Report of the International Auditors

KPMG

To the Shareholders of
Sinopec Yizheng Chemical Fibre Company Limited
(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 60 to 91 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Respective responsibilities 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, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, China
26 March 2004

Consolidated Income Statement

For the year ended 31 December 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2003** **Rmb'000**	2002 *Rmb'000*
Turnover	*4*	**10,343,641**	8,009,669
Cost of sales		**(9,319,671)**	(7,304,770)
Gross profit		**1,023,970**	704,899
Selling expenses		**(167,269)**	(167,646)
Administrative expenses		**(447,694)**	(345,309)
Other operating income		**21,972**	10,118
Other operating expenses		**(7,922)**	(10,957)
Employee reduction expenses	*5*	**(54,786)**	–
Profit from operations		**368,271**	191,105
Net financing costs	*6(a)*	**(54,873)**	(34,360)
Profit from ordinary activities before taxation	*6*	**313,398**	156,745
Income tax expense	*7(b)*	**(48,652)**	(7,156)
Profit from ordinary activities after taxation		**264,746**	149,589
Minority interests		**(5,615)**	(5,268)
Profit attributable to shareholders	*9*	**259,131**	144,321
Dividend attributable to the year:			
Final dividend proposed after the balance sheet date	*10(a)*	**100,000**	60,000
Basic earnings per share (in Rmb)	*11*	**0.065**	0.036

The notes on pages 65 to 91 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Non-current assets			
Property, plant and equipment	12	**8,525,854**	7,031,796
Construction in progress	13	**294,963**	1,636,005
Lease prepayments	14	**208,538**	213,146
Unlisted investment	16	**62,500**	62,500
Deferred tax asset	7(d)	**29,000**	32,340
		9,120,855	8,975,787
Current assets			
Inventories	17	**990,715**	1,186,850
Trade and other receivables	18	**581,681**	635,085
Deposits with banks and other financial institutions	19	**664,969**	714,570
Cash and cash equivalents	20	**563,761**	490,804
		2,801,126	3,027,309
Current liabilities			
Trade and other payables	21	**1,658,629**	1,704,096
Bank loans	22(a)	**818,820**	1,085,776
Income tax payable	7(c)	**82,224**	89,951
		2,559,673	2,879,823
Net current assets		**241,453**	147,486
Total assets less current liabilities		**9,362,308**	9,123,273
Non-current liabilities			
Bank loans	22(a)	**340,000**	300,000
Minority interests		**53,455**	57,478
Net assets		**8,968,853**	8,765,795
Shareholders' funds			
Share capital	23	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	24	**1,188,963**	1,136,413
Retained profits	25	**1,261,057**	1,110,549
		8,968,853	8,765,795

Approved and authorised for issue by the board of directors on 26 March 2004

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on pages 65 to 91 form part of these financial statements.

Balance Sheet

As at 31 December 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Non-current assets			
Property, plant and equipment	12	**7,958,415**	6,457,281
Construction in progress	13	**290,402**	1,596,885
Lease prepayments	14	**126,142**	128,770
Interest in subsidiaries	15	**694,937**	687,338
Unlisted investment	16	**62,500**	62,500
Deferred tax asset	7(d)	**29,000**	32,340
		9,161,396	8,965,114
Current assets			
Inventories	17	**820,332**	1,012,206
Trade and other receivables	18	**668,366**	800,049
Deposits with banks and other financial institutions	19	**610,000**	645,000
Cash and cash equivalents	20	**374,253**	347,653
		2,472,951	2,804,908
Current liabilities			
Trade and other payables	21	**1,510,961**	1,600,787
Bank loans	22(a)	**733,869**	1,011,000
Income tax payable	7(c)	**75,617**	84,730
		2,320,447	2,696,517
Net current assets		**152,504**	108,391
Total assets less current liabilities		**9,313,900**	9,073,505
Non-current liabilities			
Bank loans	22(a)	**340,000**	300,000
Net assets		**8,973,900**	8,773,505
Shareholders' funds			
Share capital	23	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	24	**1,188,963**	1,136,413
Retained profits	25	**1,266,104**	1,118,259
		8,973,900	8,773,505

Approved and authorised for issue by the board of directors on 26 March 2004

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on pages 65 to 91 form part of these financial statements.

Consolidated Cashflow Statement

For the year ended 31 December 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	**2003**	2002
		Rmb'000	*Rmb'000*
Cash flow from operating activities			
Cash generated from operations	*31*	**1,385,863**	1,532,615
Interest paid		**(105,121)**	(81,766)
Income tax paid		**(53,039)**	(64,591)
Net cash from operating activities		**1,227,703**	1,386,258
Cash flow from investing activities			
Acquisition of property, plant and equipment, and construction in progress		**(931,308)**	(1,531,165)
Proceeds from disposal of property, plant and equipment		**891**	1,535
Interest and investment income received		**20,506**	40,929
Payment for purchase of minority interests in subsidiaries		**(3,170)**	–
Decrease in deposits with banks and other financial institutions		**49,601**	74,024
Net cash used in investing activities		**(863,480)**	(1,414,677)
Cash flow from financing activities			
Proceeds from short-term bank loans		**5,236,959**	2,728,285
Proceeds from long-term bank loans		**720,000**	750,000
Repayment of short-term bank loans		**(5,203,915)**	(2,622,529)
Repayment of long-term bank loans		**(980,000)**	(700,000)
Dividend paid		**(60,000)**	(80,000)
Dividend paid to minority shareholders		**(4,310)**	(1,710)
Net cash used in financing activities		**(291,266)**	74,046
Net increase in cash and cash equivalents		**72,957**	45,627
Cash and cash equivalents at 1 January		**490,804**	445,177
Cash and cash equivalents at 31 December	*20*	**563,761**	490,804

The notes on pages 65 to 91 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Funds

For the year ended 31 December 2003
(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
At 1 January 2002		4,000,000	2,518,833	1,109,837	1,072,804	8,701,474
Net profit for the year		–	–	–	144,321	144,321
Appropriation	*24*	–	–	26,576	(26,576)	–
Dividend	*10*	–	–	–	(80,000)	(80,000)
At 31 December 2002		4,000,000	2,518,833	1,136,413	1,110,549	8,765,795
At 1 January 2003		4,000,000	2,518,833	1,136,413	1,110,549	8,765,795
Net profit for the year		–	–	–	259,131	259,131
Appropriation	*24*	–	–	48,623	(48,623)	–
Dividend	*10*	–	–	–	(60,000)	(60,000)
Others		–	–	3,927	–	3,927
At 31 December 2003		**4,000,000**	**2,518,833**	**1,188,963**	**1,261,057**	**8,968,853**

The notes on pages 65 to 91 form part of these financial statements.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

1. Background of the Company

Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") was established in the People's Republic of China (the "**PRC**") on 31 December 1993 as a joint stock limited company.

The Company and its subsidiaries (the "**Group**") are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the PRC.

2. Significant accounting policies

A summary of the significant accounting policies adopted by the Group is set out below.

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") promulgated by the International Accounting Standards Board, IFRS includes the International Accounting Standards ("**IAS**") and related interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's results and shareholders' funds under the IFRS and the PRC Accounting Rules and Regulations is presented on page 135.

(b) Basis of preparation

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of certain property, plant and equipment (refer to accounting policy h). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

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

2. Significant accounting policies *(Continued)*

(c) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The results of the subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit from ordinary activities after taxation.

(ii) Transactions eliminated on consolidation

All significant inter-company balances and transactions, and any unrealised gains and losses arising from inter-company transactions, are eliminated on consolidation.

(iii) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (refer to accounting policy q).

(iv) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill, to the extent not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

(d) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rates quoted by the People's Bank of China ("**PBOC rates**") ruling at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable PBOC rates ruling at that date.

Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (refer to accounting policy m).

(e) Cash equivalents

Cash equivalents comprise time deposits with an initial term of less than three months. Cash equivalents are stated at cost, which approximates fair value.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

2. Significant accounting policies *(Continued)*

(f) Trade and other receivables

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

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value.

Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

(h) Property, plant and equipment

(i) Property, plant and equipment are stated at cost or valuation (refer to note 12(c)) less accumulated depreciation and impairment losses (refer to accounting policy q). Revaluations are performed periodically to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement as an expense in the period in which it is incurred.

(ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

2. Significant accounting policies *(Continued)*

(h) Property, plant and equipment *(Continued)*

(iii) Depreciation is provided to write off the cost or revalued amount of each item of property, plant and equipment over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	8 to 22 years
Motor vehicles and other fixed assets	5 to 20 years

(iv) Lease prepayments represent land use rights paid to the PRC land bureau. Land use rights are carried at cost less amortisation and impairment losses. Amortisation is calculated on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

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

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Investments

(i) In the Company's balance sheet, investments in subsidiaries are accounted for using the equity method.

(ii) Unlisted equity investments are stated at cost less impairment losses (refer to accounting policy q).

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

2. Significant accounting policies *(Continued)*

(l) Revenue recognition

(i) Sales of goods

Revenue from the sale of goods is recognised in the income statement when the buyer receives the goods and the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added tax and is after deduction of any trade discounts and returns. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(m) Net financing costs

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

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised 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.

(n) Repairs and maintenance expenses

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

(o) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

(p) Retirement benefits

Contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in note 26.

2. Significant accounting policies *(Continued)*

(q) Impairment loss

The carrying amounts of the Group's assets, other than trade and other receivables (refer to accounting policy f), inventories (refer to accounting policy g), and deferred tax assets (refer to accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(r) Dividends

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

(s) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

2. Significant accounting policies *(Continued)*

(s) Income tax *(Continued)*

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit.

(t) Related parties

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

(u) Operating leases

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

3. Segment reporting

The Group's profits are almost entirely attributable to the production and sales of chemical fibre and chemical fibre raw materials in the PRC. Accordingly, no segmental analysis is provided.

4. Turnover

Turnover represents the sales value of goods supplied to customers, net of value added tax and is after deduction of any sales discount and returns.

5. Employee reduction expenses

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb54,786,000 (2002: Rmb Nil) during the year ended 31 December 2003 in respect of voluntary resignation of 912 employees.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

6. Profit from ordinary activities before taxation

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

(a) Net financing costs

	The Group	
	2003	2002
	Rmb'000	*Rmb'000*
Interest on bank loans and advances	**105,886**	81,477
Less: Amounts capitalised as construction in progress*	**(35,781)**	(28,501)
Net interest expense	**70,105**	52,976
Interest income	**(17,006)**	(22,626)
Net foreign exchange (gain)/loss	**(1,429)**	16
Others	**3,203**	3,994
Net financing costs	**54,873**	34,360

* *The borrowing costs have been capitalised at an average rate of 4.9% (2002: 5.1%) per annum for construction in progress.*

(b) Other items

	The Group	
	2003	2002
	Rmb'000	*Rmb'000*
Cost of inventories#	**9,316,628**	7,301,727
Staff costs:		
– wages and salaries, welfare and other costs#	**561,048**	520,871
– contributions to defined contribution plans#	**74,963**	63,778
Total staff costs	**636,011**	584,649
Depreciation#	**817,581**	769,089
Repairs and maintenance expenses#	**116,113**	151,198
Research and development costs#	**26,281**	18,357
Amortisation of lease prepayments	**4,608**	4,604
Auditors' remuneration	**6,617**	6,617

\# *Cost of inventories includes Rmb1,347,212,000 (2002: Rmb1,295,490,000) relating to wages and salaries, welfare and other costs, contributions to defined contribution plans, depreciation, repairs and maintenance expenses, and research and development costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

7. Income tax

(a) The charge for PRC income tax of the Company is calculated at the rate of 15% (2002: 15%) on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. The Company has not received notice from the Ministry of Finance that the 15% tax rate will continue to be applicable to the Company in 2004. As such, it is possible that the Company's tax rate will increase in 2004.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%, and a subsidiary has been granted a tax holiday for not more than 5 years. No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.

(b) Income tax expense in the consolidated income statement represents:

	The Group	
	2003	2002
	Rmb'000	*Rmb'000*
Provision for PRC income tax for the year	**46,798**	26,758
Deferred taxation *(note (d) below)*	**3,340**	792
	50,138	27,550
Tax credit#	**–**	(25,141)
(Over)/underprovision in respect of prior years	**(1,486)**	4,747
	48,652	7,156

\# *Pursuant to "Cai Shui Zi [1999] No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company had claimed tax credit relating to purchases of equipment produced in the PRC for technological improvements in 2002.*

The following is a reconciliation of income taxes calculated at the Company's applicable tax rate with actual tax expense for the year:

	The Group	
	2003	2002
	Rmb'000	*Rmb'000*
Profit from ordinary activities before tax	**313,398**	156,745
Expected PRC income tax using the Company's tax rate of 15%	**47,010**	23,512
Differential tax rate on profits of subsidiaries	**4,503**	3,805
Tax loss of subsidiaries not recognised for deferred tax	**1,341**	(1,888)
Tax credit	**–**	(25,141)
(Over)/under provision for tax in respect of prior year	**(1,486)**	4,747
Non-deductible expenses	**1,467**	3,065
Non-taxable income	**(4,183)**	(944)
Income tax expense	**48,652**	7,156

7. Income tax *(Continued)*

(c) Income tax in the balance sheet represents:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Provision for PRC income tax for the year	**46,798**	26,758	**37,812**	17,718
Provisional PRC income tax paid	**(41,586)**	(13,819)	**(39,207)**	(10,000)
	5,212	12,939	**(1,395)**	7,718
Balance of PRC income tax provision relating to prior years	**77,012**	77,012	**77,012**	77,012
Tax payable	**82,224**	89,951	**75,617**	84,730

(d) Deferred tax asset is attributable to the following:

	The Group and the Company	
	2003	2002
Non-current	***Rmb'000***	*Rmb'000*
Land use rights	**31,548**	32,340
Interest expense capitalised	**(2,548)**	–
	29,000	32,340

As described in note 24(d), land use rights are carried at cost less amortisation and impairment losses effective 1 January 2002. The surplus on the revaluation of land use rights net of deferred tax assets are reversed to the shareholders' funds.

There is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

Movement in the deferred tax asset is as follows:

	The Group and the Company		
	At 1 January 2003	**Recognised in income statement**	**At 31 December 2003**
	Rmb'000	*Rmb'000* *(note (b) above)*	***Rmb'000***
Non-current			
Land use rights	32,340	(792)	**31,548**
Interest expense capitalised	–	(2,548)	**(2,548)**
	32,340	(3,340)	**29,000**

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

8. Directors' and supervisors' remuneration

Directors' and supervisors' emoluments:

	2003 **Rmb'000**	2002 Rmb'000
Fees	**220**	48
Salaries and other emoluments	**607**	769
Discretionary bonuses	**912**	770
Retirement scheme contributions	**336**	315
	2,075	1,902

Included in the directors' and supervisors remuneration were fees of Rmb220,000 (2002: Rmb48,000) paid to the independent non-executive directors and supervisors during the year.

The remuneration of the directors and supervisors is within the following band:

	2003 **Number of directors and supervisors**	2002 Number of directors and supervisors
Hong Kong dollars		
0-1,000,000	**18**	17

The five highest paid individuals of the Group in 2003 and 2002 were all executive directors whose total emoluments have been shown above.

9. Profit attributable to shareholders

The profit attributable to shareholders includes a profit of Rmb256,468,000 (2002: Rmb143,357,000) which has been dealt with in the financial statements of the Company.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

10. Dividend

(a) Dividend attributable to the year

	2003	2002
	Rmb'000	*Rmb'000*
Final dividend proposed after the balance sheet date of Rmb2.5 cents (2002: Rmb1.5 cents) per share	**100,000**	60,000

Pursuant to a resolution passed at the Directors' meeting on 26 March 2004, a final dividend of Rmb2.5 cents (2002: Rmb1.5 cents) per share totalling Rmb100,000,000 (2002: Rmb60,000,000) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividend attributable to the previous financial year, approved and paid during the year

	2003	2002
	Rmb'000	*Rmb'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of Rmb1.5 cents (2002: Rmb2 cents) per share	**60,000**	80,000

11. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb259,131,000 (2002: Rmb144,321,000) and 4,000,000,000 shares (2002: 4,000,000,000 shares) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2002 and 2003.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

12. Property, plant and equipment

(a) The Group

	Buildings	Plant, machinery and equipment	Motor vehicles and other fixed assets	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost or valuation:				
At 1 January 2003	2,056,824	10,087,400	602,866	12,747,090
Additions	242	248	4,928	5,418
Transfer from construction in progress *(note 13)*	22,123	2,242,777	41,740	2,306,640
Disposals	–	(385)	(5,008)	(5,393)
Reclassifications	–	23,300	(23,300)	–
At 31 December 2003	**2,079,189**	**12,353,340**	**621,226**	**15,053,755**
Accumulated depreciation:				
At 1 January 2003	544,805	4,792,542	377,947	5,715,294
Depreciation charge for the year	72,370	662,140	83,071	817,581
Written back on disposal	–	(383)	(4,591)	(4,974)
Reclassifications	–	842	(842)	–
At 31 December 2003	**617,175**	**5,455,141**	**455,585**	**6,527,901**
Net book value:				
At 31 December 2003	**1,462,014**	**6,898,199**	**165,641**	**8,525,854**
At 31 December 2002	1,512,019	5,294,858	224,919	7,031,796

12. Property, plant and equipment *(Continued)*

(b) The Company

	Buildings	Plant, machinery and equipment	Motor vehicles and other fixed assets	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost or valuation:				
At 1 January 2003	1,851,408	9,371,326	564,133	11,786,867
Additions	80	–	3,121	3,201
Transfer from construction in progress *(note 13)*	20,898	2,194,597	40,970	2,256,465
Disposals	–	(347)	(4,455)	(4,802)
Reclassifications	–	23,300	(23,300)	–
At 31 December 2003	**1,872,386**	**11,588,876**	**580,469**	**14,041,731**
Accumulated depreciation:				
At 1 January 2003	502,262	4,467,839	359,485	5,329,586
Depreciation charge for the year	65,993	613,555	78,957	758,505
Written back on disposal	–	(352)	(4,423)	(4,775)
Reclassifications	–	842	(842)	–
At 31 December 2003	**568,255**	**5,081,884**	**433,177**	**6,083,316**
Net book value:				
At 31 December 2003	**1,304,131**	**6,506,992**	**147,292**	**7,958,415**
At 31 December 2002	1,349,146	4,903,487	204,648	6,457,281

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

12. Property, plant and equipment *(Continued)*

(c) The Company was established in the PRC on 31 December 1993 as a joint stock limited company as part of the restructuring of Yihua Group Corporation ("**Yihua**"). On the same date, the principal business undertaking of Yihua together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 31 October 1993 by an independent valuer registered in the PRC. The injected assets and liabilities were reflected in the financial statements on this basis.

In accordance with IAS 16 "Property, plant and equipment", subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at the revalued amount, being the fair value at the date of the revaluation less accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. Based on a revaluation performed jointly by independent valuers registered in the PRC, China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, as of 30 September 1999, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

(d) All of the Group's buildings are located in the PRC.

13. Construction in progress

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Balance at 1 January	**1,636,005**	751,148	**1,596,885**	708,028
Additions	**965,598**	1,555,558	**949,982**	1,510,942
	2,601,603	2,306,706	**2,546,867**	2,218,970
Transfer to property, plant and equipment *(note 12)*	**(2,306,640)**	(670,701)	**(2,256,465)**	(622,085)
Balance at 31 December	**294,963**	1,636,005	**290,402**	1,596,885

Construction in progress comprises:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Construction of purified terepthalic acid ("**PTA**") production plant	–	1,400,262	–	1,400,262
Construction of specialised polyester chip plant	**97,121**	9,700	**97,121**	9,700
Improvements and expansion to existing plants	**181,762**	169,444	**181,762**	169,444
Others	**16,080**	56,599	**11,519**	17,479
	294,963	1,636,005	**290,402**	1,596,885

14. Lease prepayments

Lease prepayments represent land use rights on land located in the PRC, which were granted in 1995 and 2001 respectively for a period of 50 years from the respective dates of grant.

15. Interest in subsidiaries

	The Company	
	2003	2002
	Rmb'000	*Rmb'000*
Share of net liabilities of subsidiaries, unlisted	**(105,063)**	(112,662)
Amounts due from subsidiaries	**800,000**	800,000
	694,937	687,338

The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Registered capital	Per cent of equity held directly by the Company	held by subsidiary	Type of legal entity	Principal activity
	'000	%	%		
Foshan Chemical Fibre Company Limited	Rmb32,933	100	–	Limited company	Management and administration
Yizheng Chemical Fibre Foshan Polyester Company Limited ("**Foshan Polyester**")	US$85,427	59	41	Limited company	Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after-sales services
Yihua Kangqi Chemical Fibre Company Limited	Rmb60,000	95	5	Limited company	Investment holding and trading of polyester chips and polyester fibre

All of the above principal subsidiaries are established and operated in the PRC.

The amount due from subsidiaries of Rmb800,000,000 (2002: Rmb800,000,000) is expected to be recovered after more than one year.

None of the subsidiaries has any debt securities.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

16. Unlisted investment

	The Group and the Company	
	2003	2002
	Rmb'000	*Rmb'000*
At cost		
Equity investment in Sinopec Finance Company Limited ("**Sinopec Finance**")	**62,500**	62,500

17. Inventories

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Raw materials	**522,109**	718,791	**449,121**	659,969
Work in progress	**65,666**	56,473	**59,802**	52,820
Finished goods	**171,523**	190,395	**129,663**	105,189
Goods in transit	**24,494**	32	**–**	32
	783,792	965,691	**638,586**	818,010
Spare parts and consumables	**206,923**	221,159	**181,746**	194,196
	990,715	1,186,850	**820,332**	1,012,206
Inventories stated at net realisable value	**251,028**	533,410	**220,984**	485,714

18. Trade and other receivables

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade receivables	**114,186**	88,994	**72,263**	26,570
Bills receivable	**314,170**	401,453	**270,340**	376,420
Amounts due from subsidiaries and fellow subsidiaries – trade	**78,477**	48,275	**78,446**	49,356
	506,833	538,722	**421,049**	452,346
Amounts due from parent company and fellow subsidiaries – non-trade	**1,715**	10,999	**1,715**	10,999
Amounts due from subsidiaries – non-trade	**–**	–	**190,424**	271,162
Other receivables, deposits and prepayments	**73,133**	85,364	**55,178**	65,542
	581,681	635,085	**668,366**	800,049

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

18. Trade and other receivables *(Continued)*

The Company generally requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit is only available for major customers with well-established trading records.

The ageing analysis of trade receivables, bills receivable and amounts due from subsidiaries and fellow subsidiaries – trade is as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within one year	**504,139**	527,990	**421,049**	448,998
Between one and two years	**2,009**	6,425	**–**	1,501
Between two and three years	**685**	4,307	**–**	1,847
	506,833	538,722	**421,049**	452,346

The amounts due from parent company, subsidiaries and fellow subsidiaries – non-trade are unsecured, interest free and have no fixed repayment terms.

The amounts due from subsidiaries – non-trade are not expected to be settled within one year.

19. Deposits with banks and other financial institutions

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Balances with banks and other financial institutions	**423,539**	371,855	**212,670**	206,525
Balances with the following banks and other financial institutions, which are related parties of the Group				
– Sinopec Finance	**754,217**	772,439	**754,217**	772,439
– CITIC Industrial Bank	**50,815**	60,971	**17,347**	13,641
	805,032	833,410	**771,564**	786,080
	1,228,571	1,205,265	**984,234**	992,605
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 20)*	**(563,602)**	(490,695)	**(374,234)**	(347,605)
	664,969	714,570	**610,000**	645,000

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

20. Cash and cash equivalents

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash in hand	**159**	109	**19**	48
Balances with banks and other financial institutions with an initial term of less than three months *(note 19)*	**563,602**	490,695	**374,234**	347,605
	563,761	490,804	**374,253**	347,653

21. Trade and other payables

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Trade payables	**543,739**	461,890	**411,630**	346,484
Bills payable	**20,239**	13,528	**–**	–
Amounts due to fellow subsidiaries – trade	**470,555**	710,698	**470,555**	710,698
Amounts due to subsidiaries – trade	**–**	–	**42,085**	48,732
	1,034,533	1,186,116	**924,270**	1,105,914
Amounts due to parent company and fellow subsidiaries – non-trade	**62,361**	54,322	**62,361**	54,322
Other payables and accrued expenses	**561,735**	463,658	**524,330**	440,551
	1,658,629	1,704,096	**1,510,961**	1,600,787

The ageing analysis of trade payables, bills payable and amounts due to subsidiaries and fellow subsidiaries – trade is as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Due within one month or on demand	**827,640**	640,197	**729,270**	585,914
Due after one month but within six months	**206,893**	545,919	**195,000**	520,000
	1,034,533	1,186,116	**924,270**	1,105,914

The amounts due to parent company and fellow subsidiaries – non-trade are unsecured, non-interest bearing and have no fixed terms of repayment.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

22. Bank loans

(a) Bank loans as at 31 December 2003 were unsecured and repayable as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within 1 year or on demand:				
Short-term bank loans	**718,820**	685,776	**633,869**	611,000
Current portion of long-term bank loans	**100,000**	400,000	**100,000**	400,000
	818,820	1,085,776	**733,869**	1,011,000
After 1 year but within 2 years	**250,000**	150,000	**250,000**	150,000
After 2 years but within 5 years	**90,000**	150,000	**90,000**	150,000
	340,000	300,000	**340,000**	300,000
	1,158,820	1,385,776	**1,073,869**	1,311,000

All the long-term bank loans are denominated in Renminbi.

(b) Short-term loans are general credit facilities denominated in Renminbi. At 31 December 2003, the weighted-average annual interest rates of the Group and the Company are 4.3% (2002: 4.4%) and 4.5% (2002: 4.5%) respectively.

(c) The interest rates and terms of repayment for long-term bank loans are as follows:

	Interest rate	Interest type	The Group and the Company	
			2003	2002
			Rmb'000	*Rmb'000*
Long-term bank loans				
Due in 2003	4.94%	Fixed	–	400,000
Due in 2004	4.94%	Fixed	**100,000**	150,000
Due in 2005	4.94%	Fixed	**250,000**	150,000
Due in 2006	4.94%	Fixed	**90,000**	–
Long-term bank loans *(note 30(d))*			**440,000**	700,000
Less: Current portion of long-term bank loans			**(100,000)**	(400,000)
Long-term portion of long-term bank loans			**340,000**	300,000

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

23. Share capital

	The Group and the Company	
	2003	2002
	Rmb'000	*Rmb'000*
Registered, issued and paid up capital:		
2,400,000,000 "Legal person A" shares of Rmb1 each	**2,400,000**	2,400,000
200,000,000 "A" shares of Rmb1 each	**200,000**	200,000
1,400,000,000 "H" shares of Rmb1 each	**1,400,000**	1,400,000
	4,000,000	4,000,000

All the "Legal person A", "A" and "H" shares rank pari passu in all material respects.

24. Reserves

	The Group and the Company					
	Statutory surplus reserve	**Statutory public welfare fund**	**Discretionary surplus reserve**	**Excess over share capital**	**Capital reserve**	**Total**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
	(note (a))	*(note (b))*	*(note (c))*	*(note (d))*		
At 1 January 2002	451,226	288,464	594,547	(224,400)	–	1,109,837
Transfer from retained profits *(note 25)*	13,887	12,689	–	–	–	26,576
At 31 December 2002	465,113	301,153	594,547	(224,400)	–	1,136,413
Transfer from retained profits *(note 25)*	24,649	23,974	–	–	–	48,623
Others	–	–	–	–	3,927	3,927
At 31 December 2003	**489,762**	**325,127**	**594,547**	**(224,400)**	**3,927**	**1,188,963**

Notes:

(a) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 10 per cent of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory surplus reserve until the reserve balance reaches 50 per cent of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders of these entities.

The statutory surplus reserve can be used by an entity to make good its previous years' losses, if any, or to expand its production and operation, 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 per cent of its registered capital.

24. Reserves *(Continued)*

(b) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 5 per cent to 10 per cent of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory public welfare fund. The fund can only be utilised on capital items for the collective benefits of its employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of a dividend to its shareholders.

The directors authorised the transfer of Rmb23,974,000 (2002: Rmb12,689,000), subject to the shareholders' approval, to this fund, of which Rmb23,299,000 (2002: Rmb11,490,000) represents 10 per cent (2002: 10 per cent) of the Company's profit after taxation excluding share of profits or losses from subsidiaries and Rmb675,000 (2002: Rmb1,199,000) represents the amount attributable to the transfers proposed by the respectively subsidiaries, if any.

(c) The transfer to the discretionary surplus reserve from the income statement is subject to the approval by shareholders at Annual General Meetings. The utilisation of the reserve is similar to that of the statutory surplus reserve.

Neither the Company nor any of its subsidiaries has proposed to transfer any of its profit to this reserve in respect of the financial year 2003 (2002: Rmb Nil).

(d) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at the historical cost basis. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to the shareholders' funds.

Under the PRC Accounting Rules and Regulations, land use rights are carried at the revalued amount.

25. Retained profits

	The Group	The Company
	Rmb'000	*Rmb'000*
At 1 January 2002	1,072,804	1,081,478
Net profit for the year	144,321	143,357
Transfer to reserves *(note 24)*	(26,576)	(26,576)
Dividends approved in respect of the previous year *(note 10(b))*	(80,000)	(80,000)
At 31 December 2002	1,110,549	1,118,259
At 1 January 2003	1,110,549	1,118,259
Net profit for the year	259,131	256,468
Transfer to reserves *(note 24)*	(48,623)	(48,623)
Dividends approved in respect of the previous year *(note 10(b))*	(60,000)	(60,000)
At 31 December 2003	**1,261,057**	**1,266,104**

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with the IFRS. As 31 December 2003, the amount of retained profits available for distribution, which was the amount determined in accordance with the PRC Accounting Rules and Regulations, was Rmb698,691,000 (2002: Rmb589,773,000). Final dividend of Rmb100,000,000 (2002: Rmb60,000,000) in respect of the financial year 2003 was proposed after the balance sheet date.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

26. Retirement benefits

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution pension plans organised by the respective municipal governments under which they are governed. Details of the schemes of the Company and its principal subsidiary, Foshan Polyester, are as follows:

Administrator	**Beneficiary**	**Contribution rate**	
		2003	2002
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**17%**	17%
Foshan Municipal Government, Guangdong Province	Employees of Foshan Polyester	**15%**	19%

All employees are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age.

Additionally, 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 scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the management. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2003 was 9 per cent (2002: 9 per cent).

The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees as described above.

27. Related party transactions

China Petrochemical Corporation ("**CPC**"), China Petrochemical & Chemical Corporation ("**Sinopec**") and China International Trust and Investment Corporation ("**CITIC**") are considered to be related parties as they have the ability to exercise significant influence over the Group in making financial and operating decisions.

Yihua, Sinopec Yangzi Petrochemical Company Limited ("**Yangzi**"), Sinopec Zhenhai Refining and Chemical Company Limited ("**Zhenhai**"), Sinopec Finance, CITIC Industrial Bank, Nanjing Chemical Industrial Group ("**Nanhua**"), Sinopec Maoming Petrochemical Corporation ("**Maoming**") and other subsidiaries of CPC, Sinopec or CITIC are considered to be related parties as they are subject to the common significant influence of CPC, Sinopec or CITIC.

27. Related party transactions *(Continued)*

Significant transactions between the Group and the related parties during the year were as follows:

Yangzi

	2003	2002
	Rmb'000	*Rmb'000*
Purchases of raw materials	**1,923,625**	2,082,970

Zhenhai

	2003	2002
	Rmb'000	*Rmb'000*
Purchases of raw materials	**293,474**	–

Yihua and its subsidiaries ("Yihua Group")

	2003	2002
	Rmb'000	*Rmb'000*
Sales	**1,109,627**	921,641
Purchases	**140,340**	109,218
Miscellaneous service fee charges (see note below)	**123,447**	132,487
Miscellaneous service fee income (see note below)	**30,313**	28,947
Trademark licence fee (see note below)	**10,000**	10,000
Payments relating to the construction and maintenance work	**91,648**	102,501

Note: The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua.

Sinopec and its subsidiaries ("Sinopec Group"), excluding Yangzi and Zhenhai

	2003	2002
	Rmb'000	*Rmb'000*
Service charges for the purchase of import equipment	**5,435**	2,594
Purchase of equipments	**34,983**	4,000
Purchase of raw materials	**150,504**	168,127
Subsidy received in respect of technological research and development	**12,270**	5,400

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

27. Related party transactions *(Continued)*

CPC and its subsidiaries (excluding Sinopec Group and Yihua Group)

	2003	2002
	Rmb'000	*Rmb'000*
Payment for construction work	**37,542**	127,726
Purchase of equipment	**12,707**	12,832
Purchase of raw materials	**22,264**	41,890
Insurance premium paid	**25,672**	13,834

Sinopec Finance

	2003	2002
	Rmb'000	*Rmb'000*
Interest income	**10,752**	11,362

CITIC Industrial Bank

	2003	2002
	Rmb'000	*Rmb'000*
Interest income	**800**	557
Interest expense	**1,115**	–

The directors of the Company are of the opinion that the above transactions with related parties were entered into in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

28. Contingent liabilities

At 31 December 2003, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank credit facilities granted to a wholly-owned subsidiary totalled Rmb181,311,000 (2002: Rmb74,776,000).

At 31 December 2003, the Group discounted bills with banks totalled Rmb17,804,000 (2002: Rmb42,900,000).

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

29. Capital commitments

At 31 December 2003, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	2003	2002	**2003**	2002
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Authorised and contracted for	**17,520**	455,682	**–**	451,262
Authorised but not contracted for	**991,461**	740,849	**991,461**	740,849
	1,008,981	1,196,531	**991,461**	1,192,111

These capital commitments are for the construction of 160,000 tonnes specialised polyester materials plant, 100,000 tonnes staple fibre plant and 200,000 tonnes solid-state polymerisation for bottle grade polyester chip plant and improvements and expansions to the existing plants.

30. Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions, trade and other receivables and unlisted investment. The financial liabilities of the Group include bank loans and trade and other payables. The Group does not hold or issue financial instruments for trading purpose at 31 December 2003 and 2002. 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 bank loans of the Group are disclosed in note 22.

(b) Credit risk

Deposits with banks and other financial institutions

Substantial amounts of the Group's cash balances are deposited with the following financial institutions: Bank of China, Industrial and Commercial Bank of China, Bank of Communications, China Construction Bank, CITIC Industrial Bank, Agricultural Bank of China and Sinopec Finance.

Trade and other receivables

The Group does not have a significant exposure to any individual customer or counterparty. The major concentrations of credit risk arise from exposures to a substantial number of trade debtors operating in one geographical region, the PRC.

Details of the amounts due from parent company and fellow subsidiaries are disclosed in note 18.

Unlisted investment

Details of the unlisted investment are disclosed in note 16.

(c) Concentration risk

Substantial amounts of the Group's cash balances are deposited with Sinopec Finance.

Notes on the Financial Statements

(Prepared under International Financial Reporting Standards)
(Expressed in Renminbi)

30. Financial instruments *(Continued)*

(d) Fair value

The fair value of unlisted investment could not reasonably be estimated without incurring excessive costs as the investment is unquoted equity securities and there is no quoted market price for such securities in the PRC.

The fair values of cash and cash equivalents, trade and other receivables, trade and other payables are not materially different from their carrying amounts.

The carrying values of short-term deposits and short-term bank loans are estimated to approximate to their fair values based on the nature or short-term maturity of these instruments.

The fair values of the Group's long-term loans as estimated by applying a discounted cash flow using current market interest rates for similar financial instruments, are summarised as follows:

	2003		2002	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Long-term bank loans, including current portion *(note 22(c))*	**440,000**	**442,544**	700,000	704,482

Fair value estimates are made at a specific point in time and based on relevant market information and information about the relevant 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.

31. Note to the consolidated cash flow statement

Reconciliation of profit from ordinary activities before taxation to cash generated from operations

	2003	2002
	Rmb'000	*Rmb'000*
Profit from ordinary activities before taxation	**313,398**	156,745
Depreciation charge	**817,581**	769,089
Interest and investment income	**(22,664)**	(25,876)
Interest expense	**70,105**	52,976
(Gain)/loss on disposal of property, plant and equipment	**(472)**	1,760
Decrease/(increase) in inventories	**196,135**	(188,686)
Decrease/(increase) in trade and other receivables	**53,404**	(54,874)
Decrease in lease prepayments	**4,608**	4,604
(Decrease)/increase in trade and other payables	**(46,232)**	816,877
Cash generated from operations	**1,385,863**	1,532,615

32. Parent companies

The directors consider the immediate parent company and the ultimate parent company at 31 December 2003 to be Sinopec and CPC, respectively, which are incorporated in the PRC.