SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD

(Incorporated in the People's Republic of China)

2001 ANNUL REPORT

<u>Content</u>

Important: Board of Directors of the Shenzhen Petrochemical Industry (Group) Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading. The report is compiled in Chinese and English languages should there be difference in interpretation of the two languages, the Chinese version shall prevail.

Moore Stephens Shenzhen Nanfang-Minhe Certified Public Accountants issued an Auditors' Report with adverse opinion. The Board of Directors and the Supervisory Committee of the Company made explanations on the relevant matters in details, the investors are suggested to notice the content.

Director, Mr. Wang Miaoquan, unable to present the 2th conference of the forth Board of Directors of the Company due to some reasons.

I. COMPANY PROFILE

1. Legal Name of the Company

   In Chinese: 深圳石化工业集团股份有限公司

   In English: Shenzhen Petrochemical Industry (Group) Co., LTD.
   (Short form in English: SPEC)
2. Legal Representative: Mr. Ding Fuyi
3. Secretary of the Company: Mr. Cai Jianping
   Liaison Address: SPEC Bldg., Hongli West Road, Futian District, Shenzhen
   Tel: (86) 755-3344355
   Fax: (86) 755-3324057
   E-mail: Caijp@spec.com.cn
4. Registered Address and Office Address:
   SPEC Bldg., Hongli West Road, Futian District, Shenzhen
   Post Code: 518028
   E-mail: spec0013@spec.com.cn
5. Newspapers Chosen for Disclosing Information of the Company:
   Securities Times and Ta Kung Pao
   Internet Web Site Designated by CSRC for Publishing the Annual Report:
   http://www.cninfo.com.cn
   Place Where the Annual Report is Prepared and Placed:
   Secretariat of the Board of Directors, SPEC Bldg., Hongli West Road, Futian District, Shenzhen
6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock Name and Stock Code: SHEN SHIHUA – A 0013
   SHEN SHIHUA – B 2013
7. The initial registration of the Company:
   Date: Jan. 14, 1992
   Registration number of enterprise juristic person's business license: 4400001008296
   Number of taxation (National Revenue/Local Revenue) registration: 440301190325614
8. Certified Public Accountants engaged by the Company:
   Shenzhen Nanfang-Minhe Certified Public Accountants (for A share)
   Moore Stephens Shenzhen Nanfang-Minhe Certified Public Accountants (for B share)
   Address: 8/F, Electronics Tech. Bldg., No. 2072, Shennan Middle Road, Shenzhen

II. FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Major Accounting data and financial indexes (Calculated according to the IAS)

RMB'000

Items	2001	2000
Turnover	729,046	831,337
Gross profit	133,474	161,022
Profit from operating activities	(28,200)	78,367
Share of profits in associated and unconsolidated companies	(45,737)	6,962
Profit before taxation	(2,212,221)	67,695
Profit attributable to shareholders	(2,212,642)	36,711
Profit (loss) per share - basic (RMB)	(7.29)	0.121
Total assets	423,152	1,901,175
Shareholders' deficiency	(1,645,311)	567,331
Net assets per share (RMB)		1.87
Net return on equity		6.47%
Net cash flows from operating activities	4,634	27,012
Net increase in cash and cash equivalents	(3,733)	(30,113)

2. Supplementary statement of profit in the report year:

Items	**Return on equity (%)**		**Earnings per share (RMB)**	
	Fully diluted	**Weighted average**	**Fully diluted**	**Weighted average**
Gross profit	---	---	0.44	0.44
Net profit	---	---	(5.23)	(5.23)

3. Change in shareholders' equity and the causes in the report year

Items	Amount at year-begin	Increase in the report year	Decrease in the report year	Amount at year-end
Share capital	303,354,979	-	-	303,354,979
Reserves	(363,623)	299	(1,585,274)	(1,948,668)
Shareholders' equity	(60,268)	299	(1,585,274)	(1,645,313)

Causes for change: decrease in reserves and shareholders' equity was mainly due to the provision for bad debts due from the control shareholder and the provision for loss on guarantee.

4. Impact of IAS Adjustments on the Profit attributable to shareholders

	Amount (RMB'000)
Ax reported in the "A" shares consolidated audited statutory financial statements under PRC accounting standards	(1,575,991)
IAS and adjustments:	
Provision for impairment of fixed assets	(1,350)
Correcting accounting errors	(635,530)
Accounts payable written back	229
As reported after IAS adjustment in the "B" shares financial statements	(2,212,642)

III. CHANGE IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

1. Change in share capital

(1) Statement of change in share

	Before the change	Increase / decrease in this year (+ / -)	After the change
I. Unlisted shares			
(1) Promoters' shares	164,546,553	0	164,546,553
Including:			
State-owned shares	164,546,553	0	164,546,553
Domestic juristic person's shares			
Foreign juristic person's shares			
Others			
(2) Domestic juristic person's shares	54,724,424	0	54,724,424
(3) Employees' shares			
(4) Preference shares or others			
Including: Transferred / allotted shares			
Total unlisted shares	219,270,977	0	219,270,977
II. Listed shares			
(1) RMB ordinary shares	51,324,002	0	51,324,002
(2) Domestically listed foreign shares	32,760,000	0	32,760,000
(3) Overseas listed foreign shares			
(4) Others			
Total listed shares	84,084,002	0	84,084,002
III. Total shares	303,354,979	0	303,354,979

(2) Over the past three years by the end of the report year, the Company has not issued any shares, and there was change neither the total number of share nor structure of share capital of the Company.

2. About shareholders

(1) Total shareholders at the end of the report period

Ended Dec. 31, 2001, the Company has totally 39,147 registered shareholders (including legal person and natural person), including 30,313 shareholders of A-share and 8,834 shareholders of B-share.

(2) Shares held by the top ten shareholders at the end of the report year

Name of Shareholders	Number of Shares	Percentage of total share capital	Style
Shenzhen Petrochemical Corp.	164,546,553	54.24%	State-owned share
China Ping An Insurance Co., Ltd.	23,400,000	7.71%	Juristic person's share
China Communication Securities Co., Ltd.	19,380,532	6.39%	Juristic person's share
Shenzhen Jingye Plastics Co., Ltd.	2,208,772	0.73%	Juristic person's share
Shenzhen Silverland Investment Co., Ltd.	1,560,000	0.51%	Juristic person's share
Quanzhou Fukang Investment Consultation Co., Ltd.	1,560,000	0.51%	Juristic person's share
Everbright Bank of China, Shenzhen Securities Dept.	1,484,936	0.49%	Juristic person's share
China Prime Investment Management Co., Ltd.	936,000	0.31%	Juristic person's share
Xinhua Trust Company	780,000	0.26%	Juristic person's share
NanHai Eastern Petrochemical Economic and techn Development Corp.	780,000	0.26%	Juristic person's share
Total	216,636,793	71.41%	

Note: In the report year, there was no change in quantity of shares held by the shareholders holding more than 5% of the total, namely Shenzhen Petrochemical Corp. ("Petrochemical Corp."), China Ping An Insurance Co., Ltd. and China Communication Securities Co., Ltd. There was no pledge or freeze on shares held by the other two shareholders except that 54.24 % of the total shares of the Company held by Shenzhen Petrochemical Corp. were frozen.

3. Particulars about holding shareholder of the Company

a. Shenzhen Petrochemical Corp. is the holding shareholder of the Company, who is a State-owned Sole Corporation, and has established in 1996; legal representative: Ding Fuyi; registration capital: RMB 537 million. Shenzhen Petrochemical Corp. is mainly engaged in investment and initiation of industrial, home commerce, supply and marketing of material, development of technology of high-tech production.

b. The holding shareholder of Shenzhen Petrochemical Corp. is Shenzhen Investment Holding Corporation, who has established in 1988; legal representative is Li Heihu; registration capital: RMB 2 billion; operation manner: investment and management.

IV. PARTICULARS ABOUT DIRECTOR, SUPERVISOR AND SENIOR EXECUTIVES

1. Directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Shares held at the year-end	Increase/ decrease	Holding the position in Shareholding Company
Ding Fuyi	Chairman of the Board	Male	47	Nov. 2001 - 2004	0	0	Holding Chairman of the Board of Petrochemical Corp.
Luo Hongchun	Vice Chairman of the Board	Male	51	Nov. 2001 - 2004	0	0	Holding Director and General Manager of Petrochemical Crop.

Xin Yu	Director, General Manager	Male	38	Nov. 2001 - 2004	0	0	
Ying Qirui	Independent director	Male	64	Nov. 2001 - 2004	0	0	
Tang Dongyuan	Director	Male	35	Nov. 2001 - 2004	0	0	Holding Deputy General Manager of Investment Dept. of China Communication Securities
Wang Miaoquan	Director	Male	54	Nov. 2001 - 2004	0	0	Holding Deputy General Manager of Petrochemical Corp.
Liu Cong	Director	Male	41	Nov. 2001 - 2004	0	0	Holding Director, Chief Financial Supervisor of Petrochemical Corp.
Li Linsen	Director	Male	55	Nov. 2001 - 2004	6,240	0	
Liu Qingmin	Director	Male	39	Nov. 2001 - 2004	0	0	
Zhou Zhen	Director, Deputy General Manager	Male	38	Nov. 2001 - 2004	0	0	
Cai Jianping	Director, Secretary of the Board	Male	38	Nov. 2001 - 2004	0	0	
Li Qinwen	Chairman of the Supervisor Committee	Male	54	Nov. 2001 - 2004	0	0	Holding Deputy Secretary of Party Committee of Petrochemical Corp.
Mu Xiangfeng	Supervisor	Male	45	Nov. 2001 - 2004	0	0	
Liao Hongli	Supervisor	Female	36	Nov. 2001 - 2004	0	0	
Wu Sheng	Supervisor	Male	36	Nov. 2001 - 2004	0	0	
Ren Zhenghua	Supervisor	Female	47	Nov. 2001 - 2004	0	0	
Bai Jinmin	Deputy General Manager	Male	35	Nov. 2001 - 2004	0	0	

2. Particulars about the annual salary

The Board of Director, the Supervisory Committee and Operation Group have been reengaged in Nov. 2001, thus, in the report year, there are only 3 directors or supervisors or senior executives draw their annual salary from the Company, with total amounts of RMB 298,000. Director Ding Fuyi, Luo Hongchun, Tang Dongyuan, Wang Miaoquan and Liu Cong, supervisor Li Qinwen and Liao Hongli drew their annual salary from the Shareholding Company; director and general manager Xin Yu, director Li Linsen and Liu Qingmin, supervisor Mu Xiangfeng, Wusheng and Ren Zhenghua draw their annual salary from the subsidiary companies of the Company. Xin Yu and Liao Hongli drew their annual salary form the Company since Jan. 2002; independent director Ying Qirui drew his allowance from the Company since 2002.

3. Change in directors, supervisors and senior executives

(1) In July 2001, the original Chairman of the Board Chen Yongqing resigned from Director and Chairman of the Board due to retirement, and the Board of Directors elected Ding Fuyi as Chairman of the Board;

(2) In the report year, the office term of 3rd Board of Directors, 3rd Supervisory Committee and operation group were expiration, and in Nov. 2001, the Company held the Extraordinary Shareholders' General Meeting, Ding Fuyi, Luo Hongchun, Xin Yu, Ying Qirui, Tang Dongyuan, Wang Miaoquan, Liu Cong, Li Linsen, Liu Qingmin, Zhou Zhen and Cai Jianping were elected the members of the 4th Board of Directors, and the office term is three years; Li Qinwen, Mu Xiangfeng and Liao Hongli were elected as

members of the 4th Supervisory Committee, and the office term is three years, Wu Sheng and Ren Zhenghua were elected as employee supervisors. Meanwhile, the Board of Directors of the Company engaged Xin Yu as General Manager of the Company, and engaged Bai Jinmin and Zhou Zhen as Deputy General Manager respectively, and engaged Cai Jianping as Secretary of the Board.

4. About employees

Ended the report year, the Company had totally 3,421 employees in office at present, classified Profession/occupation composition, Production personnel: 2,581 persons, sales personnel: 146 persons, Technicians: 493 persons, financial personnel: 64 persons, administrative personnel: 137 persons; classified based on education background, there were 52 persons with master degree or above, 791 persons with bachelor degree or 3-years regular college graduate, 2,578 persons graduated from junior college. The Company need to bear the expenses of 32 retirees.

V. ADMINISTRATIVE STRUCTURE

1. Administration of the Company

In order to establish modern enterprise system and practically protect the interests of numerous investors, the Company, according to the Administrative Rules of Listed Company as well as the Company's actual situation and need, further improved its administrative structure. Remarks on the particulars of the Company's administrative structure expressed by the Board of Directors are as follows:

(1) Shareholder and the Shareholders' General Meeting. The Company's administrative structure ensures the equal status for all shareholders, especially medium and small shareholders, and ensures that shareholders fully implement legal rights; In the report year, the Company convened and held the Shareholders' General Meeting, of which the holding procedures, qualification of participators and voting procedures were all in line with the PRC Company Law, Normative Opinions for the Shareholders' General Meeting of Listed Company as well as the regulations of Articles of Association.

(2) Relationship between Controlling Shareholder and Listed Company. The Company's controlling shareholder implements its right of shareholder according to law, and undertakes obligations of shareholder; The Company is on the whole separated from the controlling shareholder in respect of business, assets, organization, personnel and finance etc., and carries out business accounting independently and undertakes liabilities and risks independently.

(3) Directors and the Board of Directors. The Company elects directors according to election and engaging procedures as stated in the Articles of Association. Directors implement their obligations in a loyal, honest, reliable and diligent manner; The number of directors as well as the personnel formation are in line with relevant laws and regulations. Meetings of the Board of Directors are carried out according to stated procedures.

(4) Supervisors and the Supervisory Committee. The formation of the Supervisory Committee and election of supervisors are in line with relevant laws and legislations. The members of the Supervisory Committee as well as its structure ensure that the Supervisory Committee could implement supervision and inspection on directors, senior executives and the Company's finance. Meetings of the Supervisory Committee are held according to stated procedures.

(5) Relevant Stake Holder. The Company respects the legal rights and interests of bank, other creditors, employees and parties of related interests.
(6) Information Disclosure and Transparency. The Company could, on the whole, implement its obligation of disclosing information according to relevant regulations, and assigned the secretary of the Board of Directors to be in charge of information disclosure work and receiving of inquiries from shareholders.
2. Performance of Obligations by Independent Directors.
The Company engaged one independent director in November of 2001, who could carry out work according to CSRC's relevant regulations.
3. Improvement Measures.
According to the Administrative Rules of Listed Company, the Board of Directors believed that there was still a gap between the Company's legal person administrative structure and the requirements of CSRC, which needed improvement.
(1) The Company hasn't established or improved Rules of Procedures of the Shareholders' General Meeting, Rules of Procedures of the Board of Directors, Rules of Procedures of the Supervisory Committee and Detailed Work Rules for General Managers according to the Administrative Rules of Listed Company, and will finish establishing or improving the above documents before June 2002.
(2) The Company's controlling shareholder owed the Company huge account receivables, which seriously affected the Company's financial condition and normal operation. The Company shall positively negotiate with the controlling shareholder for this issue and avoid occurrence of similar case.
(3) The Company will establish and improve performance evaluation, encouragement and binding mechanism in proper time.

VI. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

1.Notifying, Convening and Holding of the 10th Shareholders' General Meeting (2000)
The notification on holding the 10th Shareholders' General Meeting was published in Securities Times and Hong Kong Ta Kung Pao dated May 29, 2001. The Meeting was held on May 29, 2000 on schedule. The shareholders who attended the Meeting held and represented totally 189,270,393 shares (among which 101,000 were B shares), taking 62.39% of the Company's total shares. The Annual Shareholders' General Meeting reviewed and passed through written voting 2000 Work Report of the Board of Directors, 2000 Work Report of the Supervisory Committee, 2000 Audited Financial Statement and Auditors' Report, 2000 Profit Distribution Proposal, Proposal on Reengaging Certified Public Accountants for 2001, Proposal on Making up Housing Turnover Deficits Listed in Undistributed Profits with Surplus Public Reserve and the Proposal on Authorization to the Board of Directors. The resolutions of the Meeting were published in Securities Times and Hong Kong Ta Kung Pao dated June 30, 2001.
2. Notifying, Convening and Holding of the 1st Provisional Shareholders' General Meeting of 2001
The notification on holding the 1st Provisional Shareholders' General Meeting of 2001 was published in Securities Times and Hong Kong Ta Kung Pao dated October 20, 2001. On November 21, 2000, the 1st Provisional Shareholders' General Meeting of 2001 was held on schedule. The shareholders who attended the Meeting held and represented totally 186,150,305 shares (among which there was no B share), taking 61.36% of the

Company's total shares. The Meeting reviewed and passed through written voting Proposal on Electing Members of the 4th Board of Directors, Proposal on Electing Members of the 4th Supervisory Committee and Proposal on Changing Certified Public Accountants in 2001. The resolutions of the Meeting were published in Securities Times and Hong Kong Ta Kung Pao dated November 22, 2001.

VII. REPORT OF THE BOARD OF DIRECTORS

1. Operation

The year 2001 is the hardest year for the Company since it's listing, firstly, it failed to collect the enormous amount of debts due from its control shareholder and secondly equity of its major subsidiaries were all frozen by the Court due to lawsuit failure. Under such tedious environment, the Company made series of measures overcoming many difficulties to safeguard the normal operation of the main industrial subsidiaries. However, it still suffered deficits by substantive amount because it withdrew provisions for the said bad debts at full value and provisions for losses on guarantees according to relevant accounting policies.

(1) Industry engaged

The Company is mainly engaged in business of new model chemical materials, plastics processing, fine chemicals and bio-pharmaceutical, under the classification of chemical and bio-pharmaceutical enterprise.

(2) Main business in the report period

In the report period, main industrial subsidiaries of the Company maintained a normal operation in spite of various unfavorable factors and realized a turnout totaling RMB 700 million. Engaging principally in PVC plastics processing, Shenzhen SPEC Plastics Group Co., Ltd. formally started the production of PPR flow pipe production line, symbolizing the company's production capability of complete sets of indoor water supply pipe. In addition, innovation for heating system, powder materials blower system and power supply for Henggang Plastics City were completed, and accordingly the material and the energy cost was reduced. In the report period, Shenzhen SPEC Plastics Group Co., Ltd. made an output of various plastic products with PVC of 43,000 tons, a slight increase over the same period of the previous year. Engaging mainly in production of PP fiber and other chemical fiber materials, Shenzhen SPEC Chemical Fibers Co., Ltd. and Shenzhen SPEC Donghong Laminating and Coating Fibers Co., Ltd. maintained a strong competitiveness with famous brand through innovation on the existing equipments, application of computer color matching system and introduction of new models meeting the market demand. In the report period, the two companies realized a total output of 17,000 tons of PP fiber and 14.36 million yards of fine chemical fiber materials.

(3) Operations of main consolidated subsidiaries

Unit: RMB'000

Name	Principal activities	Turnover	Gross profit
Shenzhen SPEC Plastics Group Co., Ltd.	Production and sales of plastics products represented by PVC sheets	39,103	7,067
Shenzhen SPEC Chemical Fibers Co., Ltd.	Production and sales of polypropylene filament	20,085	4,253

Shenzhen SPEC Donghong Laminating and Coating Fibers Co.	Production and sales of laminating and coating fibers	10,082	1,384

(4) Problems and difficulties occurred in the operation and the solution

In the report period, the Company confronted with unprecedented difficulties due to mainly two reasons. Firstly, no actual progress was achieved in its collection of the enormous amount of debts due from the control shareholder; and secondly the Company lost most legal cases involved, so equity of its major subsidiaries were frozen by the Court and normal operation of the Company was influenced. To counter the difficulties, the Company actively negotiated with its creditors preventing its financial status from further worsening on one hand, and on the other hand reduced the production cost by taping the potential, innovating, reducing overstaff and increasing efficiency.

2. Investment

The Company made no new investment in the report period.

3. Financial highlights

(1) Financial status

RMB'000

Item	2001	2000	+ /-	Main causes
Total assets	423,152	1,901,175	(1,478,023)	Provision for devaluation
Long-term liabilities	16,794	172,819	(156,025)	Transfer to short-term liabilities
Shareholders' equity	(1,645,313)	567,331	(2,212,644)	Provision for devaluation
Gross profit	133,474	161,022	(27,548)	Changes in consolidation scope
Net profit	(2,212,642)	36,711	(2,175,931)	Provision for devaluation

(2) Notice to the matters as mentioned in the Auditors' Report which carrying adverse opinion by Moore Stephens Shenzhen Nanfang-Minhe Certified Public Accountants

Presently, the Company suffered following significant problems in its financial status: A. Liabilities over-exceeding assets and enormous amount of deficits; B. difficulties in timely repaying due loan and according interest; C. Failure in collecting receivables from the control shareholder before the statement date and no further settlement plan; D. lawsuits and guarantee events involving tremendous amount of fund; E. All equity and partial assets being frozen or pledged. Since the Company had no effective restructure plan and liabilities reorganization measure, it is difficult for the Company to solve above problems independently. To change the Company's present sorry plight, the enormous amount of debts owned by the control shareholder should be settled and the joint payment liabilities for guarantee should be released, which expected no improvement so far. Therefore, the Company needs to find the proper restructure method and liabilities reorganization measure with the support and cooperation of relevant authorities and creditors to continue its operation and break away from the existing difficulties.

4. Significant changes in the production and operation environment

No actual progress was made in the report period regarding the due accounts receivable from the control shareholder, the Company was subject to the joint repayment liabilities of guarantor due to the failure of timely settlement of loan by the first debtor. All these resulted in the serious shortage in the Company's fund; equity of the Company's major industrial subsidiaries being frozen by the Court, and eternally significantly affected the Company's normal operation. The Board of Directors was of the opinion that it was out of the Company's ability to improve the present dreadful production and operation environment.

5. Business plan for 2002

Based on the significant changes in operation environment, the Company will focus on following works in 2002:

(1) to continually collect the accounts receivable from the control shareholder and other related parties;

(2) to continually negotiate with creditors for solutions concerning the debts, prevent the financial crisis from happening;

(3) to promote the technical advance and innovation, improve the product quality and variety, increase the competitiveness while stabilizing the production and operation of present main industrial subsidiaries.

6. Daily Work of the Board of Directors

(1) Particulars about meetings of the Board of Directors and resolutions in the report year

In the report year, the Company altogether held four formal Board meetings and one provisional Board meeting, details of which are as follows:

B. The 9th Meeting of the 3rd Board of Directors was held on April 2, 2001, which reviewed and passed 2000 Auditors' Report, 2000 Annual Report, 2000 Profit Distribution Preplan and 2001 Profit Distribution Policies.

C. The 10th Meeting of 3rd Board of Directors was held on July 28, 2001, in which the attendant directors unanimously chose Ding Fuyi to be chairman of the Board of Directors and discussed relevant issues on disclosure of 2001 Interim Report.

D. The 11th Meeting of the 3rd Board of Directors was held on October 19, 2001, which reviewed and passed Proposal on Reelecting of the Board of Directors, Proposal on Changing Certified Public Accountants in 2001, and Proposal on Holding Provision Shareholders' General Meeting. The attendant directors listened to the report on management status from January to September of 2001 made by the Company's general manager and discussed issue of encouragement to the management team.

E. The 1st Meeting of the 4th Board of Directors was held on November 21, 2001, in which the attendant directors unanimously elected Ding Fuyi to be chairman of the new Board of Directors, Luo Hongchun to be vice chairman, Yin Yu to be general manager of the Company, Bai Jinmin and Zhou Zhen to be vice general manager, and Cai Jianping to be secretary of the Board of Directors.

F. The Provisional Meeting of the 4th Board of Directors was held on December 28, 2001, which reviewed and passed Proposal on Terminating Real Estate Transaction with Related Company and Reclaiming Plan of Account Receivables Owed by Big Shareholder, and discussed relevant issues of the Company's recent lawsuit cases.

(2) Implementation of resolutions of Shareholders' General Meeting by the Board of Directors

In the report year, the Board of Directors seriously implemented each resolution as passed in the Shareholders' General Meeting, and continually offered equivalent guarantee to several original mutual guarantee enterprises.

7. Profit Distribution Preplan of the Year

As a result of deficit in the report year, the Company would neither distribute profits of 2001 nor transfer capital public reserve to share capital.

The above profit distribution preplan of 2001is subject to discussion and approval in the 11th Shareholders' General Meeting.

8. Other Reporting Events

The Company designated Securities Times and Hong Kong Ta Kung Pao as its information disclosure newspapers, which hadn't been changed in the report year.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

In 2001, the Supervisory Committee seriously performed its obligations and correctly implemented its supervision functions according to the PRC Company Law, Administrative Rules of Listed Company, relevant laws and legislations for listed company as well as relevant regulations of the Articles of Association. In the report year, the Li Qinwen, Mu Xiangfeng and Liao Hongli were elected supervisor in the Provisional Shareholders' General Meeting, meanwhile, in the Company's Employee Representatives' General Meeting, Wu Sheng and Ren Zhenghua, being representatives of employees, were elected supervisors.

In the report year, the Company held altogether three meetings of the Supervisory Committee. The 6th Meeting of the 3rd Supervisory Committee was held on April 2, 2001, which reviewed 2000 Annual Report etc.; The 7th Meeting of the 3rd Supervisory Committee was held on August of 2001, which reviewed 2001 Interim Report; The 1st Meeting of the 4th Supervisory Committee was held on November 21, 2001, in which Mr. Li Qinwen was elected chairman of the Supervisory Committee.

1. Operation according to Law

In the report year, the members of the Supervisory Committee attended Board meeting and work meeting of general manager frequently, and acquainted themselves with decisions made by the Board of Directors and management status of the Company. The Supervisory Committee believed that in the report year, the Board of Directors and management team made significant decisions according to the PRC Company Law and relevant regulations in the Articles of Association, and that the Company had rather perfect regulatory system and internal control system in respect of internal administration. The Directors and senior executives didn't violated laws, legislations, the Articles of Association or damaged the interest of the Company when they were performing obligations.

2. Financial Inspection

In the report year, through inspecting the Company's management and financial status and consulting accounting books and other relevant accounting information, the Supervisory Committee didn't found any violation behavior of national laws and regulations as well as the Articles of Association.

The account receivables owed by the Company's large shareholder due to assets reorganization and the joint liability aroused from the lawsuit case taken by the creditor against the Company had significant impact on the Company's operation activities and financial status. The Board of Directors is positively negotiating with the controlling shareholder, the enterprises guaranteed and financial institution on the relevant issues and has implemented its obligation of information disclosure in time according to relevant regulations.

3. Purchase or Sales of Assets
In the report year, the Company had no material purchase or sales of assets.
4. Correlative Transactions
In the report year, the Company conducted transactions with related companies according to common commercial clauses, and the correlative transactions didn't damaged its interests.
5. Remarks on the Involved Issues in the Non-explanatory Auditors' Report as Released by Certified Public Accountants
The Supervisory noticed the involved issues in the adverse opinion auditors' report as released by Moore Stephens Shenzhen Nanfang-Minhe CPAs, and agreed to the remarks expressed by the Board of Directors on these issues.
6. Others
In 2001, the Company suffered huge losses for various complex historical reasons, on which the Supervisory Committee would further reinforce its supervision function.

IX. SIGNIFICANT EVENTS
1. Significant Lawsuit and Arbitration
In the second half of 2001, the Company was involved in many lawsuit cases, namely, the Company was proceeded against by the creditor, which involved RMB 225.4 millions (among which RMB 5.81 millions was adjudged to be paid by the Company, RMB 4,280,000 was in the session of court but hadn't been adjudged, and RMB 215.3 millions hadn't been processed by the court); The Company was proceeded against by the creditor to undertake joint liability of the lawsuit case for offering guarantee of bank loans to following companies, which involved RMB 290.4 millions (among which RMB 82.9 millions was adjudged to be paid by the Company who undertook joint discharge liability, RMB 37.5 millions was in the session of court but hadn't been adjudged, and RMB 167 millions hadn't been processed by the court yet). Details see the public notice of the Board of Directors published in Securities Times and Hong Kong Ta Kung Pao dated December 31, 2001.
2. In the report year, the Company had no material purchase and sales of assets as well as absorbing and consolidation event.
3. Significant Correlative Transactions
(1) By the end of report year, the account receivables owed by the Company's controlling shareholder Shenzhen Petrochemical Corp. (" the Group") and the subsidiary companies amounted to RMB 1.2 billion, which was mainly because of debt transfer in the assets reorganization carried out between the Company and the Group in the recent years: A. In early1997, as approved by relevant authority of Shenzhen, the Group merged Shenzhen Raybo Industrial Company ("Raybo Co."), the Company's original wholly-owned subsidiary, so that all the liabilities undertaken by Raybo Co. were transferred to the Group and thus the Company had RMB 600 millions of account receivables in the Group; B. In June of 1999, in order to clarify development direction of the industry and centralize resources to develop leading business, the Company carried out its first strategic reorganization with the Group, in which the Company transferred non-industrial enterprises and long-term investment to the Group. The net assets value of the transferred enterprises was RMB 465 millions. The cash paid to the Group and property rights of the enterprises amounted to RMB 113 millions, meanwhile,

the Group undertook RMB 150 millions of the Company's bank debts. The rest amount of money and the loans offered to the transferred enterprises by the Company amounted to RMB 570 millions, which was transformed into account receivables owed by the Group; C. The Group hadn't paid interests for the bank loans that were applied in the name of the Company.

It is quite hard to reclaim the above arrears owed by the Group in a short time, mainly because: A. Most of banks didn't agree that the Company transferred its bank loans to the Group, so that it couldn't finish continuing bank debts; B. The Group's subsidiaries were almost all transferred from the Company in the recent years' reorganization, which had poor assets quality and most of which had terminated operation. As a result, there seems to be little possibility for the Group to refund the Company's account receivables solely by investing efficient assets; C. The Group is not able to refund arrears by means of paying huge amount of cash.

(2) Dec. 2001, the Company cancelled the implementation of the Property Assignment Agreement signed with Shenzhen SPEC Property Management Company and recovered its property, SPEC Building and SPEC Trading Building whose assignment and relevant property transfer procedure were not completed, at the carrying amount of RMB 125.66 million. This related transaction was published in Securities Times and Ta Kung Pao dated Dec. 31, 2001 in details.

(3) In the report period, the Company offered no new guarantee for bank loan, except the prolonged guarantee for the overdue loans.

4. In the report year, the Company offered guarantees for loans totaling RMB 1.87 billions including mutual guarantees for RMB 940.46 million, guarantees to related companies for loans of RMB 661.8 million, guarantees to subsidiaries for loans of RMB 265.84 million. The related guarantees referred to Auditor's Report note 23. Among the said guaranteed loans, RMB1.49 billions was overdue and RMB 761.5 million were involved in lawsuits or approved to be unplayable by the first debtor.

5. In the report period, neither the Company nor its shareholder holding over 5% shares made any commitment.

6. In the report period, since business license of Shenzhen Zhong Tian Qin Certified Public Accountants (former auditor engaged by the Company) was to be canceled by the Ministry of Finance, the Company engaged Shenzhen Nanfang-Minhe Certified Public Accountants as its auditor for 2001 as examined and approved in the Company's 1st Extraordinary Shareholders' General Meeting 2001. The Company paid RMB 840,000 to the Certified Public Accountants for its auditing work in 2001.

7. In the report period, SSE has publicly criticized the Company due to its failure in timely disclosing the guarantees and false information disclosure concerning the receivables from the control shareholders. The Board of Directors has made supplementary public notice as required by the SSE and promised to strictly implement the Listing Rules to timely, precisely and fully disclose necessary information.

8. Other significant events

A. Raybo Co., former wholly owned subsidiary of the Company, stopped operation in Sep. 1995. At the beginning of 1997, the Group merged Raybo Co. as approved by Shenzhen Investment Holding Corp. and promised to undertake all accounts and according interests of Raybo Co. due to the Company. But till now, these accounts has not been settled and hard to be settled in short term. Therefore, the Company withdrew a provision for bad debts at the full balance amount of the loan and reduced the according due interest from the account receivable for the year ended 2001, in addition, retroactive adjustment was made to relevant items as of previous years. (Details referred to financial report of the Company.)

B. Ended the report period, the Company should collect receivables from the Group totaling RMB 500 million (excluding the amount concerning Raybo Co.). The main reason is that while implementing the strategic reorganization with the Group in 1999, the Company assigned all share equity of its subsidiaries of non-industrial sector to the Group. After the assignment, the original borrowings and unsettled payment of the said subsidiaries from the Company had turned into receivables of the Company from the Group. In the second half year of 1999 and 2000, both the Group and the Company made actively measures to solve above receivables and reached certain progress.

In the year 2001, financial status of the Group worsened and no actual progress or plan made in the collection except for that the Group transferred back the SPEC Building and SEPC Trading building to the Company and paid partial cash. The Company withdrew provisions for bad debts at the full value of the said receivables based on the prudent principal since: A. the banks refused to the transfer the loans due from the Company to the loans due from the Group, so the Group cannot take the repayment liabilities of the Company; B. since most existing subsidiaries of the Group were transferred from the Company in the strategic reorganization in recent years with low quality assets, it is hard for the Group to settle its debts by introducing effective assets; C. in short-term, it is difficult for the Group to settle its payables to the Company in cash. Meanwhile, the Company will continue its negotiation with the Group for a effective solution and safeguard the interests of other stakeholders.

9. Post event

Since the Company failed to repay the overdue accounts owned to Chime Resources Petroleum Co., Ltd., 70% of Shenzhen SPEC Beauty Star Hotas Plastics Co., Ltd. and 95.12% equity of Shenzhen SPEC Fine Chemical Co., Ltd. originally held by the Company were frozed by Shenzhen Municipal Intermediate People’s Court. To solve this problem, the Company sold, under the supervision of the Court, the said share equity to Shenzhen Shentou Internet Technology Co., Ltd at the price of RMB 22.29 million and RMB 36.05 million respectively, the conserved appraisal value made by professional appraising organ under the entrustment of the Court. The said income from equity assignment was used to repay the debts owned to Chime Resources Petroleum Co., Ltd. On April 11, 2002, the Company signed the Equity Assignment Agreement with the said acquirer.

IX. ACCOUNTING REPORT

Attached hereafter.

X. DOCUMENTS AVAILABLE FOR REFERENCE

1. Accounting Statements with the personal signatures and seals of legal representative, person in charge of the financial affairs and person in charge of handing accounting affairs;
2. Original of Auditor’s Report with the seal of Moore Stephens Shenzhen Nanfang-Minhe Certified Public Accountants as well as personal signatures and seal

of and the certified public accountants;

3. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public on the newspapers designated by China Securities Regulatory Commission in the report period.

Board of Directors of
Shenzhen Petrochemical Industry (Group) Co., Ltd.
April 30, 2002

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(INCORPORATED IN THE PEOPLE ' S REPUBLIC OF CHINA)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2001

We have audited the consolidated financial statements on pages 2 to 32 which have been prepared in accordance with International Accounting Standards.

RESPECTIVE RESOPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with International Standards of Auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

QUALIFIED OPINION: ADVESE OPINION

The Group has incurred a net loss for the year ended 31 December 2001 of RMB2,212,642 and a net deficiency at 31 December 2001 of RMB1,645,311. The directors have prepared the financial statements on the going concern basis notwithstanding the loss for the year and the deficiency of net assets at 31 December 2001. In our opinion, however, there is no realistic alternative available to the directors of the Group but to cease trading and therefore we believe the going concern basis should not have been used in preparing these financial statements. Had the going concern basis not been used, adjustments would have been needed to the classification of recorded asset amounts, with these assets being written down to their recoverable amounts, and to the amounts and classification of liabilities, to reflect the fact that the company may be required to realize its assets and extinguish its liabilities other than in the normal course of business, additional liabilities may crystallize and the resulting amounts may differ materially from those stated in the financial statements.

As referred to notes 4 (a) and (b), certain subsidiaries have not been consolidated. In our opinion, there are no appropriate reasons to justify their non-consolidation.

In view of the significance of the matters referred to above, in our opinion the financial statements do not give a true and fair view of the financial position of the Group at 31 December 2001 and of the results of the Group's operations and its cash flows for the year then ended and are not in accordance with International Accounting Standards.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED INCOME STATEMENT
AS 31 DECEMBER, 2001

	Notes	2001	2000
		RMB'000	RMB'000
Turnover	3,22	729,046	831,337
Cost of sales		(595,572)	(670,315)
Gross profit		133,474	161,022
Other revenue		2,158	9,154
Distribution costs		(29,574)	(26,874)
Administrative expenses		(114,322)	(62,286)
Other operating expenses		(19,936)	(2,649)
(Loss)/profit from operating activities		(28,200)	78,367
Finance costs		(126,183)	(19,673)
Share of (Loss)/profit in associates and unconsolidated companies		(45,737)	6,962
(Provision) / recovery of provision for loss on investment		(9,521)	2,039
Provision for impairment of subsidiaries		(58,340)	—
Surplus on disposal of long term investments		3,815	—
Income from other investments		4,613	—
Provision for guarantees	18	(780,348)	—
Provision for amount due from holding company		(1,172,320)	—
(Loss)/profit before taxation	5	(2,212,221)	67,695
Taxation	6	(4,382)	(7,626)
(Loss)/profit before minority interests		(2,216,603)	60,069
Minority interests		3,961	(23,358)
(Loss)/profit attributable to shareholders		(2,212,642)	36,711
Accumulated losses at beginning of year		(61,262)	(97,973)
Accumulated losses		(2,273,904)	(61,262)
(Loss) / Earning per share	8	RMB (7.29)	RMB 0.121

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER, 2001

The Group has no recognized gains or losses other than those included in the consolidated income statement for the above two years.

The information relating to capital transactions, balance of accumulated profit and loss at the beginning of the year and at the balance sheet date and their movements for the year and the movement or reserves is disclosed in the notes as appropriate.

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER, 2001

	Notes	2001	2000
		RMB'000	RMB'000
Non-current assets:			
Fixed assets	9	459,101	444,302
Intangible assets	10	17,045	56,038
Investments in unconsolidated subsidiaries	11	58,558	50,000
Interests in associates	12	23,936	38,888
Long term investments	13	24,861	37,894
		583,501	627,122
Current assets			
Inventories	14	122,805	144,850
Accounts receivable, other receivables and prepayments	15	214,780	1,667,025
Short term investments	16	16	3,789
Cash and bank balances		85,551	85,511
		423,152	1,901,175
Current liabilities			
Accounts payable and other payables		503,285	536,003
Tax payable		4,051	7,078
Staff bonus and welfare fund		1,375	2,749
Bank loans due within one year	17	1,234,363	1,092,617
Provision for guarantees given to banks	18	761,498	—
Provision for guarantees given to customers	18	18,850	—
		2,523,422	1,638,447
Net current (liabilities)/assets		(2,100,270)	262,728
Total assets less (current liabilities)		(1,516,769)	889,850

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED BALANCE SHEET (continued)
AT 31 DECEMBER, 2001

	Notes	2001	2000
		RMB'000	RMB'000
Non-current liabilities			
Long term bank loans	17	10,348	168,078
Long term payables	19	6,446	4,741
Minority interests		111,748	149,700
Net liabilities		(1,645,311)	567,331
Equity			
Share capital	20	303,355	303,355
Reserves	21	(1,948,666)	263,976
Shareholders' deficiency		(1,645,311)	567,331

The accompanying notes form an integral part of these financial statements.

The financial statements on pages 2 to 49 were approved and authorized for issue by the Board of Directors and are signed on its behalf by

DIRECTOR

DIRECTOR

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(INCORPORATED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2001

	2001	2000
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating (loss)/profit	(2,212,642)	36,711
Adjustments for:		
Loss/profit attributable to minority shareholders	(3,961)	23,358
Depreciation	22,112	26,921
Amortization of deferred assets	9,828	2,393
Loss on disposal of fixed assets	77	835
Interest received	(2,851)	(1,575)
Interest paid	12,592	32,666
Exchange loss	2,953	1,327
Share of profits(loss) in associates and unconsolidated subsidiaries	45,737	(6,962)
Provision for impairment of subsidiaries	58,340	—
Surplus on disposal of long term investments	(3,815)	—
Gain on other investments	(4,613)	—
Provision for impairment of assets		
— long-term investments	9,521	(2,039)
— fixed assets and other assets	16,448	—
Decrease/(increase) in inventories	17,426	(27,732)
Increase in interest accrued	112,099	—
Decrease/ (Increase) in accounts receivable	1,222,578	(55,503)
(Decrease)/ Increase in accounts payable	(71,645)	2,792
Provision for inventories/ (recovery of provision)	952	(129)
Provision for guarantees given	780,348	—
Income tax paid	(7,409)	(6,131)
Others	559	80
Net cash from operating activities	4,634	27,012

Cash flows from investing activities		
Interest received	2,851	3,308
Interest paid	(12,592)	(33,582)
Dividends received	2,726	3,137
Purchases of fixed assets	(19,542)	(40,499)
Proceeds from disposal of fixed assets	198	182,668
Increase in cash from return of investments	4,976	36,548
Cash paid to acquire equity investment	30	(33,007)
Cash equivalents in unconsolidated subsidiaries		

at beginning of year	(12,654)	(27,665)
Investment in future contracts	3,816	(3,101)
NET CASH USED IN INVESTING ACTIVITIES	(30,191)	87,807
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new bank loans	293,980	358,297
Repayment of bank loans	(225,997)	(636,725)
Payment of finance lease commitments	—	(1,165)
Proceeds from new long term bank loans	4,832	134,335
Payment of other long term payables	(33,098)	(20,180)
Increase in minority shareholders' investment	—	24,414
Dividend paid minority shareholders	(34)	(3,384)
Other payments relating to financing activities	(17,755)	(150)
Payment of financing expenses	(104)	(374)
Net cash from/(used) financing activities	21,824	(144,932)
Decrease in cash and cash equivalents	(3,733)	(30,113)
Cash and cash equivalents at beginning of year	89,300	119,413
Cash and cash equivalents at end of year	85,567	89,300
	=========	=========
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	85,551	85,511
Short term investments	16	3,789
	85,567	89,300
	=========	=========

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2001

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Shenzhen Petrochemical Industry (Group) Co., Ltd. (the "Company"), formerly known as Shenzhen Petrochemical Holding Company Limited was formed by the merger of two state-owned enterprises, Shenzhen Petrochemical Industry Company (incorporated in February 1983), and Shenzhen Gulf Petrochemical Industry Corporation (incorporated in September 1984). On 12 November, 1991, the Company obtained approval from the Shenzhen Municipal People's Government to reorganize into a joint stock limited company. Under the approval of the People's Bank of China Shenzhen Branch, the Company issued A Shares for the PRC investors and B Shares for the overseas investors. Both A Shares and B Shares are listed on the Shenzhen Stock Exchange and carry equal rights. On 28 October,1999, the Company changed its name from Shenzhen Petrochemical Holding Company Limited to Shenzhen Petrochemical Industry (Group) Co., Ltd after following its strategic restructuring.

The principal activities of the Company and its subsidiaries (the "Group") include manufacturing and trading of new chemical materials, fine chemicals, bio-engineering products, chemical fiber, plastic and related products, new and high-tech products development, investments, import and export.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Board. This basis of accounting differs from that adopted in the preparation of the PRC statutory financial statements of the Group, which were prepared in accordance with the PRC Accounting Standards. To conform to IAS, adjustments have been made to the PRC statutory financial statements. Details of impact of such adjustments on the net liabilities as at 31 December, 2001 and net loss for the year then ended are included in note 29 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries as set out in note 4 as at 31 December, 2001 and of the results for the year then ended. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company, in which the Group directly or indirectly holds more than 50 percent of its equity or voting right for long-term investment purposes.

Non-consolidated subsidiaries

In the consolidated balance sheet, the unconsolidated subsidiaries are accounted for, using the equity method as described in IAS28, at cost and adjusted thereafter for post acquisition change in the Group’s share of net assets of the subsidiaries. The consolidated income statement reflects the Group’s share of the results of operations of the subsidiaries.

Associates

An associate is a company, other than a subsidiary, in which the group holds not less than 20% of the equity as a long-term investment and has the ability to exercise a significant influence in its management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group accounts for the results of associates under the equity method of accounting. At the balance sheet date, the Group's investment in associates is stated at its share of net assets, other than goodwill.

Turnover

Turnover represents the proceeds and receivables of goods sold to customers outside the group, less sales tax, returns and discounts.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Fixed assets are depreciated at rates sufficient to write off their costs or valuations over their estimated useful lives on a straight-line basis, taking into account an estimated residual value of 5 percent of the asset value. The Board of Directors held that the actual useful lives of fixed assets can be extended compared with the original estimates. The annual rates of depreciation of fixed assets are set out below:

	Estimated useful lives	Depreciation rate
Land and buildings	40-50 years	2%-2.38%
Machinery and equipment	14 years	6.79%
Motor vehicles	10 years	9.5%
Furniture, fixtures and office equipment	8-12 years	7.92%-11.88%
Leasehold improvements	3-5 years	20%-33%

No depreciation is provided on construction in progress prior to its completion.

Operating leases

The income and expenses under operating leases are dealt with in income statement on a straight-line basis over the lease terms.

Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of changes in value.

Revenue recognition

Revenue from the sale of goods is recognized when the risks and rewards of title of the goods are transferred to customers, provided that the Group maintains neither managerial involvement to the degree usually associated with title, nor effective control over the goods sold.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the respective dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China prevailing at the balance sheet date. Exchange differences are dealt with in the income statement.

Deferred taxation

Deferred taxation arising from the tax effect of material timing differences is computed using the liability method. It is recognized in the financial statements to the extent that it is probable a liability will crystallize in the foreseeable future.

Intangible assets

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Technical know-how	10 years
Dies expenses and others	5 years or benefit periods, if shorter

Investments

Listed and unlisted investments held for long term investment purposes are stated at cost less provision for permanent diminution in value.

Short-term investments are stated at market value at the balance sheet date. Dividend income from investments is recognized when the shareholder's right to receive payment is established

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs are expended in the income statement in the period in which they are incurred except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out or weighted average basis and comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Value added tax

Value added tax is calculated in accordance with the relevant tax laws of the PRC, expressed by way of the difference between the output tax on local sales and the input tax on local purchases. These taxes are not included in the sales and purchases respectively in the income statement. For goods manufactured and sold in Shenzhen SEZ, the value-added tax is exempted in accordance with the local tax regulations of the Shenzhen SEZ. Excess of output over input value added tax is dealt with in the income statement as other operating income.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities.

Impairment

The carrying amounts of long term 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 recognized as an expense in the income statement unless the asset is carried at a revalued amount for which an impairment loss is recognized 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 Group assesses at each balance sheet date whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimate 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 recognized 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 previously recognized as an expense in the income statement; a reversal of such impairment loss is recognized as income. The reversal is reduced by the amount that would have been recognized as depreciation had the write down or write off not occurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

4.SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2001 are as follows:

Company Name	Note	Registered Capital	Proportion of Shares Directly Held		Principal Activities	Consolidated or not	
		'000	2001	2000		2001	2000
Shenzhen SPEC Investment & Development Co., Ltd.		RMB40,000	100%	100%	Security investment and consulting	Yes	Yes
Shenzhen SPEC Fine Chemical Co., Ltd.	*c	RMB2,870	100%	100%	Petrochemical products manufacturing and trading	No	Yes
Shenzhen SPEC (Holding) Technical Center	*a	RMB2,100	100%	100%	Petrochemical products development	No	Yes
Shenzhen SPEC Printing Co., Ltd.		RMB1,510	100%	100%	Printing	Yes	Yes
Shenzhen SPEC Keyi Fine Chemical Co., Ltd	*a	RMB1,000	100%	100%	Fine chemicals manufacturing and trading	No	No
Shenzhen SPEC Donghong Laminating & Coating Fabrics Co., Ltd.		RMB80,000	75%	75%	Laminating and coating	Yes	Yes
Shenzhen SPEC Beauty Star Fotas Plastics Co., Ltd.	*c	USD2,300	70%	70%	Plastic products manufacturing	No	Yes
Shenzhen SPEC Plastics Co., Ltd.		RMB99,300	65.405%	65.405%	PVC material manufacturing and trading	Yes	Yes
Shenzhen SPEC Fibers Co., Ltd.		USD3,203	51%	51%	Chemical fibers manufacturing	Yes	Yes
Shenzhen SPEC Bio-Pharmaceutical Industry Co., Ltd.		RMB53,000	100%	100%	Bio-engineering products development	Yes	Yes
Shenzhen Tongda Packing Products Co., LTD.	*a	RMB3,500	100%	100%	Packing materials manufacturing	No	No
Shenzhen SPEC Home Appliance Accessory Co., Ltd.	*a	RMB4,130	51.57%	51.57%	Home appliances repairing and maintenance	No	No
Shenzhen Lanbo Industrial Co., Ltd.	*b	RMB9,300	100%	100%	Manufacturing and sales of air-condition	No	No
Shanghai Meixing Plastics Co., Ltd.		USD350	70%	70%	Plastic products manufacturing	Yes	No
Shenzhen SPEC Oil Refining Services Co., Ltd.	*a	RMB50,000	100%	100%	Oil refining services	No	No

4.SUBSIDIARIES (continued)

*(a) These subsidiaries are not included in the preparation of the consolidated financial statements because of the suspension of their normal operations, and the provision for diminution in value of the subsidiaries has been made, or the value of long-term investment has been offset directly. The operating results and net assets of these companies have no significant effect on the Group.

*(b) This subsidiary is insolvent and its normal operations have ceased. Provision for bad debts has been made, and the contingent liabilities resulting from the guarantees for bank loans and customers have been dealt with as liabilities in the balance sheet.

*(c) These subsidiaries were sold by auction by the Court after the balance sheet date. Therefore, they are not been included in the consolidation.

*(d) All subsidiaries are incorporated in the Peoples’s Republic of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

5. LOSS BEFORE TAXATION

	2001	2000
	RMB'000	RMB'000
Loss before taxation has been arrived at after charging:		
Staff costs	71,465	69,649
Depreciation of fixed assets	22,112	26,921
Provision for bad and doubtful debts	42,503	2,242
Amortization of intangible assets	9,828	2,393
Loss on disposal of fixed assets	34	835
Rentals in respect of premises under operating leases	1,747	4,392
Interest on bank loans	124,691	32,666
Exchange losses	3,153	1,327
Auditors' remuneration	800	800
(Gain)/Loss on disposal of short term listed investments	(610)	1,037
Provision for guarantees	780,348	____
Provision for amount due form holding company	1,172,320	____
and after crediting:		
Interest income	2,851	16,245
Exchange gains	200	___
Rental income	1,297	9,093

6. TAXATION

Taxation in the consolidated income statement represents the PRC income tax provided for the year. Profits earned by the Group are charged for income tax at rates ranging from 15% to 33% except for certain subsidiaries and associates, which have been granted exemption. In accordance with the relevant income tax laws applicable to Sino-foreign joint venture enterprises in the PRC, certain Sino-foreign joint venture enterprises of the Group have been granted full exemption from income taxes for two years starting from the first profitable year of operation and a 50 percent reduction for the following three years.

7. DIVIDENDS

A detailed profit distribution proposal, if any, is presented by the Board of Directors according to the operational results and development requirements of the company and is submitted to the shareholders at the annual general meeting for approval every year. Under the proposal of the Board of Directors, no bonus shares nor cash dividends were distributed for the year of 2001 (2000 Nil).

8. LOSS PER SHARE

The calculation of loss per share is based on the net loss of RMB2,212,642 to shareholders for the year 2001 (2000: gain of RMB23,154,000) on 303,354,979 A and B shares of RMB 1.00 each in issue.

9. FIXED ASSETS

Items	Opening Balance	Additions	Disposals	Provision for Impairment	Closing Balance
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation					
Construction in progress	73,941	21,634	76,669		18,906
Land and buildings	211,675	176,055	35,740	4,493	347,497
Machinery and equipment	327,324	19,940	87,434	1,569	258,261
Motor vehicles	23,594	1,267	3,704	10	21,147
Furniture, fixtures and office equipment	38,875	2,622	17,175	93	24,229
Leaseholds improvements	17,583	1,739	—	—	19,322
Total	692,992	223,257	220,722	6,165	689,362
	======	======	======	======	======
Depreciation					
Construction in progress	—	—	—	—	—
Land and buildings	36,624	1,913	2,722	—	35,815
Machinery and equipment	176,539	11,368	30,810	—	157,097
Motor vehicles	10,666	1,695	2,185	—	10,176
Furniture, fixtures and office equipment	17,186	1,672	4,824	—	14,034
Leasehold improvements	7,675	5,464	—	—	13,139
Total	248,690	22,112	40,541	—	230,261
Net book value	444,302				459,101
	======				======

Land and buildings include properties which were revalued at RMB126,870,000 on 1st November, 2000 by Shenzhen Guo Zi Yuan Property Valuation Co. Ltd.

9. FIXED ASSETS(continued)

The Group's land and buildings are located in the PRC and are held under long-term leases up to maximum of 50 years. In the opinion of the directors, the carrying value of the fixed assets is not less than the fair value.

Disposals include adjustments to costs totaling RMB121,023,000 and to accumulated depreciation totaling RMB28,165,000 relating to subsidiaries as at 31 December 2000 as a result of their ceasing to be subsidiaries during the year under review or their financial statements not being consolidated as at 31 December 2001.

10. INTANGIBLE ASSETS

	Pre-operating Expenses	Technical Know-how	Dies Expenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value at 1 January, 2001	6,382	49,280		376	56,038
Additions	—	—	2,368	3,467	5,835
Amortization	(6,382)	(1,428)	(698)	(1,320)	(9,828)
Provision for Impairment		(7,000)			(7,000)
Transfer out		(28,000)			(28,000)
Net book value at 31 December, 2001	—	12,852	1,670	2,523	17,045
	=====	=====	=====	====	=====

11.INVESTMENTS UNCONSOLIDATED SUBSIDIARIES

	2001	2000
	RMB'000	RMB'000
Unlisted shares - stated at value under the equity method	32,662	50,000
- at cost less impairment*	25,896	-
	58,558	50,000
	=======	======

* Impairment arising from disposal of subsidiaries below book value subsequent to the balance sheet date. (Note 28)

12. INTERESTS IN ASSOCIATES

	2001	2000
	RMB'000	RMB'000
Share of net assets	23,670	23,089
Amount due from associates	312	17,320
Amount due to associates	(46)	(1,521)

	23,936	38,888
	=====	=====

The amounts due to/from the associates are unsecured, interest-free and there are no fixed terms for repayment.

Particulars of the principal associates are set out as follows:

Name of Associates	Place of Registration	Percentage of Shares Held		Principal Activities
		2001	2000	
Shenzhen SPEC Kinglion Plastics Co., Ltd.	Shenzhen	48%	48%	Plastic products manufacturing and trading
Shenzhen SPEC Electronic Appliance Industrial Co., Ltd.	Shenzhen	30%	30%	Plastic products manufacturing and trading
Shenzhen SPEC Jinxin Chemical Electronics Co., Ltd.	Shenzhen	30%	30%	Chemical and electronic instruments manufacturing and trading
Shenzhen Best Plastics Color-Printing Co., Ltd.	Shenzhen	25%	25%	Printing
Shenzhen SPEC Biltrite Soling Co., Ltd.	Shenzhen	25%	25%	Soling materials manufacturing

In the opinion of directors, the carrying value of aoociates is not less than the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

13. LONG TERM INVESTMENTS

	2001	2000
	RMB'000	RMB'000
Unlisted shares, at cost	35,113	61,857
Less: provision for impairment	(10,252)	(23,963)
	24,861	37,894

14. INVENTORIES

	2001	2000
	RMB'000	RMB'000
Raw materials	111,878	48,065
Work in progress	536	10,079
Finished goods	10,391	86,706
	122,805	144,850

15. ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS

Provisions have been made for the following receivables and hence excluded from accounts receivable, other receivable and prepayments in the balance sheet:-

(1) Unpaid share capital and share premium of RMB 26,233,250 receivable from corporate shareholders and amount of capital together with accrued interests totaling RMB 4,133,009. The Board of Directors is of the opinion that the above amount is possibly uncollectible. Therefore, full provision for the said amounts has been made.

(2) Receivable of RMB 1,069,017,000 from the holding company, Shenzhen Petrochemical (Holdings) Co. Ltd. is uncollectible in the opinion of the directors. Therefore, full provision for this amount has been made.

16. SHORT TERM INVESTMENTS

	2001	2000
	RMB'000	RMB'000
Listed shares, at cost	16	3,889
Provision	–	(100)
	16	3,789
	====	====
Market value of listed shares	16	3,789
	====	====

17. LOANS

	2001	2000
	RMB'000	RMB'000
Bank Loans – secured		
-within one year	97,554	7,670
Unsecured		
-within one year	1,116,809	1,064,947
-two to five years	10,348	168,078
Loan from Government-Unsecured		
-within one year	20,000	20,000
	1,244,711	1,260,695
	=======	=======
Payable:		
-within one year	1,234,363	1,092,617
-two to five years	10,348	168,078
	1,244,711	1,260,695
	=======	=======

Interest rates on the above loan vary between the range of 4.11% and 19.95% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

18. PROVISION FOR GUARANTEES GIVEN TO BANKS AND CUSTOMERS

	2001	2000
	RMB'000	RMB'000
a. To banks in respect of bank loans for third parties	233,058	—
b. To banks in respect of bank loans of associates and fellow subsidiaries	528,440	—
c. To customers in respect of sales by a subsidiary	18,850	—
	780,348	—
	========	========

a) The Group has provided guarantees to banks in respect of bank loans granted by the banks to third parties as follows-

	Guaranteed Loans RMB'000	Dealt with in income statement RMB'000
Shenzhen Neptune Group Co., Ltd.	177,000	—
Gintian Industry (Group) Co., Ltd.	130,064	26,900
China Aidi Group Corporation	33,500	—
Shenzhen Shun Kong Industrial & Trading Co.	24,090	24,090
China Baoan Group Co., Ltd.	92,711	—
Shenzhen Sunlight Industrial Co., Ltd.	43,953	38,753
Shenzhen Lionda Holdings Co., Ltd.	263,769	53,653
Shenzhen Zhonghao Group Co., Ltd.	104,734	68,600
Shenzhen Tellus Holdings Co., Ltd.	49,680	—
Shenzhen Hongling Investment & Development Co., Ltd.	2,000	2,000
Shenzhen SPEC Jiankun Holdings Co., Ltd.	18,751	18,751
China Kejian Co., Ltd.*	310	310
Total	940,562	233,057
	========	=======

RMB233,057,000 has been provided in the income statement for guarantees in respect of which legal action has been taken against the Group. The remaining RMB707,505,000 has been treated as contingent liabilities as referred to in note 24.

b) The Group has provided guarantees to banks in respect of bank loans granted by the banks to associates and fellow subsidiaries as follows:-

	Guaranteed Loans RMB'000	Dealt with in income statement RMB'000
Shenzhen Best Plastics Color-Printing Co., Ltd.	7,500	—
Shenzhen Electric Appliance Co., Ltd.	7,000	—
Shenzhen SPEC Jinxin Chemical Electronics Co.,Ltd.	221,522	216,772
Shenzhen SPEC Petroleum storage., Co.,Ltd.	44,765	44,765
Shenzhen SPEC Petroleum Co., Ltd.	23,844	23,844
Shenzhen SPEC Real Estate Co., Ltd.	56,450	11,000
Shenzhen SPEC Chemicals Co., Ltd.	86,980	77,480
Shenzhen SPEC Bonded trading Petrochemical Co., Ltd.	5,000	—
Hangzhou SPEC Industrial & Trading Co.	7,000	7,000
Shenzhen Dahua Chemicals Co., Ltd.	15,370	10,620
Shenzhen Jinliyu Petroleum Co.	37,538	37,538
Shenzhen Haipeng Import & Export Co., Ltd	10,610	10,610
Shenzhen Lanbo Industrial Co., Ltd.	7,500	7,500
Huizhou Daya Bay Shencheng Petrochemical Co., Ltd.	15,690	15,690
Tianjin SPEC Chemistry Co., Ltd.	49,400	—
Shenzhen Petrochemical (Holdings) Co.,Ltd.*1	52,421	52,421
Shenzhen SPEC Liquid Chemicals Co., Ltd.	10,200	10,200
Shenzhen SPEC Import & Export Co., Ltd.*1	3,000	3,000
Total	661,790	528,440

RMB528,440,000 has been provided in the income statement on either of the following grounds:-

1. Where legal action has already been taken against the Group, or

2. Where repayment of the loans has been overdue and the financial position of the debtors concerned has deteriorated.

The remaining guarantees of RMB133,350,000 are treated as contingent liabilities as referred to note 24.

c) The Company has provided guarantees to customers generally in respect of products sold by a subsidiary totaling RMB18,850,000. Provision has been made in the income statement for these guarantees as the subsidiary is unable to pay the claims by the customers.

d) The company has provided guarantees to banks in respect of bank loans granted to subsidiaries as follows:-

	Guaranteed Loans RMB'000	Dealt with in income statement RMB'000

Shenzhen SPEC Silicon Material Co., Ltd.	8,908	———
Shenzhen SPEC Fine Chemical Co., Ltd.	8,650	———
Shenzhen SPEC Fibers Co., Ltd.	90,172	———
Shenzhen SPEC Beauty Star Fotas Plastics Co., Ltd.	12,100	———
Shenzhen SPEC Plastics Co., Ltd.	146,010	———
Total	265,840	———

The above guarantees of RMB265,840,000 are treated as contingent liabilities as referred to in note 24.

19. LONG TERM PAYABLES

	2001	2000
	RMB'000	RMB'000
Government funds-Unsecured	6,446	4,741

20. SHARE CAPITAL

	2001	2000
	RMB'000	RMB'000
Registered, issued and paid-up (303,354,979 shares in total)		
270,595,000 "A" Shares of RMB 1.00 each	270,595	270,595
32,760,000 "B" Shares of RMB 1.00 each	32,760	32,760
	303,355	303,355

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

21. RESERVES

	Capital reserve	Surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2000	233,386	91,852	(97,973)	227,265
Net profit for the year 2000			36,711	36,711
At 31 December 2000	233,386	91,852	(61,262)	263,976
At 1 January, 2001	233,386	91,852	(61,262)	263,976
Net loss for the year 2001			(2,212,642)	(2,212,642)
Transfer to make up losses		(91,852)	91,852	-
At 31 December, 2001	233,386	—	(2,182,052)	(1,948,666)

21 RESERVES (continued)

Capital reserve

According to relevant PRC regulations, capital reserve can only be utilized to increase share capital.

Surplus reserve

Statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of reserves due to losses incurred, any other usage must not result in the balance thereof falling below 25% of the registered capital.

Statutory public welfare fund

According to relevant PRC regulations, the usage of the statutory public welfare fund is restricted to capital expenditures for employee facilities. The statutory public welfare fund is not available for distribution to shareholders except in the event of liquidation.

22. SEGMENTAL SALES AND PROFIT BEFORE TAXATION

1.Analysis by principal activities:

	Manufacturing		Trading		Total	
	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
Segment results	726,862	821,730	2,184	9,607	729,046	831,337
Operating profit	106,058	143,302	—	—	106,058	143,302
Unallocated corporate expense					(1,432,761)	(84,608)
Share of profits of associates					(45,737)	6,962
Provision for impairment					(9,521)	——
Income from long-term investment					4,613	2,039
Loss from disposal of subsidiaries					(54,525)	____
Provision for guarantees given					(780,348)	——
Profit before taxation					(2,212,221)	67,695
Taxation					(4,382)	(7,626)
Profit after taxation					(2,216,603)	60,069
Minority interest					3,961	(23,358)
Net (loss)/profit for the year					(2,212,642)	36,711
Segment assets	726,432	1,010,259	280,221	1,518,038	1,006,653	2,528,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER, 2001

22 SEGMENTAL SALES AND PROFIT BEFORE TAXATION (continued)

2. Analysis by geographical location:

	PRC		Outside PRC region		Total	
	2001	2000	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	729,046	831,157	——	——	729,046	831,157
Segment assets	1,006,653	2,528,297	——	——	1,006,653	2,528,297

23. PRINCIPAL RELATED PARTY TRANSACTIONS

	2001	2000
	RMB'000	RMB'000
Sale of land and building to fellow subsidiary	——	130,489
Purchase of land and building to fellow subsidiary	125,660	——
Interest income from holding company.	——	118,702
Interest income from unconsolidated subsidiaries	1,485	——
Interest income from associate	776	——
Rental from fellow subsidiary	——	8,519
Rental paid to fellow subsidiary	694	——
	======	======

Interest rates on borrowings are determined by reference to the interest rates announced by respective banks during the year.

24. CONTINGENT LIABILITIES

Guarantees given by the Group to banks in respect of bank loans granted to group companies totaling RMB399,190,000 and to third parties totaling RMB707,505,000. (note 18)

25. PLEDGE OF ASSETS

At 31 December, 2001, the Company pledged fixed assets with a net book value totaling RMB132,592,000 to secure bank and other loans obtained in the PRC totaling RMB65,754,000 and HKD30,000,000 respectively.

26. OPERATING LEASE COMMITMENTS

As at 31 December, 2001, the Group had the following operating lease commitments under irrevocable leases in respect of properties:

Amount due	Amount RMB'000
Within one year	967
In the second to fifth years, inclusive	1,830

27. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amount due from fellow subsidiaries, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, trade accounts payable, bills payable, amount due to fellow subsidiaries, receipts in advance, and advances from third parties, The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts at 31 December 2001 and 2000.

Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivable, and other current assets, except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade account relate to sales of petrochemical and plastic products etc. to third parties operating in these industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group 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.

Currency risk

Substantially all of the revenue generating operations of the Group are transacted in Renminbi, which is not freely 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 People's Bank of China. 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 People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Interest rate risk

The interest rates and terms of repayment of short term and long term debts of the Group are disclosed in Note 17.

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IAS32 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate . However, considerable judgment is required to interpret market data to develop the estimated of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize 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.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

28 POST BALANCE SHEET EVENTS

(1) The Company announced on 14th March, 2002 that its 70% shares in Shenzhen SPEC Beauty Star Fotas Plastics Co., Ltd.(the"Beauty Star Company") had been sealed by the Shenzhen Intermediate People's Court because of defaults in payment of goods purchased from China Resources Petroleum Co. The Company negotiated with the Court and reached an agreement on 11 April, 2002, as approved by the Board of Directors to transfer the 70% shares held in Beauty Star Company to Shenzhen Shentou Network Technical Co. Ltd. at the auction base price of RMB22,290,600 as assessed by Shenzhen Guosong Certified Public Valuer, appointed by the Court. At 31 December,2001, the value of the said shares based on the audited results of the subsidiary at 31st December 2001 amounted to RMB36,110,300 and based on the professional valuation, amounted to RMB55,726,500. Provision for impairment of the investment in the subsidiary amounting to RMB40,350,000 has been made in the income statement for the year.

28 POST BALANCE SHEET EVENTS (continued)

(2) 95.12% shares in Shenzhen SPEC Fine Chemical Co., Ltd..(the"Fine Chemical Company")held by the Company were sealed by the Shenzhen Intermediate People's Court because of defaults in payment of goods purchased from China Resources Petroleum Co., Ltd.. The Company negotiated with the Court and reached an agreement on 11 April, 2002 as approved by the Board of Directors to transfer these shares to Shenzhen Shentou Network Technical Co. Ltd. at the auction base price of RMB3,605,000 as assessed by Shenzhen Guozonglian Certified Public Valuer, appointed by the Court. At 31 December,2001, the value of the said shares based on the audited results of the subsidiary at 31 December 2001 amounted to RMB8,689,200 and based on the professional valuation, amounted to RMB5,150,000. Provision for impairment of the investment in the subsidiary amounting to RMB17,990,000 has been made in the income statement for the year.

29 IMPACT OF IAS ADJUSTMENTS ON PROFIT ATTRIBUTABLE TO SHAREHOLDERS AND NET ASSETS

	Profit attributable to shareholders	Net assets
	RMB'000	RMB'000
As reported in the "A" shares consolidated audited statutory financial statements under PRC accounting standards	(1,575,991)	(1,645,311)
IAS adjustments:		
Provision for impairment of fixed assets	(1,350)	—
Correcting accounting errors	(635,530)	—
Accounts payable written back	229	—
As reported after IAS adjustments in the "B" shares financial statements	(2,212,642)	(1,645,311)