

## 20. Deferred income

	Negative goodwill		Net assets obtained		Total	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cost:						
At 1 January	33,044	33,044	115,177	115,177	148,221	148,221
Disposal	(24,552)	-	-	-	(24,552)	-
At 31 December	8,492	33,044	115,177	115,177	123,669	148,221
Accumulated amortisation:						
At 1 January	16,520	13,216	57,590	46,072	74,110	59,288
Disposal (Note 14(ii))	(12,275)	-	-	-	(12,275)	-
Amortisation for the year (Note 3)	849	3,304	11,518	11,518	12,367	14,822
At 31 December	5,094	16,520	69,108	57,590	74,202	74,110
	3,398	16,524	46,069	57,587	49,467	74,111

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

## 21. Bank loans

Bank loans are repayable as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
After five years	56,000	75,966	15,000	51,466
Between two and five years	1,348,275	2,952,097	1,262,275	2,834,697
Between one and two years	1,802,573	1,562,828	1,664,673	1,257,639
	3,206,848	4,590,891	2,941,948	4,143,802
Within one year				
-Current portion of long term loans	999,141	777,589	755,815	393,386
-Short-term loans	4,445,588	3,094,726	3,694,990	2,830,045
	5,444,729	3,872,315	4,450,805	3,223,431
-Loans from a fellow subsidiary	130,000	130,000	-	-
	5,574,729	4,002,315	4,450,805	3,223,431
	8,781,577	8,593,206	7,392,753	7,367,233

Short-term loans of RMB 75,000,000 (2002:RMB Nil) were secured by the way of pledge of property, plant and equipment as set out in note 12(e).

Details of loans are set out in note 30.

## 22. Trade accounts payable

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	1,033,107	858,398	643,807	581,798
Bills payable	238,583	800,068	163,627	799,727
Amounts due to parent company and fellow subsidiaries	780,222	615,487	780,222	615,487
	2,051,912	2,273,953	1,587,656	1,997,012

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	1,685,991	1,734,592	1,309,340	1,460,077
Due after 1 month and within 3 months	365,921	539,361	278,316	536,935
	2,051,912	2,273,953	1,587,656	1,997,012

## 23. Amounts due from / to parent companies and fellow subsidiaries

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

## 24. Share capital

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
<b>Registered, issued and paid up capital:</b>		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

## 25. Reserves

Movements on reserves comprise:

	Note	The Group and the Company	
		2003 RMB'000	2002 RMB'000
<b>Share premium</b>			
At 1 January and 31 December	(a)	2,420,841	2,420,841
<b>Statutory surplus reserve</b>			
At 1 January		922,108	831,211
Appropriation		138,556	90,897
At 31 December	(b)	1,060,664	922,108
<b>Statutory public welfare fund</b>			
At 1 January		840,019	749,122
Appropriation		138,556	90,897
At 31 December	(c)	978,575	840,019
<b>General surplus reserve</b>			
At 1 January and 31 December	(d)	82,089	82,089
<b>Capital reserve</b>			
At 1 January and 31 December	(e)	4,180	4,180
<b>Discretionary surplus reserve</b>			
At 1 January and 31 December	(f)	1,280,514	1,280,514
<b>Excess over share capital</b>			
At 1 January and 31 December	(g)	(148,604)	(148,604)
<b>Retained profits</b>			
	(h)	2,143,627	1,379,049
		7,821,886	6,780,196

### 25. Reserves (continued)

*Notes:*

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

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

- (c) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. The Directors have resolved to transfer 10% (2002: 10%) of the current year's profit after taxation to the fund.
- (d) When the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund is transferred from the statutory public welfare fund to the general surplus reserve. This reserve is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. In 2003, the Company did not utilise the statutory public welfare fund (2002: RMB Nil). As at 31 December 2003, the net book value of assets acquired utilising the statutory public welfare fund was RMB 40,639,000 (2002: RMB 43,996,000).
- (e) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.
- (f) The transfer to this reserve from the retained profit is subject to the approval by shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.
- (g) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amounts.
- (h) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As of 31 December 2003, the reserve available for distribution was RMB 2,048,896,000 (2002: RMB 1,300,452,000). Final dividend of RMB 576,000,000 (2002: RMB 360,000,000) in respect of the financial year 2003 was declared after the balance sheet date.

## 26. Related party transactions

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2003 have been effected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and other relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2003, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2003 RMB'000	2002 RMB'000
Purchases of crude oil	15,904,304	11,645,363

- (b) Other transactions between the Group and other related parties during the year ended 31 December 2003 were as follows:

	2003 RMB'000	2002 RMB'000
Sales	10,481,474	8,077,376
Purchases other than crude oil	757,053	267,228
Insurance premiums paid	85,460	78,104
Research and development expenses	25,000	-
Net (withdrawal from) / increase in deposits in related party	(197,366)	257,045
Interest received and receivable	1,580	488
New loans obtained from related parties	130,000	530,000
Loans repaid to related parties	130,000	400,000
Interest paid and payable	6,774	5,111
Transportation fee	44,733	40,132
Construction and installation fees	297,525	579,476

## 26. Related party transactions (continued)

(c) Deposits in related party

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits, with maturity within 3 months	263,854	461,220	260,617	456,500

(d) Loans with related party

	The Group	
	2003	2002
	RMB'000	RMB'000
Short-term loans	130,000	130,000

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

## 27. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set out a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2003, the Company's contribution to this plan amounted to RMB 39,153,000 (2002: RMB 24,781,000).

## 28. Capital commitments

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

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
<u>Property, plant and equipment</u>		
Contracted but not provided for	119,990	1,186,054
Authorised by the Board but not contracted for	2,094,840	418,000
	2,214,830	1,604,054
<u>Investment</u>		
Contracted but not provided for	858,706	1,272,558
	3,073,536	2,876,612

## 29. Contingent liabilities

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

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	1,114,408	1,181,577
- associates	54,600	265,990	54,600	265,990
- joint ventures	74,498	79,442	32,800	40,300
	129,098	345,432	1,201,808	1,487,867

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2003 and 2002, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 30. Details of bank loans

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

Repayment terms and last payment date	Interest rate at 31 December 2003	Interest type	The Group		The Company	
			2003	2002	2003	2002
			RMB'000	RMB'000	RMB'000	RMB'000
<b>Arranged by Central Treasury of the Company:</b>						
<b>U.S. Dollar denominated:</b>						
Payable semi-annually from 2001 through 2003	LIBOR+0.6%	Floating	-	36,021	-	36,021
Payable semi-annually through 2004(Note)	7.10%	Fixed	17,954	36,004	17,954	36,004
Payable semi-annually through 2008(Note)	1.50%	Fixed	71,621	81,947	71,621	81,947
Payable semi-annually through 2003(Note)	LIBOR+0.5%	Floating	-	29,014	-	29,014
<b>Japanese Yen denominated:</b>						
Payable semi-annually through 2004	5.70%	Fixed	23,188	60,362	23,188	60,362
<b>Renminbi denominated:</b>						
Due in 2003	5.94%	Floating	-	288,840	-	288,840
Due in 2004	5.22%-5.30%	Floating	700,000	1,200,000	700,000	1,200,000
Due in 2005	4.94%-5.58%	Floating	1,650,000	1,790,000	1,650,000	1,790,000
Due in 2006	4.94%-5.30%	Floating	1,220,000	1,000,000	1,220,000	1,000,000
Other loans payable through 2004	Interest free	-	15,000	15,000	15,000	15,000
<b>Arranged by subsidiaries:</b>						
<b>U.S. Dollar denominated:</b>						
Payable semi-annually through 2004	1.70%	Floating	42,135	84,284	-	-
Payable annually through 2004	Interest free	-	4,137	14,065	-	-
Payable annually through 2004	5.00%	Fixed	20,017	10,090	-	-



## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 30. Details of bank loans (continued)

Repayment terms and last payment date	Interest rate at 31 December 2003	Interest type	The Group		The Company	
			2003	2002	2003	2002
			RMB'000	RMB'000	RMB'000	RMB'000
<b>Arranged by subsidiaries (continued):</b>						
<b>Renminbi denominated:</b>						
Payable semi-annually through 2003	Interest free	-	-	29,910	-	-
Payable semi-annually through 2004	5.76%	Floating	68,100	136,300	-	-
Payable annually from 2003 through 2004	7.13%	Floating	-	45,000	-	-
Payable annually through 2004	Interest free	-	76,037	265,843	-	-
Payable annually through 2004	5.31%-5.85%	Floating	5,000	49,100	-	-
Payable annually from 2001 through 2005	Interest free	-	14,800	22,200	-	-
Payable annually through 2010	Interest free	-	143,500	-	-	-
Due in 2004	6.24%	Floating	-	40,000	-	-
Due in 2005 and thereafter	4.94%-5.58%	Floating	134,500	134,500	-	-
Total long-term bank loans outstanding			4,205,989	5,368,480	3,697,763	4,537,188
Less: Amounts due within one year (Note 21)			(999,141)	(777,589)	(755,815)	(393,386)
Amounts due after one year (Note 21)			3,206,848	4,590,891	2,941,948	4,143,802

Note: Guaranteed by China Petrochemical Corporation

The weighted average short-term interest rates for the Group and the Company were 3.50% (2002: 3.87%) at 31 December 2003.

### 31. Segment reporting

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

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

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

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

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

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

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

## 31. Segment reporting (continued)

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

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

### Turnover

	2003 RMB'000	2002 RMB'000
<b>Manufactured Products</b>		
Synthetic Fibres		
-external sales	4,114,966	3,396,652
-intersegment sales	707	-
<b>Total</b>	<b>4,115,673</b>	3,396,652
<b>Resins and Plastics</b>		
-external sales	8,907,410	6,479,166
-intersegment sales	25,850	24,948
<b>Total</b>	<b>8,933,260</b>	6,504,114
<b>Intermediate Petrochemicals</b>		
-external sales	3,879,846	2,575,668
-intersegment sales	8,288,481	5,655,309
<b>Total</b>	<b>12,168,327</b>	8,230,977
<b>Petroleum Products</b>		
-external sales	10,834,580	8,482,497
-intersegment sales	800,070	603,473
<b>Total</b>	<b>11,634,650</b>	9,085,970

## 31. Segment reporting (continued)

### Turnover (continued)

	2003 RMB'000	2002 RMB'000
<b>All others</b>		
-external sales	1,830,338	1,388,913
-intersegment sales	3,520,710	3,190,159
Total	5,351,048	4,579,072
<b>Eliminations of intersegment sales</b>	<b>(12,635,818)</b>	<b>(9,473,889)</b>
<b>Turnover</b>	<b>29,567,140</b>	<b>22,322,896</b>

External sales include sales to Sinopec Corp group companies.

### Profit before tax

	2003 RMB'000	2002 RMB'000
<b>Profit from operations</b>		
Synthetic fibres	112,316	113,095
Resins and plastics	627,870	438,030
Intermediate petrochemicals	597,411	287,660
Petroleum products	452,077	403,903
All others	216,729	186,941
<b>Profit from operations</b>	<b>2,006,403</b>	<b>1,429,629</b>
<b>Share of (losses)/profits of associates</b>	<b>(24,017)</b>	<b>16,065</b>
<b>Net financing costs</b>	<b>(392,021)</b>	<b>(400,656)</b>
<b>Profit before tax</b>	<b>1,590,365</b>	<b>1,045,038</b>

## 31. Segment reporting (continued)

Assets	2003 RMB'000	2002 RMB'000
<b>Segment assets</b>		
Synthetic fibres	3,034,919	2,872,995
Resins and plastics	4,138,796	4,426,040
Intermediate petrochemicals	6,090,790	5,903,756
Petroleum products	7,383,556	7,063,384
All others	2,338,076	2,216,993
<b>Total segment assets</b>	<b>22,986,137</b>	22,483,168
<b>Interests in associates</b>	<b>1,370,339</b>	1,044,217
<b>Unallocated</b>	<b>2,768,981</b>	2,558,534
<b>Total assets</b>	<b>27,125,457</b>	26,085,919

Liabilities	2003 RMB'000	2002 RMB'000
<b>Segment liabilities</b>		
Synthetic fibres	393,708	463,353
Resins and plastics	852,185	883,852
Intermediate petrochemicals	371,081	351,358
Petroleum products	1,036,311	1,157,136
All others	175,076	189,468
<b>Total segment liabilities</b>	<b>2,828,361</b>	3,045,167
<b>Unallocated</b>	<b>8,933,970</b>	8,693,785
<b>Total liabilities</b>	<b>11,762,331</b>	11,738,952

## 31. Segment reporting (continued)

Depreciation and amortisation	2003 RMB'000	2002 RMB'000
Synthetic fibres	261,810	217,979
Resins and plastics	359,380	344,525
Intermediate petrochemicals	648,628	520,426
Petroleum products	409,152	346,040
All others	193,865	171,371
<b>Depreciation and amortisation</b>	<b>1,872,835</b>	1,600,341

### Capital expenditures for segment long-lived assets

	2003 RMB'000	2002 RMB'000
Synthetic fibres	123,335	470,066
Resins and plastics	121,630	79,487
Intermediate petrochemicals	746,555	989,103
Petroleum products	188,019	666,423
All others	105,329	199,214
<b>Capital expenditures for segment long-lived assets</b>	<b>1,284,868</b>	2,404,293

## 32. Financial instruments

Financial assets of the Company and the Group include cash and cash equivalents, deposits with banks, investments, trade debtors, bills receivable, deposits, other debtors and amounts due from parent companies and fellow subsidiaries. Financial liabilities of the Company and the Group include bank loans, trade creditors, other creditors and amounts due to parent company and fellow subsidiaries. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2003 and 2002.

### (a) Interest rate risk

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

### (b) Credit risk

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

### (c) Foreign currency risk

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

### (d) Fair value

The following table presents the carrying amounts and fair values of the Group's long-term bank loans as at 31 December 2003 and 2002.

	2003		2002	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
<b>Liabilities:</b>				
Long-term bank loans	4,205,989	4,204,084	5,368,480	5,370,509

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

### 32. Financial instruments *(continued)*

#### (d) Fair value *(continued)*

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

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

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

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

### 33. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2003 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC.