

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

19. Long-term loans and current portion of long-term loans (continued)

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2003	Original 2003		The Group		The Company	
			currency '000	Exchange rate	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Arranged by Central Treasury of the Company:								
U.S. Dollar denominated:								
Payable semi-annually from 2001 through 2003	Floating	LIBOR + 0.6%	-	8.2767	-	36,021	-	36,021
Payable semi-annually through 2004(Note(a))	Fixed	7.10%	2,169	8.2767	17,954	36,004	17,954	36,004
Payable semi-annually through 2008(Note(a))	Fixed	1.50%	8,653	8.2767	71,621	81,947	71,621	81,947
Payable semi-annually through 2003(Note(a))	Floating	LIBOR + 0.5%	-	8.2767	-	29,014	-	29,014
Japanese Yen denominated:								
Payable semi-annually through 2004	Fixed	5.70%	299,974	0.0773	23,188	60,362	23,188	60,362
Renminbi denominated:								
Due in 2003	Floating	5.94%	-	-	-	288,840	-	288,840
Due in 2004	Floating	5.22%-5.30%	-	-	700,000	1,200,000	700,000	1,200,000
Due in 2005	Floating	4.94%-5.58%	-	-	1,650,000	1,790,000	1,650,000	1,790,000
Due in 2006	Floating	4.94%-5.30%	-	-	1,220,000	1,000,000	1,220,000	1,000,000
Other loans due in 2004	-	Interest free	-	-	15,000	15,000	15,000	15,000
Arranged by subsidiaries:								
U.S. Dollar denominated:								
Payable semi-annually through 2004	Floating	1.70%	5,091	8.2767	42,135	84,284	-	-
Payable annually through 2004	-	Interest free	500	8.2767	4,137	14,065	-	-
Payable annually through 2004	Fixed	5.00%	2,418	8.2767	20,017	10,090	-	-

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

19. Long-term loans and current portion of long-term loans (continued)

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

Note: (a) Guaranteed by China Petrochemical Corporation

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

20. Other long-term liabilities

Deferred income

	The Group	
	2003 RMB'000	2002 RMB'000
Cost:		
At 1 January and at 31 December	115,177	115,177
Accumulated amortisation:		
At 1 January	57,590	46,072
Amortisation for the year	11,518	11,518
At 31 December	69,108	57,590
Net book value:		
At 31 December	46,069	57,587

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. Share capital

	The Group and the Company	
	2003 RMB'000	2002 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1 each	2,330,000	2,330,000
	7,200,000	7,200,000
Issued and paid up capital		
Shares not in trade:		
4,150,000,000 A shares of RMB 1 each		
of which:		
Domestic legal persons shares	4,150,000	4,150,000
Total shares not in trade	4,150,000	4,150,000
Shares in trade:		
720,000,000 A shares of RMB 1 each		
2,330,000,000 H shares of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	3,050,000	3,050,000
Total share capital	7,200,000	7,200,000

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

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

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

22. Capital reserves

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
Balance at 1 January and 31 December	2,856,278	2,856,278

	Note	The Group and the Company	
		2003	2002
		RMB'000	RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Valuation surplus	(b)	44,887	44,887
Government grants	(c)	386,370	386,370
Total		2,856,278	2,856,278

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

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

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

23. Surplus reserves

	Note	The Group and the Company				Total
		Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Discretionary surplus reserve	
		RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2002		831,211	749,122	82,089	1,280,514	2,942,936
Transferred from the income statement	(a)	90,897	90,897	-	-	181,794
Balance at 1 January 2003		922,108	840,019	82,089	1,280,514	3,124,730
Transferred from the income statement	(a)	138,556	138,556	-	-	277,112
Balance at 31 December 2003		1,060,664	978,575	82,089	1,280,514	3,401,842

23. Surplus reserves (continued)

- (a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2003:
- | | |
|------------------------------------|-----|
| (i) Statutory surplus reserve | 10% |
| (ii) Statutory public welfare fund | 10% |

24. Income from principal operations/cost of sales

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 35.

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

For the year 2003, total sales and proportion to top five customers are as follow:

	2003 RMB'000	2002 RMB'000
Amount	10,694,915	8,398,480
Percentage of total sales	36.17%	37.62%

25. Business taxes and surcharges

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Consumption tax	446,830	434,513	446,830	434,513
City construction tax	112,917	102,993	105,087	94,866
Education surcharge and others	64,710	62,421	45,037	40,658
	624,457	599,927	596,954	570,037

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

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

26. Financial expenses

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	430,030	523,500	392,301	476,160
Less: Interest capitalised	(3,502)	(95,006)	(3,502)	(91,353)
Net interest expenses	426,528	428,494	388,799	384,807
Interest income	(27,419)	(25,015)	(19,178)	(17,159)
Net exchange loss / (gain)	3,505	3,924	2,189	(2,852)
Total	402,614	407,403	371,810	364,796

27. Investment income

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Cost method	19,288	36,505	16,471	11,650
Share of profit of subsidiaries	-	-	97,107	99,238
Share of profit of associates	4,665	32,007	21,478	14,343
Amortisation of equity investment differences	849	(10,144)	849	(10,144)
Net loss on transfer of investment	(7,229)	-	-	-
Total	17,573	58,368	135,905	115,087

28. Non-operating expenses

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Employee reduction expenses	64,108	-	49,582	-
Net loss on disposal of fixed assets	57,571	85,134	48,114	64,880
Service fee	37,593	26,798	37,593	26,798
Donations	10,080	1,699	10,080	1,699
Other expenses	33,632	27,756	29,156	22,958
Total	202,984	141,387	174,525	116,335

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 64,108,000 (2002:RMB Nil) during the year ended 31 December 2003, in respect of the voluntary resignation of approximately 950 employees.

29. Dividends

- (a) Dividends of ordinary shares declared during the year
Pursuant the shareholders' approval at the Annual General Meeting on 18 June 2003, a final dividend of RMB 0.05 per share totalling RMB 360,000,000 in respect of the year ended 31 December 2002 was declared and paid.
- (b) Dividends of ordinary shares proposed after the balance sheet date
Pursuant to a resolution passed at the Board of Directors' meeting on 26 March 2004, a final dividend in respect of the year ended 31 December 2003 of RMB 0.08 per share totalling RMB 576,000,000 was proposed for shareholders' approval at the Annual General Meeting. Dividends declared after the balance sheet date was not recognised as liabilities on that day.

30. Related parties and related party transactions

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

Name of Company	:	China Petroleum & Chemical Corporation ("Sinopec Corp")
Registered Address	:	No. 6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Relationship with the Company	:	The immediate parent company
Economic nature	:	Joint stock limited company
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB 86.7 billion

The above registered capital has not been changed during the year ended 31 December 2003 .
As at 31 December 2003, Sinopec Corp held 4 billion shares of the Company.

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

	<u>Relationship with the Company</u>
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company	Branch of the immediate parent company
Xuzhou Pipeline Storage and Transportation Branch	Branch of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company

30. Related parties and related party transactions (continued)

- (c) 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 Sinopec Corp and other relevant authorities.

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

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

- (d) Other transactions between the Group and the other related parties during the year 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 expenses	85,460	78,104
Research and development expenses	25,000	-
Net (decrease) / increase in deposits in related party	(197,366)	257,045
Interest received and receivable	1,580	488
New loans obtained from related party	130,000	530,000
Loans repaid to related party	130,000	400,000
Interest paid and payable	6,774	5,111
Transportation costs	44,733	40,132
Construction and installation fees	297,525	579,476

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

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

30. Related parties and related party transactions (continued)

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

	Immediate Parent Company		Other related parties	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	118,628	24,955	-	-
Trade debtors	9,197	19,543	116,194	75,218
Other receivables	104,010	6,354	60,908	7,050
Advance payments	9,594	-	60,819	18,515
Bills payable	27,110	-	-	4,770
Trade creditors	98,503	45,135	490,180	473,704
Other payables	-	-	50,097	22,855
Receipts in advance	10,324	7,782	86,558	-

(f) Deposits in related party

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	263,854	461,220	260,617	456,500

(g) Loans with related party

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

31. Retirement schemes

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

32. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2003 RMB'000	2002 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

33. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 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
- other unlisted investment companies	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 are given to the extent of the Company's respective interest in these entities.

Guarantees issued to banks in favour of associates and joint ventures are given to the extent of the Group's and 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.

34. Events after the balance sheet date

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

35. Segment reporting

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

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

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

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

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

35. Segment reporting (continued)

Income from principal operations

	2003 RMB'000	2002 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	4,114,966	3,396,652
Intersegment sales	707	-
Sub-total	4,115,673	3,396,652
Resins and Plastics		
External sales	8,907,410	6,479,166
Intersegment sales	25,850	24,948
Sub-total	8,933,260	6,504,114
Intermediate Petrochemicals		
External sales	3,879,846	2,575,668
Intersegment sales	8,288,481	5,655,309
Sub-total	12,168,327	8,230,977
Petroleum Products		
External sales	10,834,580	8,482,497
Intersegment sales	800,070	603,473
Sub-total	11,634,650	9,085,970
All others		
External sales	1,830,338	1,388,913
Intersegment sales	3,520,710	3,190,159
Sub-total	5,351,048	4,579,072
Eliminations of intersegment sales	(12,635,818)	(9,473,889)
Total	29,567,140	22,322,896

35. Segment reporting (continued)

Cost of principal operations

	2003 RMB'000	2002 RMB'000
Synthetic Fibres	3,843,129	3,138,522
Resins and Plastics	7,720,287	5,527,662
Intermediate Petrochemicals	2,762,850	1,955,449
Petroleum Products	9,505,466	7,149,362
All others	1,410,465	972,112
Total	25,242,197	18,743,107

Gross profit of principal operations

	2003 RMB'000	2002 RMB'000
Synthetic Fibres	249,461	235,730
Resins and Plastics	1,143,979	913,011
Intermediate Petrochemicals	1,088,483	599,586
Petroleum Products	823,683	841,881
All others	394,880	389,654
Total	3,700,486	2,979,862

36. Net profit before non-recurring items

In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No.1 – Non-recurring items" (2004 Revised), the Group's net profit excluding non-recurring items is set out as below:

	2003 RMB'000
Net profit	1,385,556
Items under non-recurring items	
Add: Non-operating expenses	202,984
Loss on disposal of subsidiaries	7,229
Less: Non-operating income	(19,376)
Written back of provision for impairment losses in previous years	(73,611)
Tax effect	(17,584)
Total of non-recurring items	99,642
Net profit excluding non-recurring items	1,485,198