u> RMB'000
Profit/(loss) from ordinary activities before taxation	330,728	(410,223)
Expected PRC income tax at a statutory tax rate of 33%	(109,140)	135,374
Non-deductible expenses	(25,013)	-
Tax credit for capital expenditure (Note (a))	11,834	-
Miscellaneous non taxable items	690	2,382
Income tax (expense)/benefit	<u>(121,629)</u>	<u>137,756</u>

Note (a): Pursuant to the document "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 was entitled to an income tax credit of RMB 11,834,000 during the year which is determined based on a percentage of the purchased amount of equipment produced in the PRC for technological improvements.

# NOTES TO THE FINANCIAL STATEMENTS

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## 8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

### (a) Directors' and supervisors' emoluments

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Fees for executive directors	-	-
Fees for non-executive directors	-	-
Fees for supervisors	-	-
Other emoluments for executive directors and supervisors		
- Basic salaries and allowances	138	139
- Bonus	498	248
- Retirement scheme contributions	29	30
- Others	10	10
Other emoluments for non-executive directors	<u>-</u>	<u>-</u>
	<u>675</u>	<u>427</u>

### (b) Emoluments to the five highest paid individuals (including directors, supervisors and employees)

The five highest paid individuals in the Company during the year ended 31 December 2002 (2001: Three), were either directors or supervisors, whose total emoluments have been included above. For the remaining individuals in 2001, details of emoluments are as follows:

	<u>2001</u>
	RMB'000
Basic salaries and allowances	62
Bonus	115
Retirement scheme contributions	<u>14</u>
	<u>191</u>

No directors or supervisors waived any emoluments during the year ended 31 December 2002 (2001: Nil).

For the year ended 31 December 2002, each of the five highest paid individuals (including directors, supervisors and employees) received less than HK\$ 1,000,000.

During the year, no emolument was paid to the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

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## 9. DIVIDEND

The Directors did not propose a final dividend for the year ended 31 December 2002 (2001: Nil).

The dividend declared and paid during the year ended 31 December 2001 represented a final dividend in respect of the year ended 31 December 2000 of RMB 0.04 per share totaling RMB 134,960,000.

## 10. BASIC EARNINGS / (LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to shareholders of RMB 209,099,000 (2001 (restated): Loss of RMB 272,467,000) and the weighted average number of shares of 3,374,000,000 (2001: 3,374,000,000) during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2002 and 2001.

# NOTES TO THE FINANCIAL STATEMENTS

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## 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, Machinery And Equipment	Motor Vehicles	Office Equipment and Others	Construction in Progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost or valuation</b>						
At 1 January 2002	728,874	13,199,403	119,094	390,531	479,206	14,917,108
Additions	-	150,296	-	3,475	198,409	352,180
Transfer in/(out)	117,994	280,339	1,758	11,124	(411,215)	-
Disposals	(9,478)	(2,492)	(18,961)	(7,159)	-	(38,090)
Reclassification	(68,638)	68,446	192	-	-	-
At 31 December 2002	<u>768,752</u>	<u>13,695,992</u>	<u>102,083</u>	<u>397,971</u>	<u>266,400</u>	<u>15,231,198</u>
<b>Accumulated depreciation</b>						
At 1 January 2002	(352,554)	(5,830,532)	(75,399)	(296,431)	-	(6,554,916)
Depreciation for the year	(17,897)	(760,304)	(5,031)	(22,892)	-	(806,124)
Written back on disposal	4,627	1,842	18,195	6,168	-	30,832
Reclassification	49,055	(48,869)	(186)	-	-	-
At 31 December 2002	<u>(316,769)</u>	<u>(6,637,863)</u>	<u>(62,421)</u>	<u>(313,155)</u>	<u>-</u>	<u>(7,330,208)</u>
<b>Net book value</b>						
At 31 December 2002	<u>451,983</u>	<u>7,058,129</u>	<u>39,662</u>	<u>84,816</u>	<u>266,400</u>	<u>7,900,990</u>
At 31 December 2001	<u>376,320</u>	<u>7,368,871</u>	<u>43,695</u>	<u>94,100</u>	<u>479,206</u>	<u>8,362,192</u>

(a) The property, plant and equipment of the Company were valued by a firm of qualified independent valuers on 23 April 1997, using the depreciated replacement cost and open market value approach. The valuation was performed in compliance with the PRC laws and regulations as part of the Reorganisation. As a result of the appraisal, an increase in value of the property, plant and equipment of approximately RMB 1,808 million (including approximately RMB 28 million for construction in progress and RMB 819 million for land use rights) was recorded as of 23 April 1997. The land use rights are in respect of land located in the PRC and were granted in 1997 for a period of 50 years from the date of grant. As discussed in Note 23, the Company changed its method of accounting for land use rights in 2002.

In accordance with IAS 16 Property, Plant and Equipment, subsequent to this revaluation, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed at 30 September 1999, which was based on depreciated replacement costs, the carrying amounts of property, plant and equipment did not differ materially from their fair values.

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## 12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

	<u>2002</u> RMB'000	<u>2001</u> RMB'000
Deferred tax assets:		
Current		
Provision, primarily for doubtful accounts receivables	90,060	93,806
Others	-	3,201
Non-current		
Tax value of losses	-	143,134
Land use rights (See Note 23)	<u>240,390</u>	<u>245,876</u>
	<u>330,450</u>	<u>486,017</u>
Deferred tax liabilities:		
Non-current		
Property, plant and equipment	(193,002)	(219,930)
Accelerated depreciation	(69,768)	(83,985)
Interest capitalisation	<u>(23,387)</u>	<u>(16,180)</u>
	<u>(286,157)</u>	<u>(320,095)</u>
Net deferred tax assets	<u>44,293</u>	<u>165,922</u>

Movements in the deferred tax assets and liabilities are as follows:

	<u>Balance at 1</u> <u>January 2002</u> RMB'000	<u>Recognised in</u> <u>income</u> <u>statement</u> RMB'000	<u>Balance at 31</u> <u>December</u> <u>2002</u> RMB'000
Current			
Provision, primarily for doubtful accounts receivables	93,806	(3,746)	90,060
Others	3,201	(3,201)	-
Non-current			
Tax value of losses carried forward	143,134	(143,134)	-
Land use rights	245,876	(5,486)	240,390
Property, plant and equipment	(219,930)	26,928	(193,002)
Accelerated depreciation	(83,985)	14,217	(69,768)
Interest capitalisation	<u>(16,180)</u>	<u>(7,207)</u>	<u>(23,387)</u>
Net deferred tax assets	<u>165,922</u>	<u>(121,629)</u>	<u>44,293</u>

# NOTES TO THE FINANCIAL STATEMENTS

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## 13. INVENTORIES

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Raw materials	327,647	370,001
Work in progress	208,545	151,162
Finished goods	199,768	55,101
Spare parts and consumables	<u>348,351</u>	<u>222,372</u>
	1,084,311	798,636
Less: Allowance for diminution in value of inventories	<u>(99,192)</u>	<u>(60,858)</u>
	<u><u>985,119</u></u>	<u><u>737,778</u></u>

At 31 December 2002, the Company had inventories carried at net realisable value with carrying amount of RMB 84,913,000 (2001: RMB 29,387,000).

## 14. TRADE RECEIVABLES AND BILLS RECEIVABLE

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Trade receivables		
--Third parties	346,615	424,411
--Parent companies and fellow subsidiaries (Note 18)	97,941	94,948
Less: Allowance for doubtful accounts	<u>(158,962)</u>	<u>(188,071)</u>
Subtotal	<u>285,594</u>	<u>331,288</u>
Bills receivable		
--Third parties	198,034	81,521
--Parent companies and fellow subsidiaries (Note 18)	<u>34,575</u>	<u>1,400</u>
Subtotal	<u>232,609</u>	<u>82,921</u>
Total	<u><u>518,203</u></u>	<u><u>414,209</u></u>

The ageing analysis of trade receivables and bills receivable is as follow:

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Within one year	348,863	308,184
Between one and two years	92,257	90,481
Between two and three years	61,117	85,748
Over three years	174,928	117,867
Less: Allowance for doubtful accounts	<u>(158,962)</u>	<u>(188,071)</u>
	<u><u>518,203</u></u>	<u><u>414,209</u></u>

Sales are generally on a cash term. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

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## 15. PREPAYMENTS AND OTHER CURRENT ASSETS

	2002 <u>RMB'000</u>	2001 <u>RMB'000</u>
Other receivables		
--Third parties	99,126	113,699
--Parent companies and fellow subsidiaries (Note 18)	144,318	320,470
Less: Allowance for doubtful accounts	<u>(14,758)</u>	<u>(8,989)</u>
Subtotal	<u>228,686</u>	<u>425,180</u>
Prepayments		
--Third parties	33,540	11,266
--Parent companies and fellow subsidiaries (Note 18)	184	8,326
Subtotal	<u>33,724</u>	<u>19,592</u>
Total	<u>262,410</u>	<u>444,772</u>

## 16. TRADE PAYABLES AND BILLS PAYABLE

	2002 <u>RMB'000</u>	2001 <u>RMB'000</u>
Trade payables		
--Third parties	77,852	81,977
--Parent companies and fellow subsidiaries (Note 18)	72,333	193,009
Subtotal	<u>150,185</u>	<u>274,986</u>
Bills payable		
--Third parties	-	37,159
--Parent companies and fellow subsidiaries (Note 18)	130,000	200
Subtotal	<u>130,000</u>	<u>37,359</u>
Total	<u>280,185</u>	<u>312,345</u>

The ageing analysis of trade payables and bills payable is as follow:

	2002 <u>RMB'000</u>	2001 <u>RMB'000</u>
Due within three months or on demand	137,477	293,669
Due after three months and within six months	130,000	18,676
Due after six months	12,708	-
	<u>280,185</u>	<u>312,345</u>

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## 17. ACCRUALS AND OTHER PAYABLES

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Receipts in advance		
--Third parties	159,564	95,274
--Parent companies and fellow subsidiaries (Note 18)	<u>562</u>	<u>6,876</u>
Subtotal	<u>160,126</u>	<u>102,150</u>
Amounts due to parent companies and fellow subsidiaries (Note 18)	89,351	98,592
Accrued expenses	290,468	621,209
Others	<u>47,628</u>	<u>72,754</u>
	<u><u>587,573</u></u>	<u><u>894,705</u></u>

## 18. AMOUNTS DUE FROM/TO PARENT COMPANIES AND FELLOW SUBSIDIARIES

Amounts due from/to parent companies and fellow subsidiaries are unsecured, interest free with no fixed repayment term and arose in the ordinary course of business (See Note 25).

## 19. BANK LOANS

Bank loans are unsecured and are repayable as follows:

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
After five years	-	640,834
Between two to five years	1,909,150	45,983
Between one to two years	<u>18,393</u>	<u>182,994</u>
Subtotal	<u>1,927,543</u>	<u>869,811</u>
Within one year		
Current portion of long-term loans	201,402	1,518,392
Short-term loans	<u>1,575,000</u>	<u>1,650,000</u>
Subtotal	<u>1,776,402</u>	<u>3,168,392</u>
Total	<u><u>3,703,945</u></u>	<u><u>4,038,203</u></u>

Short-term loans are unsecured loans without guarantee and payable in full when due. The Company's weighted average interest rate on short-term loans was 5.15% at 31 December 2002 (2001: 5.62%).



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 19. BANK LOANS (Continued)

Long-term bank loans comprise:

		2002	2001
	Interest rate	RMB'000	RMB'000
US Dollar denominated:			
Due in 2003	Libor+0.5%	183,009	182,994
	Floating rate quoted		
Due in 2006	by the PBOC	699,947	640,834
Payable semi-annually through 2005	Libor+1%	45,989	64,375
Renminbi denominated:			
Due in 2005	Fixed at 4.94%	1,200,000	-
Due in 2002	Fixed at 5.94%	-	1,450,000
Due in 2002	Fixed at 5.94%	-	50,000
Total long term loan outstanding		<u>2,128,945</u>	<u>2,388,203</u>
Less: Amounts due within one year		<u>201,402</u>	<u>1,518,392</u>
Amounts due after one year		<u>1,927,543</u>	<u>869,811</u>

## 20. LOANS FROM PARENT COMPANIES AND FELLOW SUBSIDIARIES

Loans from parent companies and fellow subsidiaries are unsecured and are repayable on demand as follows:

		2002		2001
	Interest rate	RMB'000	Interest rate	RMB'000
Loan from Sinopec	Interest free	30,000	Interest free	30,000
Loan from Sinopec	4.536%	150,000	5.301%	150,000
	Floating rate		Floating rate	
	quoted by the		quoted by the	
Loan from Sinopec Group	PBOC	200,000	PBOC	200,000
		<u>380,000</u>		<u>380,000</u>

## 21. SHARE CAPITAL

	2002	2001
	RMB'000	RMB'000
Registered, issued and fully paid		
2,362,000,000 domestic shares of RMB 1.00 each	2,362,000	2,362,000
1,012,000,000 H shares of RMB 1.00 each	1,012,000	1,012,000
	<u>3,374,000</u>	<u>3,374,000</u>

All the H shares and domestic shares rank pari passu in all material respects. Domestic shares are those issued to Yanshan Company in the PRC for the net assets transferred to the Company in connection with the Reorganisation. H shares are those issued to investors outside the PRC and traded on the Stock Exchange of Hong Kong and, in the form of ADSs, on the New York Stock Exchange.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 22. RESERVES

	Statutory Surplus reserve RMB'000 Note (b)	Statutory public welfare fund RMB'000 Note (c)	Capital reserve RMB'000 Note (d)	Revaluation reserve RMB'000	Total RMB'000
At 1 January 2001	111,909	111,908	(951,146)	848,006	120,677
Revaluation surplus realised	-	-	-	(103,579)	(103,579)
At 31 December 2001	111,909	111,908	(951,146)	744,427	17,098
At 1 January 2002	111,909	111,908	(951,146)	744,427	17,098
Revaluation surplus realised	-	-	-	(4,190)	(4,190)
At 31 December 2002	111,909	111,908	(951,146)	740,237	12,908

- (a) According to the Company's Articles of Association, the net profit for the year can only be appropriated after offsetting the previous years' losses, if any, as determined in accordance with the PRC Accounting Rules and Regulations.
- (b) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit (subject to Note (a) described above), as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be 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.

At 31 December 2002 and 2001, because the Company has accumulated losses of RMB 91,024,000 and RMB 366,163,000, respectively, being the amount determined in accordance with the PRC Accounting Rules and Regulations, no appropriation was made to the statutory surplus reserve for the years ended 31 December 2002 and 2001.

- (c) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit (subject to Note (a) described above), as determined in accordance with the 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 fund must be made before distribution of a dividend to shareholders.

At 31 December 2002 and 2001, because the Company has accumulated losses of RMB 91,024,000 and RMB 366,163,000, respectively, being the amount determined in accordance with the PRC Accounting Rules and Regulations, no appropriation was made to the statutory welfare fund for the years ended 31 December 2002 and 2001.

- (d) The capital reserve represents the difference between the total amount of the par value of shares issued to Yanshan Company and the amount of the net assets received from Yanshan Company in connection with the Reorganisation.
- (e) According to the Company's Articles of Association, the retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. At 31 December 2002, the Company has accumulated losses of RMB 91,024,000 (2001: Accumulated losses of RMB 366,163,000), being the amount determined in accordance with the PRC Accounting Rules and Regulations.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 23. CHANGE IN ACCOUNTING POLICY

Effective 1 January 2002, the Company changed its accounting policy with respect to land use rights. Land use rights are now carried at historical cost less accumulated amortisation rather than at its revalued amount. This change has been accounted for retrospectively by restating comparatives and adjusting the opening balances of retained earnings and shareholders' equity at 1 January 2001.

The change had the following impact to the retained earnings and shareholders' equity at 1 January 2002 and 2001:

	<u>2002</u>	<u>2001</u>
	RMB'000	RMB'000
Retained earnings at 1 January as previously reported	595,998	910,738
Change in accounting policy with respect to the amortisation of land use rights (net of income taxes of RMB 25,179,000 for 2002 and RMB 19,814,000 for 2001)	<u>51,122</u>	<u>40,230</u>
Retained earnings at 1 January as restated	<u><u>647,120</u></u>	<u><u>950,968</u></u>
Shareholders' equity at 1 January as previously reported	5,312,053	5,730,372
Change in accounting policy with respect to the amortisation of land use rights (net of income tax of RMB 245,875,000 for 2002 and RMB 251,240,000 for 2001)	<u>(499,205)</u>	<u>(510,097)</u>
Shareholders' equity at 1 January as restated	<u><u>4,812,848</u></u>	<u><u>5,220,275</u></u>

The effect of the change is a decrease in amortisation expense of RMB 16,256,000 for 2002 and RMB 16,256,000 for 2001. Opening retained earnings for 2001 have been increased by RMB 40,230,000 which is the amount of the adjustment, net of taxes, relating to periods prior to 2001.

## 24. RETIREMENT SCHEME

The Company's full-time employees are covered by a state-sponsored pension scheme, and are entitled to an annual pension equal to a fixed proportion of their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Company is required to make contributions to the retirement scheme at a rate of 19% (2001: 19%) of the employees' salaries. The Company provides no retirement benefits other than the contributions described above.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 25. RELATED PARTY TRANSACTIONS

A significant portion of the transactions undertaken by the Company is with, and on terms determined by Sinopec Group and Sinopec and its affiliates.

The following is a summary of significant related party transactions with Sinopec Group and Sinopec and its affiliates:

	2002 RMB'000	2001 RMB'000
Sale of goods	1,089,502	1,549,640
Sale of equipment	-	167,850
Purchase of inventories	5,147,244	3,727,319
Utilities provided to the Company	1,002,831	767,548
Social services (environmental protection, employee housing, health care, education, public security and other ancillary services) provided to the Company	108,482	153,618
Construction and repair services provided to the Company	42,398	9,961
Loans provided to the Company	-	185,000
Interest expense paid	17,968	8,833
Interest income received	119	201
Technological development expenses paid	30,000	30,000
Technological development fees received	44,984	48,472
Insurance premium paid	13,257	14,295

In accordance with the supply agreement, Sinopec and its affiliates provide materials and services to the Company at state or market prices, and the Company provides products to Sinopec and its affiliates at state or market prices.

Interest income received represents interest on time deposits placed with Sinopec Group and its affiliates. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of time deposits at 31 December 2002 was RMB 13,781,000 (2001: RMB 11,650,000).

At 31 December 2002, guarantees were provided by Sinopec and its affiliates in respect of the Company's long-term bank loans which consisted of loans of USD 106,672,061 and RMB 1,200,000,000 (2001: USD 77,427,000 and RMB 1,450,000,000).

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, all of which have been reviewed and approved by the non-executive directors.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 26. SEGMENT INFORMATION

All of the Company's production and sales operations are conducted in the PRC.

The Company's reportable business segments include resins and plastics, synthetic rubber, basic organic chemical products and others. The resins and plastics unit manufactures and sells petrochemical products including LDPE, polypropylene, HDPE, polyester chips and polystyrene. The synthetic rubber unit manufactures and sells cis-polybutadiene and SBS rubber. The basic organic chemical products unit manufactures and sells organic chemical products including phenol, acetone, ethylene glycol, ethylene and propylene. The others segment includes miscellaneous petrochemical products not classified in the above three business segments.

The reportable business segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that Company operates mainly in the PRC, no geographical segmental information is presented.

The Company evaluates the performance and allocates resources to its operating segments on a gross profit basis. The accounting policies of the Company's segments are the same as those described in the Significant Accounting Policies (see Note 2).

	<u>2002</u>	<u>2001</u>
	RMB '000	RMB '000
<b>External sales</b>		
Resins and Plastics	5,514,147	3,203,189
Synthetic Rubber	1,418,899	925,512
Basic Organic Chemical Products	2,140,185	1,373,201
Others	<u>369,830</u>	<u>473,353</u>
<b>Total external sales</b>	<u>9,443,061</u>	<u>5,975,255</u>
<b>Cost of sales</b>		
Resins and Plastics	(4,943,357)	(3,004,017)
Synthetic Rubber	(1,189,480)	(900,588)
Basic Organic Chemical Products	(1,877,542)	(1,237,069)
Others	<u>(357,650)</u>	<u>(518,517)</u>
<b>Total cost of sales</b>	<u>(8,368,029)</u>	<u>(5,660,191)</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 26. SEGMENT INFORMATION (Continued)

	<u>2002</u>	<u>2001</u>
	RMB '000	RMB '000
<b>Segment results</b>		
Resins and Plastics	570,790	199,172
Synthetic Rubber	229,419	24,924
Basic Organic Chemical Products	262,643	136,132
Others	<u>12,180</u>	<u>(45,164)</u>
<b>Total segment results</b>	1,075,032	315,064
Selling, general and administrative expenses	(530,571)	(565,412)
Net financing costs	(210,830)	(59,579)
Other operating income	55,979	30,053
Other operating expenses	(55,687)	(31,143)
Net (loss)/gain on disposal of property, plant and equipment	(3,195)	147,737
Employee reduction expenses	<u>-</u>	<u>(246,943)</u>
<b>Profit/(loss) from ordinary activities before taxation</b>	330,728	(410,223)
<b>Income tax (expense)/benefit</b>	<u>(121,629)</u>	<u>137,756</u>
<b>Profit/(loss) attributable to shareholders</b>	<u><u>209,099</u></u>	<u><u>(272,467)</u></u>

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, income tax receivable, deferred tax assets and office equipment. "Unallocated liabilities" consists primarily of bank loans, loans from parent companies and fellow subsidiaries, and deferred tax liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 26. SEGMENT INFORMATION (Continued)

	2002	2001
	RMB '000	RMB '000
<b>Segment assets</b>		
Resins and Plastics	5,512,788	5,647,626
Synthetic Rubber	1,428,220	1,697,593
Basic Organic Chemical Products	2,073,242	2,004,892
Others	470,947	396,716
	<hr/>	<hr/>
<b>Total segment assets</b>	9,485,197	9,746,827
Unallocated assets	774,610	1,011,369
<b>Total assets</b>	<u>10,259,807</u>	<u>10,758,196</u>
<b>Segment liabilities</b>		
Resins and Plastics	310,253	509,916
Synthetic Rubber	74,251	113,576
Basic Organic Chemical Products	106,322	186,819
Others	25,174	38,621
	<hr/>	<hr/>
<b>Total segment liabilities</b>	516,000	848,932
Unallocated liabilities	4,721,860	5,096,416
<b>Total liabilities</b>	<u>5,237,860</u>	<u>5,945,348</u>
<b>Capital expenditure</b>		
Resins and Plastics	207,862	1,499,554
Synthetic Rubber	78,948	438,483
Basic Organic Chemical Products	50,016	619,538
Others	15,354	114,459
	<hr/>	<hr/>
	<u>352,180</u>	<u>2,672,034</u>
<b>Depreciation</b>		
Resins and Plastics	475,786	294,861
Synthetic Rubber	114,484	86,220
Basic Organic Chemical Products	180,709	121,822
Others	35,145	22,507
	<hr/>	<hr/>
	<u>806,124</u>	<u>525,410</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
(Amounts in thousands, except per share data)

## 27. NOTES TO CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from ordinary activities before taxation to cash generated from operations:

	<u>2002</u> RMB '000	<u>2001</u> RMB '000 (Restated)
Profit/(loss) from ordinary activities before taxation	330,728	(410,223)
Adjustments for:		
Depreciation	806,124	525,410
(Gain)/loss on disposals of property, plant and equipment, net	3,195	(147,737)
Interest income	(2,063)	(2,139)
Interest expense	195,113	53,347
(Increase)/decrease in trade and bills receivables	(103,994)	106,183
(Increase)/decrease in inventories	(247,341)	284,471
Decrease/(increase) in prepayments and other current assets	182,362	(121,486)
Decrease in trade and bills payables	(32,160)	(11,099)
Increase in accruals and other payables	<u>88,985</u>	<u>439,968</u>
Cash generated from operations	<u>1,220,949</u>	<u>716,695</u>

(b) Significant non-cash transactions

(i) There were no significant non-cash transactions incurred during the year ended 31 December 2002.

(ii) As stated in Note 4, on 20 November 2001, the Company sold a polypropylene production facility to Yanshan Company and recorded a gain of RMB 156,546,000. The consideration of the transaction was based on a report issued by an independent qualified valuer on 17 November 2001. The consideration was paid by Yanshan Company through reducing the amount previously owed by the Company to Yanshan Company.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
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## 28. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Operating lease commitments

The Company leases machinery and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of these operating lease agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2002, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	<u>2002</u> RMB '000	<u>2001</u> RMB '000
Within one year	12,978	-
Between one to two years	<u>12,978</u>	<u>-</u>
	<u>25,956</u>	<u>-</u>

### (b) Capital commitments

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

	<u>2002</u> RMB '000	<u>2001</u> RMB '000
Authorised and contracted for	67,385	525,130
Authorised but not contracted for	<u>-</u>	<u>530,523</u>
	<u>67,385</u>	<u>1,055,653</u>

These capital commitments relate to the purchase or construction of production facilities.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002  
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## 29. FINANCIAL INSTRUMENTS

Financial assets of the Company include cash and cash equivalents, trade receivables, bills receivable and other receivables. Financial liabilities of the Company include bank loans, trade payable, bills payable, other payables and loans from parent companies and fellow subsidiaries. The Company had no positions in derivative contracts that qualified or were designated as hedging instruments as at 31 December 2002 and 2001.

### (a) Interest rate risk

The interest rates and terms of repayment of loans of the Company are disclosed in Notes 19 and 20.

### (b) Credit risk

The carrying amounts of cash and cash equivalents, trade and bills receivables, and other receivables represent the Company's maximum exposure to credit risk in relation to financial assets.

The majority of the Company's trade receivables relate to sales of chemical products to related parties and third parties operating in the chemical industries. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Company maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

### (c) Foreign currency risk

Substantially all of the revenue generating operations of the Company are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy or sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

# NOTES TO THE FINANCIAL STATEMENTS

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## 29. FINANCIAL INSTRUMENTS (Continued)

### (d) Fair value

The following disclosure of the estimated fair value of financial instruments is made in accordance with requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Company's financial instrument, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Company's financial statements and related notes. The estimated fair value amounts have been determined by the Company using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB'000	RMB'000	RMB'000	RMB'000
Long-term bank loans	<u>1,927,543</u>	<u>1,927,543</u>	<u>869,811</u>	<u>869,811</u>

The fair values of long-term bank loans are estimated by discounting future cash flows thereon using current market interest rates offered to the Company for debts with substantially the same characteristics and maturities.

The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

## 30. PARENT COMPANIES

The directors consider the immediate parent company and the ultimate parent company at 31 December 2002 to be Sinopec and Sinopec Group, respectively, which are incorporated in the PRC.

## 31. COMPARATIVE FIGURES

Certain comparative figures in financial statements have been adjusted as a result of the change in accounting policy described in Note 23. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.