



Report of the PRC Auditors



**To The Shareholders of
Sinopec Yizheng Chemical Fibre Company Limited**

We have audited the attached Company's consolidated balance sheet and balance sheet as of 31 December 2003, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an audit opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards of the Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as of 31 December 2003, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended.

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Certified Public Accountants

Registered in The People's Republic of China

Jin Naiwen

Song Chenyang

26 March 2004



Consolidated Balance Sheet

As at 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Assets			
Current assets			
Cash at bank and in hand	5	1,228,730	1,205,374
Bills receivable	6	352,205	445,294
Trade receivables	7	123,861	93,428
Other receivables	8	30,687	42,290
Advance payments	9	74,624	50,712
Inventories	10	990,715	1,186,850
Total current assets		<u>2,800,822</u>	<u>3,023,948</u>
Long-term investments			
Long-term equity investments (Including: equity investment difference of Rmb29,341,000 (2002: Rmb29,341,000))	11	<u>33,159</u>	<u>33,159</u>
Fixed assets			
Fixed assets, at cost	12	15,154,640	13,144,962
Less: Accumulated depreciation	12	<u>(6,508,055)</u>	<u>(5,703,627)</u>
Net book value of fixed assets	12	8,646,585	7,441,335
Construction in progress	13	270,480	1,021,353
Construction materials	14	24,483	614,652
Total fixed assets		<u>8,941,548</u>	<u>9,077,340</u>
Intangible assets and other assets			
Intangible assets	15	303,127	41,194
Long-term deferred expenses	16	<u>304</u>	<u>3,361</u>
Total intangible assets and other assets		<u>303,431</u>	<u>44,555</u>
Total assets		<u><u>12,078,960</u></u>	<u><u>12,179,002</u></u>

The notes on pages 103 to 132 form part of these financial statements.



Consolidated Balance Sheet

As at 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17(a)	718,820	685,776
Bills payable	18	420,239	683,528
Trade payables	18	382,866	349,404
Receipts in advance	18	231,428	153,184
Wages payable		162,044	154,743
Staff welfare payable		47,874	66,624
Taxes payable	4(d)	224,652	142,246
Other payables		19,969	10,697
Other creditors	18	250,150	232,755
Accrued expenses	19	1,631	866
Current portion of long-term loans	17(b)	100,000	400,000
Total current liabilities		2,559,673	2,879,823
Long-term liabilities			
Long-term loans	17(b)	340,000	300,000
Total liabilities		2,899,673	3,179,823
Minority interests			
		53,455	57,478
Shareholders' funds			
Share capital	20	4,000,000	4,000,000
Capital reserve	21	3,082,752	3,078,825
Surplus reserves (Including statutory public welfare fund of Rmb325,127,000 (2002: Rmb301,153,000))	22	1,409,436	1,360,813
Undistributed profits (Including cash dividend of Rmb100,000,000 approved and appropriated after the balance sheet date (2002: Rmb60,000,000))		633,644	502,063
Total shareholders' funds		9,125,832	8,941,701
Total liabilities and shareholders' funds		12,078,960	12,179,002

The financial statements are approved by the Board of Directors on 26 March 2004

Fu Xing-tang
Chairman
(Legal Person)

Xu Zheng-ning
Managing Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of
Accounting Department

The notes on pages 103 to 132 form part of these financial statements.



Balance Sheet

As at 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Assets			
Current assets			
Cash at bank and in hand	5	984,253	992,653
Bills receivable	6	313,375	420,261
Trade receivables	7	81,938	32,085
Other receivables	8	156,842	253,667
Advance payments	9	67,305	42,073
Inventories	10	820,332	1,012,206
Total current assets		<u>2,424,045</u>	<u>2,752,945</u>
Long-term investments			
Long-term equity investments (Including: equity investment difference of Rmb29,341,000 (2002: Rmb29,341,000))	11	278,799	265,296
Receivables due after 1 year	11(d)	516,843	525,790
		<u>795,642</u>	<u>791,086</u>
Fixed assets			
Fixed assets, at cost	12	13,999,044	12,041,168
Less: Accumulated depreciation	12	(6,021,238)	(5,280,711)
Net book value of fixed assets	12	7,977,806	6,760,457
Construction in progress	13	265,919	982,233
Construction materials	14	24,483	614,652
Total fixed assets		<u>8,268,208</u>	<u>8,357,342</u>
Intangible assets and other assets			
Intangible assets	15	303,127	41,194
Long-term deferred expenses	16	304	3,361
Total intangible assets and other assets		<u>303,431</u>	<u>44,555</u>
Total assets		<u><u>11,791,326</u></u>	<u><u>11,945,928</u></u>

The notes on pages 103 to 132 form part of these financial statements.



Balance Sheet

As at 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17(a)	633,869	611,000
Bills payable	18	400,000	670,000
Trade payables	18	324,535	286,288
Receipts in advance	18	199,735	149,626
Wages payable		147,647	143,538
Staff welfare payable		38,688	57,519
Taxes payable	4(d)	219,310	147,694
Other payables		19,969	10,644
Other creditors	18	235,293	219,342
Accrued expenses	19	1,401	866
Current portion of long-term loans	17(b)	100,000	400,000
Total current liabilities		2,320,447	2,696,517
Long-term liabilities			
Long-term loans	17(b)	340,000	300,000
Total liabilities		2,660,447	2,996,517
Shareholders' funds			
Share capital	20	4,000,000	4,000,000
Capital reserve	21	3,082,752	3,078,825
Surplus reserves (Including: statutory public welfare fund of Rmb325,127,000 (2002: Rmb301,153,000))	22	1,409,436	1,360,813
Undistributed profits (Including cash dividend of Rmb100,000,000 approved and appropriated after the balance sheet date (2002: Rmb60,000,000))		638,691	509,773
Total shareholders' funds		9,130,879	8,949,411
Total liabilities and shareholders' funds		11,791,326	11,945,928

The financial statements are approved by the Board of Directors on 26 March 2004

Fu Xing-tang
Chairman
(Legal Person)

Xu Zheng-ning
Managing Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of
Accounting Department

The notes on pages 103 to 132 form part of these financial statements.



Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Income from principal operations	23	10,343,641	8,009,669
Less: Cost of sales from principal operations		9,276,229	7,263,424
Business tax and surcharges	4(c)	46,485	32,389
Profit from principal operations		1,020,927	713,856
Add: Profit/(loss) from other operations		9,775	(1,657)
Less: Selling expenses		167,269	167,646
Administrative expenses		449,931	362,589
Financial expenses	24	71,860	34,360
Operating profit		341,642	147,604
Add: Net income from investments	25	5,658	6,293
Non-operating income		6,539	6,868
Less: Non-operating expenses	26	62,708	9,300
Total profit		291,131	151,465
Less: Income tax	4(b)	45,312	6,364
Minority interests		5,615	5,268
Net profit		240,204	139,833
Add: Undistributed profits at the beginning of the year		502,063	468,806
Distributable profits to shareholders		742,267	608,639
Less: Transfer to statutory surplus reserve	22	24,649	13,887
Transfer to statutory public welfare fund	22	23,974	12,689
Distributable profits to shareholders		693,644	582,063
Less: Dividend		60,000	80,000
Undistributed profits at the end of the year (Including cash dividend of Rmb100,000,000 approved and appropriated after the balance sheet date (2002: Rmb60,000,000))		633,644	502,063

The notes on pages 103 to 132 form part of these financial statements.



Income Statement and Profit Appropriation Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	Note	2003 Rmb'000	2002 Rmb'000
Income from principal operations	23	9,521,893	7,265,370
Less: Cost of sales from principal operations		8,546,296	6,617,867
Business tax and surcharges	4(c)	45,495	30,364
Profit from principal operations		930,102	617,139
Add: Profit/(loss) from other operations		4,118	(4,759)
Less: Selling expenses		140,208	139,269
Administrative expenses		421,229	341,002
Financial expenses	24	64,221	24,776
Operating profit		308,562	107,333
Add: Net income from investments	25	8,056	30,263
Non-operating income		5,220	6,626
Less: Non-operating expenses	26	47,971	9,004
Total profit		273,867	135,218
Less: Income tax	4(b)	36,326	(3,651)
Net profit		237,541	138,869
Add: Undistributed profits at the beginning of the year		509,773	477,480
Distributable profits to shareholders		747,314	616,349
Less: Transfer to statutory surplus reserve	22	24,649	13,887
Transfer to statutory public welfare fund	22	23,974	12,689
Distributable profits to shareholders		698,691	589,773
Less: Dividend		60,000	80,000
Undistributed profits at the end of the year (Including cash dividend of Rmb100,000,000 approved and appropriated after the balance sheet date (2002: Rmb60,000,000))		638,691	509,773

The notes on pages 103 to 132 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	<i>Notes to the consolidated cash flow statement</i>	2003 Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods		12,881,156
Refund of taxes and levies received		8,570
Other cash received relating to operating activities		11,992
		<u>12,901,718</u>
Sub-total of cash inflows		----- 12,901,718
Cash paid for purchase of goods		(9,943,880)
Cash paid to and on behalf of employees		(695,184)
Various taxes paid		(672,949)
Other cash paid relating to operating activities		(256,881)
		<u>(11,568,894)</u>
Sub-total of cash outflows		----- (11,568,894)
Net cash flow from operating activities	(a)	----- 1,332,824
Cash flows from investing activities:		
Cash received from investment income		3,500
Cash received from disposal of fixed assets		891
Other cash received relating to investing activities		66,607
		<u>70,998</u>
Sub-total of cash inflows		----- 70,998
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		(931,308)
Cash paid for acquisition of subsidiaries		(3,170)
		<u>(934,478)</u>
Sub-total of cash outflows		----- (934,478)
Net cash flow from investing activities		----- (863,480)
Cash flows from financing activities:		
Proceeds from borrowings		5,956,959
		<u>5,956,959</u>
Sub-total of cash inflow		----- 5,956,959
Repayment of borrowings		(6,183,915)
Cash paid for dividend distribution and repayment of interest		(169,431)
		<u>(6,353,346)</u>
Sub-total of cash outflows		----- (6,353,346)
Net cash flow from financing activities		----- (396,387)
Net increase in cash and cash equivalents	(b)	----- <u>72,957</u>

The notes on pages 103 to 132 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Notes to the consolidated cash flow statement

2003
Rmb'000

(a) Reconciliation of net profit to net cash flow from operating activities

Net profit	240,204
Add: Provision for bad and doubtful debts or bad debts written off	8,023
Write-back of provision for inventories	(16,414)
Depreciation of fixed assets	809,402
Amortisation of intangible assets	18,067
Amortisation of long-term deferred expenses	3,057
Investment income	(5,658)
Financial expenses	70,086
Gain on disposal of fixed assets	(472)
Decrease in inventories	212,549
Decrease in operating receivables	42,324
Decrease in operating payables	(53,959)
Minority interests	5,615
Net cash flows from operating activities	<u>1,332,824</u>

(b) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the year	563,761
Less: Cash and cash equivalents at the beginning of the year	(490,804)
Net increase in cash and cash equivalents	<u>72,957</u>

The notes on pages 103 to 132 form part of these financial statements.



Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

	<i>Notes to the cash flow statement</i>	2003 Rmb'000
Cash flows from operating activities:		
Cash received from sale of goods		11,359,706
Refund of taxes and levies received		8,570
Other cash received relating to operating activities		85,432
		<hr/>
Sub-total of cash inflows		11,453,708
		<hr/>
Cash paid for purchase of goods		(8,671,086)
Cash paid to and on behalf of employees		(649,509)
Various tax paid		(639,603)
Other cash paid relating to operating activities		(214,196)
		<hr/>
Sub-total of cash outflows		(10,174,394)
		<hr/>
Net cash flow from operating activities	(a)	1,279,314
		<hr/>
Cash flows from investing activities:		
Cash received from investment income		3,500
Cash received from disposal of fixed assets		499
Other cash received relating to investing activities		56,999
		<hr/>
Sub-total of cash inflows		60,998
		<hr/>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		(913,475)
		<hr/>
Sub-total of cash outflow		(913,475)
		<hr/>
Net cash flow from investing activities		(852,477)
		<hr/>
Cash flows from financing activities:		
Proceeds from borrowings		5,562,832
		<hr/>
Sub-total of cash inflow		5,562,832
		<hr/>
Repayment of borrowings		(5,799,963)
Cash paid for dividend distribution and repayment of interest		(163,106)
		<hr/>
Sub-total of cash outflows		(5,963,069)
		<hr/>
Net cash flow from financing activities		(400,237)
		<hr/>
Net increase in cash and cash equivalents	(b)	26,600
		<hr/>

The notes on pages 103 to 132 form part of these financial statements.



Cash Flow Statement

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

Notes to the cash flow statement

2003
Rmb'000

(a) Reconciliation of net profit to cash flows from operating activities

Net profit	237,541
Add: Provision for bad and doubtful debts or bad debts written off	5,519
Write-back of provision for inventories	(16,414)
Depreciation of fixed assets	745,303
Amortisation of intangible assets	18,067
Amortisation of long-term deferred expenses	3,057
Investment income	(8,056)
Financial expenses	62,866
Gain on disposal of fixed assets	(472)
Decrease in inventories	208,288
Decrease in operating receivables	123,089
Decrease in operating payables	(99,474)
Net cash flows from operating activities	<u>1,279,314</u>

(b) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the year	374,253
Less: Cash and cash equivalents at the beginning of the year	(347,653)
Net increase in cash and cash equivalents	<u>26,600</u>

The notes on pages 103 to 132 form part of these financial statements.



Notes on the Financial Statements

*For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)*

1. Company information

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 as part of the restructuring of the Yihua Group Corporation (“**Yihua**”). On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other governmental authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited (“**CEUPEC**”) became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“**CITIC**”) continues to hold the 18% of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares.

Following the State Council’s approval of the reorganisation of China Petrochemical Corporation (“**CPC**”) on 21 July 1998, CEUPEC joined CPC. As a result of the reorganisation, Yihua replaced CEUPEC as the holder of the 42% of the Company’s issued share capital, and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“**Sinopec**”), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec and Sinopec became the largest shareholder of the Company.

By a special resolution passed in the Shareholders’ Meeting on 18 October 2000, the name of the Company was changed from “Yizheng Chemical Fibre Company Limited” to “Sinopec Yizheng Chemical Fibre Company Limited”.

The principal activities of the Company and its subsidiaries (the “**Group**”) are the manufacturing and sale of polyester chips and polyester staple fibre.

2. Change in accounting policy

Change in accounting policy of the Group is resulted from the adoption of the revised Accounting Standard for Business Enterprises: Events Occurring After the Balance Sheet Date (the “**Standard**”). Prior to revision of the Standard, a profit appropriation provided for in a profit appropriation plan which is formulated by the board of directors after the balance sheet date in respect of the period covered by the financial statements should be regarded as an adjusting event. Pursuant to the revised Accounting Standard for Business Enterprises: Events Occurring After the Balance Sheet Date (Cai Kuai Zi [2003] No. 12) issued by the Ministry of Finance (“**MOF**”) on 14 April 2003, cash dividends provided for in a profit appropriation plan which is formulated by the board of directors between the balance sheet date and the date on which the financial statements are authorised for issue should be stated separately under the owners’ equity in the balance sheet. Retrospective adjustments on cash dividend appropriation are made by the Group in accordance with the revised Standard.



Notes on the Financial Statements

For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)

2. Change in accounting policy (Continued)

The above change in accounting policy resulted in an increase in the Group's and the Company's undistributed profits at the beginning of the period for the year 2003 by Rmb60 million. The accumulated effect on prior years is as follows:

	Before adjustment	The Group Amount of adjustment	After adjustment
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Undistributed profits at the beginning of 2002	<u>388,806</u>	<u>80,000</u>	<u>468,806</u>
Undistributed profits at the end of 2002	<u>442,063</u>	<u>60,000</u>	<u>502,063</u>
Dividend payable at the end of 2002	<u>60,000</u>	<u>(60,000)</u>	<u>–</u>
	Before adjustment	The Company Amount of adjustment	After adjustment
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Undistributed profits at the beginning of 2002	<u>397,480</u>	<u>80,000</u>	<u>477,480</u>
Undistributed profits at the end of 2002	<u>449,773</u>	<u>60,000</u>	<u>509,773</u>
Dividend payable at the end of 2002	<u>60,000</u>	<u>(60,000)</u>	<u>–</u>

3. Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of the financial statements conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and the relevant regulations issued by the MOF of the PRC.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group's consolidated financial statements are prepared in accordance with the "Accounting Regulations for Business Enterprise" and Cai Kuai Zi [1995] No.11 "Temporary regulations on consolidated financial statements" issued by the MOF.



Notes on the Financial Statements

*For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)*

3. Significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% (50% not inclusive) of the issued share capital, or has the power to control despite the issued share capital held by the company is less than 50%. The results of the subsidiaries during the period in which the Company holds more than 50% of the issued share capital or the Company has the power to control despite the issued share capital held is less than 50%, are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

(c) Basis of preparation and measurement basis

The Group's basis of preparation is on an accrual basis. Unless specifically stated, the measurement basis is under the historical cost convention.

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is Renminbi.

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

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. Except for exchange differences directly relating to the purchase or construction of fixed assets (including exchange differences on borrowed funds specifically for the purchase or construction of fixed assets), are capitalised before they are ready for use, other foreign exchange differences are recognised as exchange gains or losses in the income statement for the period.

(e) Cash equivalents

Cash equivalents are short-term, highly liquid investments, readily convertible into known amounts of cash without notice, with low risk of fluctuation in value.

(f) Provision for bad debts

Bad debts losses are estimated by identifying trade receivables showing signs of uncollectibility individually, and allowance is then made based on the probability of the related uncollectible amount; in respect of trade receivables showing no sign of uncollectibility, allowance is made based on the ageing analysis and a reasonable portion as determined by the directors with reference to their past experience. Allowances for other receivables are determined based on their specific nature and the corresponding estimated collectibility. Specific approval from the directors is necessary for allowances made in respect of significant specific receivables.



Notes on the Financial Statements

*For the year ended 31 December 2003
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Renminbi)*

3. Significant accounting policies (Continued)

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories.

Cost of inventories includes the cost of purchase of raw materials computed using the weighted average method. Actual cost is used for stock-in and weighted average method is used for stock-out. In addition to the purchase costs of raw materials, work in progress and finished goods include direct labour and an appropriate share of production overheads. Net realisable value is determined based on the estimated selling price of inventories less estimated cost of completion, estimated selling expenses and related taxes payable in the ordinary course of business.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are amortised in full when received for use.

The Group adopts a perpetual inventory system.

(h) Long-term equity investments

Long-term investments are stated at the lower of the amortised cost and the recoverable amount. A provision for impairment which is determined on an item by item basis is made on the difference between the amortised cost and the recoverable amount if the latter amount is lower.

The Group accounts for a long-term investment in an investee enterprise, in which the Company has the power to control, jointly control or exercise significant influence over, under the equity method of accounting, whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of investors' equity of the investee enterprise. Equity-investment difference, which is the difference between initial investment cost and the share of investors' equity value of the investee enterprises, is accounted for as follows:

Any excess of the initial investment cost over the share of investors' equity is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement. When the agreement does not specify the investment period, it is amortised over 10 years. Amortisation is recognised as net investment income for the period.

Any shortfall of the initial investment over the share of investor's equity is recognised in "Capital surplus – reserve for equity investment". Such shortfall is amortised on a straight line over 10 years if the investment was acquired before the issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10) on 7 April 2003.

On disposals or transfers of long-term equity investments, differences between the disposal proceeds and the carrying amount of the investments are recognised in the net investment income.



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3. Significant accounting policies (Continued)

(i) Fixed assets

Fixed assets are relatively high-valued assets with useful lives over one year held by the Group for the production and operation purposes.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations and fixed assets are adjusted to the revalued amounts accordingly.

The Group's fixed assets are depreciated using the straight-line method, which is the fixed assets' costs less their estimated residual values over their estimated useful lives. The respective estimated useful lives and the estimated rate of net residual values adopted for fixed assets are as follows:

	Depreciation life	Rate of net residual values
Land and buildings	25 to 50 years	3%
Plant, machinery and equipment	8 to 22 years	3%
Motor vehicles and other fixed assets	5 to 20 years	3%

(j) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated in the balance sheet at cost less impairment losses. All direct and indirect costs related to the acquisition or construction of fixed assets, including interest expenses and the related foreign exchange differences on specific borrowings for the construction during the construction period (see note 2(m)) incurred before the assets are ready for their intended uses, are capitalised as construction in progress.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Intangible assets and long-term deferred expenses

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses. The cost of intangible assets is amortised on a straight-line basis over the contractual or legal period, being the shorter of the beneficial period as specified in the relevant contracts or laws, or if in the absence of contractual or legal period, amortised over 10 years.

(ii) Long-term deferred expenses

Long-term deferred expenses are capitalised when incurred and amortised on a straight-line period over the benefit period.



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3. Significant accounting policies (Continued)

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Interest income

Interest income is recognised on a time apportioned basis that takes into account the principal and the applicable interest rate.

(m) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(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 are recognised as expenses in the income statement when incurred.

(p) Retirement benefits

Contribution payable under the retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan.

(q) Impairment of long-term investments, fixed assets, construction in progress, intangible assets and other assets

The carrying amounts of all assets are reviewed by the Group periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement.



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3. Significant accounting policies (Continued)

(q) Impairment of long-term investments, fixed assets, construction in progress, intangible assets and other assets (Continued)

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. The provision for impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced. The reversed amount is credited to the income statement in the period in which the reversal is recognised.

(r) Taxes

Income tax is provided using the tax-effect accounting method. Income tax expense comprises current and deferred tax.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year and the applicable tax rates.

(ii) Deferred tax

Deferred tax is provided using the liability method. This method provides for timing differences between the accounting profit before tax and the taxable income arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of taxes are levied, adjustments should be made to the amounts originally recognised for the timing differences. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

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 within the same jurisdiction). When the related tax benefit of the deferred tax assets cannot be realised, the net deferred tax assets are reduced to the realisable amount.

(s) Dividends appropriation

Cash dividend appropriated are recognised in the income statement and profit appropriation statement when approved. Dividends approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed in the shareholders' equity in the balance sheet.

(t) Profit appropriation

Profit appropriation is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

(u) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence, 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.



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4. Taxation

- (a) The applicable tax rates of the Group related to sales and services include value added tax ("VAT"), business tax, city development tax and education surcharge.

The VAT rate is 17%.

The business tax rate is either 3% or 5%.

City development tax is paid at a rate of 7% of the sum of business tax and VAT paid.

Education surcharge is paid at a rate of 4% of the sum of business tax and VAT paid.

- (b) Income tax

Pursuant to the directive "Cai Shui Zi [1994] No. 17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the company's income tax is calculated at 15%. As notice from the State Administration of Taxation whether this tax rate is still applicable in future periods has not yet been received, the tax rate applicable to the company may increase.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%; one of its subsidiaries are sino-foreign investment enterprises and entitled to a tax holiday of tax-free period for the first two years and 50% reduction in income tax liability for the following three years.

Pursuant to the directive "Cai Shui Zi [1999] No. 290" issued by the MOF and the State Administration of Taxation of the PRC on 8 December 1999, the Company is entitled to an income tax credit relating to the purchase of equipment produced in the PRC for technological improvement. Income tax credit relating to the purchase of equipment produced in the PRC of Rmb25,141,000 has been deducted in arriving at the provision for taxation for the year ended 31 December 2002.

- (c) Business tax and surcharges

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
City construction tax	29,550	19,968	28,941	19,309
Education surcharge	16,845	11,406	16,554	11,055
Others	90	1,015	—	—
	<u>46,485</u>	<u>32,389</u>	<u>45,495</u>	<u>30,364</u>



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4. Taxation (Continued)

(d) Taxes payable

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Income tax payable	82,224	89,951	75,617	84,730
Business tax and surcharges payable	156	157	156	157
VAT payable	109,823	34,808	111,675	49,043
Other taxes payables	32,449	17,330	31,862	13,764
	<u>224,652</u>	<u>142,246</u>	<u>219,310</u>	<u>147,694</u>

(e) Deferred taxation

No deferred taxes have been provided for in the financial statements as the effect of all temporary differences or unused tax losses available for set-off against future taxable income of the subsidiaries is considered not material.

5. Cash at bank and in hand

	The Group		2002 Renminbi equivalent Rmb'000
	Original currency '000	2003 Exchange rate Renminbi equivalent Rmb'000	
<i>Cash in hand</i>			
Renminbi		159	109
<i>Cash at bank</i>			
Renminbi		385,889	325,020
Hong Kong Dollars	140	1.06	2,522
US Dollars	4,491	8.35	44,313
Cash at bank and in hand		423,698	371,964
Deposits with related companies with maturities			
– due within three months		140,063	118,840
– due after three months		664,969	714,570
		<u>1,228,730</u>	<u>1,205,374</u>



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5. Cash at bank and in hand (Continued)

	Original currency '000	The Company		2002 Renminbi equivalent Rmb'000
		2003 Exchange rate	Renminbi equivalent Rmb'000	
<i>Cash in hand</i>				
Renminbi			19	48
<i>Cash at bank</i>				
Renminbi			176,556	163,170
Hong Kong Dollars	135	1.06	144	143
US Dollars	4,308	8.35	35,970	43,212
<i>Cash at bank and in hand</i>			212,689	206,573
<i>Deposits with related companies</i>			771,564	786,080
			984,253	992,653

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Details are set out in Note 27.

6. Bills receivable

	The Group				The Company			
	2003 Rmb'000	%	2002 Rmb'000	%	2003 Rmb'000	%	2002 Rmb'000	%
Bank acceptance bills of exchange	329,314	94	390,074	88	285,484	91	365,041	87
Commercial acceptance bills of exchange	22,891	6	55,220	12	27,891	9	55,220	13
	352,205	100	445,294	100	313,375	100	420,261	100

At 31 December 2003, the above bank and commercial acceptance bills of exchange were not pledged.

Balances due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 27.



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7. Trade receivables

Ageing analysis of trade receivables is as follows:

	The Group				The Company			
	2003 Rmb'000	%	2002 Rmb'000	%	2003 Rmb'000	%	2002 Rmb'000	%
Trade receivables								
Within one year	121,227	87	82,696	79	81,998	87	28,737	68
Between one to two years	3,438	3	7,069	7	526	1	2,145	5
Between two to three years	3,198	2	7,100	7	1,244	1	4,617	11
Over three years	11,235	8	7,395	7	10,136	11	6,651	16
	<u>139,098</u>	100	<u>104,260</u>	100	<u>93,904</u>	100	<u>42,150</u>	100
Less: Provision for bad and doubtful debts								
Within one year	(60)	-	-	-	(60)	-	-	-
Between one and two years	(1,429)	42	(644)	9	(526)	100	(644)	30
Between two and three years	(2,513)	79	(2,793)	39	(1,244)	100	(2,770)	60
Over three years	(11,235)	100	(7,395)	100	(10,136)	100	(6,651)	100
	<u>(15,237)</u>	11	<u>(10,832)</u>	10	<u>(11,966)</u>	13	<u>(10,065)</u>	24
Trade receivables, net	<u>123,861</u>		<u>93,428</u>		<u>81,938</u>		<u>32,085</u>	

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Opening balance at 1 January	10,832	16,563	10,065	9,122
Charge for the year	5,147	5,143	2,510	1,323
Reversal during the year	-	(884)	-	-
Write-off during the year	(742)	(9,990)	(609)	(380)
Closing balance at 31 December	<u>15,237</u>	<u>10,832</u>	<u>11,966</u>	<u>10,065</u>

During the year ended 31 December 2003, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.



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7. Trade receivables (Continued)

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 27.

	2003 Rmb'000	%	2002 Rmb'000	%
Total of the five largest trade receivables	<u>68,640</u>	<u>55</u>	<u>29,802</u>	<u>32</u>

8. Other receivables

	The Group				The Company			
	2003 Rmb'000	%	2002 Rmb'000	%	2003 Rmb'000	%	2002 Rmb'000	%
Other receivables								
Within one year	20,810	36	26,233	40	150,548	66	17,272	5
Between one and two years	1,375	2	2,752	4	905	1	2,131	1
Between two and three years	383	1	14,290	22	383	-	45,037	14
Over three years	<u>35,359</u>	61	<u>22,637</u>	34	<u>74,829</u>	33	<u>255,432</u>	80
	<u>57,927</u>	100	<u>65,912</u>	100	<u>226,665</u>	100	<u>319,872</u>	100
Less: Provision for bad and doubtful debts								
Within one year	-	-	-	-	-	-	-	-
Between one and two years	-	-	-	-	-	-	-	-
Between two and three years	-	-	(2,592)	18	-	-	(2,592)	6
Over three years	<u>(27,240)</u>	77	<u>(21,030)</u>	93	<u>(69,823)</u>	93	<u>(63,613)</u>	25
	<u>(27,240)</u>	47	<u>(23,622)</u>	36	<u>(69,823)</u>	31	<u>(66,205)</u>	21
Other receivables, net	<u>30,687</u>		<u>42,290</u>		<u>156,842</u>		<u>253,667</u>	



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8. Other receivables (Continued)

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Opening balance at 1 January	23,622	35,414	66,205	66,481
Charge for the year	4,149	–	4,149	–
Reversal during the year	–	(11,792)	–	(276)
Write-off during the year	(531)	–	(531)	–
Closing balance at 31 December	<u>27,240</u>	<u>23,622</u>	<u>69,823</u>	<u>66,205</u>

During the year ended 31 December 2003, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 27.

	2003		2002	
	Rmb'000	%	Rmb'000	%
Total of the five largest other receivables	<u>6,106</u>	<u>20</u>	<u>8,116</u>	<u>19</u>

9. Advance payments

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 27.

All advance payment are within one year.



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10. Inventories

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
At cost				
Raw materials	522,109	727,591	449,121	666,969
Work in progress	65,666	56,473	59,802	52,820
Finished goods	180,645	199,038	136,385	113,232
Goods in transit	24,494	32	–	32
Spare parts and consumables	228,573	250,902	203,396	223,939
	<u>1,021,487</u>	<u>1,234,036</u>	<u>848,704</u>	<u>1,056,992</u>
Less: Provision for diminution in value of inventories				
Raw materials	–	(8,800)	–	(7,000)
Finished goods	(9,122)	(8,643)	(6,722)	(8,043)
Spare parts and consumables	(21,650)	(29,743)	(21,650)	(29,743)
	<u>(30,772)</u>	<u>(47,186)</u>	<u>(28,372)</u>	<u>(44,786)</u>
	<u>990,715</u>	<u>1,186,850</u>	<u>820,332</u>	<u>1,012,206</u>

Analysis on provision for diminution in value of inventories is as follows:

	The Group			The Company		
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000
At 1 January 2003	8,800	8,643	29,743	7,000	8,043	29,743
Charge for the year	–	19,440	–	–	17,640	–
Write back for the year	(8,800)	(18,961)	(8,093)	(7,000)	(18,961)	(8,093)
At 31 December 2003	<u>–</u>	<u>9,122</u>	<u>21,650</u>	<u>–</u>	<u>6,722</u>	<u>21,650</u>

The above inventories are either purchased or self-produced.

During the year, the Group and the Company recognised the cost of inventories as cost and expenses are Rmb9,276,229 (2002: Rmb7,263,424) and Rmb8,546,296 (2002: Rmb6,617,867) respectively.



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11. Long-term equity investments

	Equity investment difference <i>Rmb'000</i> <i>Note (b)</i>	The Group Other unlisted equity investment <i>Rmb'000</i> <i>Note (c)</i>	Total <i>Rmb'000</i>
At 1 January and 31 December 2003	(29,341)	62,500	33,159

	Consolidated equity in subsidiaries <i>Rmb'000</i> <i>Note (a)</i>	Equity- investment difference <i>Rmb'000</i> <i>Note (b)</i>	Other unlisted equity investment <i>Rmb'000</i> <i>Note (c)</i>	Total <i>Rmb'000</i>
At 1 January 2003	232,137	(29,341)	62,500	265,296
Investment income accounted for under the equity method	13,503	–	–	13,503
At 31 December 2003	245,640	(29,341)	62,500	278,799

- (a) The particulars of subsidiaries which principally affect the results, assets and liabilities of the Group are as follows:

Name of company	Registered capital <i>(in thousands)</i>	Per cent of equity held		Types of legal entity	Principal activity
		directly by the Company <i>(%)</i>	held by subsidiary <i>(%)</i>		
Foshan Chemical Fibre Company Limited	Rmb32,933	100	–	Limited company	Management and administration
Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester")	USD85,427	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.



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11. Long-term equity investments (Continued)

- (b) The difference between the company's initial cost of investments in subsidiaries, which were acquired in 1995, and its share of their net asset values was treated as an "equity-investment difference". The "equity-investment difference" is amortised on a straight-line basis over 15 years. As those subsidiaries have suffered losses, the net book values of the long-term equity investments are reduced to zero, the remaining "equity-investment difference" is then not amortised. The remaining period of amortisation is approximately 10 years.
- (c) Other unlisted equity investment

At 31 December 2003, the other unlisted equity investment of the Group and the Company is as follows:

Name of investee	Investment period	Total investment <i>Rmb'000</i>	Per cent shareholdings %	Provision for impairment <i>Rmb'000</i>
Sinopec Finance	—	62,500	3.3	—
(d) Receivables due after 1 year				
			2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Amount due from subsidiary			800,000	800,000
Less: Provision for impairment			(283,157)	(274,210)
			516,843	525,790

The Company has advanced Rmb800 million to the subsidiary to support its operating working capital on a going concern basis, which is not expected to be recovered within one year. Provision has made for this amount by the Company in view of its recoverability.

With reference to the request from the China Securities Regulatory Commission and the spirit of Specific Accounting Standards for Business Enterprises – Investments implemented in 1999, the Company has reclassified its long-term equity investments for the prior years.



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12. Fixed assets

	The Group			Total Rmb'000
	Land and buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	
Cost:				
At 1 January 2003	2,560,382	9,978,095	606,485	13,144,962
Additions	242	248	4,928	5,418
Transferred from construction in progress (Note 13)	22,123	1,945,790	41,740	2,009,653
Disposals	–	(385)	(5,008)	(5,393)
Reclassifications	–	23,300	(23,300)	–
At 31 December 2003	<u>2,582,747</u>	<u>11,947,048</u>	<u>624,845</u>	<u>15,154,640</u>
Accumulated depreciation:				
At 1 January 2003	612,517	4,710,077	381,033	5,703,627
Charge for the year	82,533	643,382	83,487	809,402
Written back on disposal	–	(383)	(4,591)	(4,974)
Reclassifications	–	842	(842)	–
At 31 December 2003	<u>695,050</u>	<u>5,353,918</u>	<u>459,087</u>	<u>6,508,055</u>
Net book value:				
At 31 December 2003	<u>1,887,697</u>	<u>6,593,130</u>	<u>165,758</u>	<u>8,646,585</u>
At 31 December 2002	<u>1,947,865</u>	<u>5,268,018</u>	<u>225,452</u>	<u>7,441,335</u>



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12. Fixed assets (Continued)

	Land and buildings <i>Rmb'000</i>	The Company Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2003	2,246,806	9,230,229	564,133	12,041,168
Additions	80	–	3,120	3,200
Transferred from construction in progress (Note 13)	20,898	1,897,610	40,970	1,959,478
Disposals	–	(347)	(4,455)	(4,802)
Reclassifications	–	23,300	(23,300)	–
At 31 December 2003	<u>2,267,784</u>	<u>11,150,792</u>	<u>580,468</u>	<u>13,999,044</u>
Accumulated depreciation:				
At 1 January 2003	553,290	4,367,936	359,485	5,280,711
Charge for the year	73,901	592,445	78,957	745,303
Written back on disposal	–	(352)	(4,424)	(4,776)
Reclassifications	–	842	(842)	–
At 31 December 2003	<u>627,191</u>	<u>4,960,871</u>	<u>433,176</u>	<u>6,021,238</u>
Net book value:				
At 31 December 2003	<u>1,640,593</u>	<u>6,189,921</u>	<u>147,292</u>	<u>7,977,806</u>
At 31 December 2002	<u>1,693,516</u>	<u>4,862,293</u>	<u>204,648</u>	<u>6,760,457</u>

All the Group's buildings are located in the PRC.

As at 31 December 2003, the Group did not have any material amount of unutilised fixed assets.



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13. Construction in progress

Construction in progress comprises expenditure incurred on buildings, plant, machinery and equipment not yet commissioned.

The projects not yet completed at 31 December 2003 are as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance at	Additions <i>Rmb'000</i>	Transferred	Balance at	Source of fund	Per cent of completion	Interest capitalised <i>Rmb'000</i>
		1 January 2003 <i>Rmb'000</i>		out <i>Rmb'000</i> (Note 12)	31 December 2003 <i>Rmb'000</i>			
Phase 4 project	1,800,000	887,504	662,496	(1,550,000)	-	Bank loans/ own fund	-	49,186
Specialised polyester chip project with a daily capacity of 450 tonnes	147,000	9,700	87,421	-	97,121	Bank loans/ own fund	66%	1,761
Improvements and expansion of existing plants	535,471	67,541	476,745	(378,022)	166,264	Own fund	31%	-
Other construction projects	6,547	17,488	16,502	(31,456)	2,534	Own fund	39%	-
Total for the Company		982,233	1,243,164	(1,959,478)	265,919			
Miscellaneous project of the subsidiaries		39,120	15,616	(50,175)	4,561	Own fund		
Total for the Group		<u>1,021,353</u>	<u>1,258,780</u>	<u>(2,009,653)</u>	<u>270,480</u>			

The borrowing costs of the Group for the year have been capitalised at an average rate of 4.9% (2002: 5.1%).

14. Construction materials

	The Group and the Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Equipment and accessories	15,007	613,659
Other construction materials	9,476	993
	<u>24,483</u>	<u>614,652</u>



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15. Intangible assets

	The Group and the Company		
	Technology right <i>Rmb'000</i>	Patent right <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:			
At 1 January 2003	–	141,097	141,097
Additions	280,000	–	280,000
At 31 December 2003	280,000	141,097	421,097
Accumulated depreciation:			
At 1 January 2003	–	99,903	99,903
Amortisation for the year	7,000	11,067	18,067
At 31 December 2003	7,000	110,970	117,970
Net book value:			
At 31 December 2003	273,000	30,127	303,127
At 1 January 2003	–	41,194	41,194

The Company acquired patent rights in 1995 and 1999, which are amortised over ten years. The remaining periods of amortisation are 1 and 5 years respectively.

In 2003, the Company acquired technology licences to operate the 450,000 tonnes of PTA plant, which are amortised over ten years. The remaining period of amortisation is 9 years.

16. Long-term deferred expenses

	The Group and the Company	
	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
At the beginning of the year	3,361	8,426
Amortisation for the year	3,057	5,065
At the end of the year	304	3,361

Long-term deferred expenses are amortised over 5 years.



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17. Short-term and long-term loans

(a) Short-term bank loans:

Except for the short-term loans disclosed in Note 28(a), short-term loans are general banking credit facilities denominated in Renminbi. At 31 December 2003, the weighted-average annual interest rate of the Group and the Company are 4.3% (2002: 4.4%) and 4.5% (2002: 4.5%) respectively. At 31 December 2003, the Group and the Company did not have any significant overdue short-term loans (2002: nil).

(b) Long-term bank loans

The Group and the Company					
Lender	Period	Interest rate	Interest type	2003	2002
				<i>Rmb'000</i>	<i>Rmb'000</i>
Industrial and Commercial Bank of China	Due in 2003	4.94%	Fixed	–	400,000
Industrial and Commercial Bank of China	Due in 2004	4.94%	Fixed	100,000	150,000
Industrial and Commercial Bank of China	Due in 2005	4.94%	Fixed	200,000	150,000
Bank of China	Due in 2005	4.94%	Fixed	50,000	–
Industrial and Commercial Bank of China	Due in 2006	4.94%	Fixed	90,000	–
Total long-term bank loans				440,000	700,000
Less: Long-term bank loans (current portion)				100,000	400,000
Long-term bank loans (long-term portion)				340,000	300,000

The above long-term bank loans are denominated in Renminbi.

The repayment terms of the long-term bank loans are as follows:

The Group and the Company		
	2003	2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Due within one year	100,000	400,000
Due between 1 - 2 years	250,000	150,000
Between 2 - 3 years	90,000	150,000
Total bank loans	440,000	700,000

(c) At 31 December 2003, the Group's long-term loans are general credit facilities.



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18. Bills payable, trade payables, receipts in advance and other creditors

Bills payable are mainly issued for the purchase of raw materials, goods or products by the Group, with the repayment terms generally ranging from three to six months:

	The Group				The Company			
	2003		2002		2003		2002	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Bills payable								
Commercial acceptance								
bills of exchange	<u>420,239</u>	100	<u>683,528</u>	100	<u>400,000</u>	100	<u>670,000</u>	100

There is no material payable aged over three years included in trade payables and other creditors.

There is no material balance aged over one year included in receipts in advance.

In the accounts of bills payable, trade payables, receipts in advance and other creditors, balances due to substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 27.

Bills payable, trade payables and receipts in advances are aged within one year.

19. Accrued expenses

Accrued expenses represent interest accrual.

20. 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 "Social public A" shares of Rmb1 each	200,000	200,000
1,400,000,000 "H" shares of Rmb1 each	1,400,000	1,400,000
	<u>4,000,000</u>	<u>4,000,000</u>

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



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21. Capital reserve

	At 1 January 2003 <i>Rmb'000</i>	Addition <i>Rmb'000</i>	Transfer <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i>
Share premium	3,078,825	–	–	3,078,825
Other capital reserve	–	3,927	–	3,927
	<u>3,078,825</u>	<u>3,927</u>	<u>–</u>	<u>3,082,752</u>

Addition to capital reserve for the year represents the purchase of fixed assets which was financed by refund of Social Protection Insurance Fund from the immediate holding company.

22. Surplus reserves

	The Group and the Company			Total <i>Rmb'000</i>
	Statutory surplus reserve <i>Rmb'000</i>	Statutory public welfare fund <i>Rmb'000</i>	Discretionary surplus reserve <i>Rmb'000</i>	
At 1 January 2002	451,226	288,464	594,547	1,334,237
Transfer from distributable profits	13,887	12,689	–	26,576
At 31 December 2002	<u>465,113</u>	<u>301,153</u>	<u>594,547</u>	<u>1,360,813</u>
At 1 January 2003	465,113	301,153	594,547	1,360,813
Transfer from distributable profits	24,649	23,974	–	48,623
At 31 December 2003	<u>489,762</u>	<u>325,127</u>	<u>594,547</u>	<u>1,409,436</u>

Transfers from the distributable profits to the above surplus reserves were made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

23. Income from principal operations

For the year ended 31 December 2003, revenue from sales to the top five customers are Rmb1,845,000,000 (2002: Rmb1,671,000,000) which accounts for 18% (2002: 21%) of the total income from sales of goods of the Group.



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24. Financial expenses

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Interest expenses incurred	105,886	81,477	103,641	78,775
Less: Interest expenses capitalised	(18,794)	(28,501)	(18,794)	(28,501)
Interest expenses	87,092	52,976	84,847	50,274
Interest income	(17,006)	(22,626)	(21,981)	(29,092)
Net exchange (gain)/loss	(1,429)	16	(1,717)	(297)
Other financial expenses	3,203	3,994	3,072	3,891
	<u>71,860</u>	<u>34,360</u>	<u>64,221</u>	<u>24,776</u>

25. Investment income

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Accounted for under the equity method	–	–	13,503	11,383
Provision for/(write back) of impairment for accounts receivable aged over one year	–	–	(8,947)	12,587
Amortisation of equity investment difference	2,158	3,043	–	3,043
Dividend from other equity investment	3,500	3,250	3,500	3,250
	<u>5,658</u>	<u>6,293</u>	<u>8,056</u>	<u>30,263</u>

26. Non-operating expenses

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 Rmb'000
Loss on disposal of fixed assets	6	1,760	1	1,715
Flood prevention fee	2,000	–	2,000	–
Employee reduction expenses	54,786	–	40,812	–
Others	5,916	7,540	5,158	7,289
	<u>62,708</u>	<u>9,300</u>	<u>47,971</u>	<u>9,004</u>

In accordance with the Group's employee reduction plan, the Group had incurred Rmb54,786,000 (2002: Nil) on the relocation and the voluntary resignation of 912 employees for the year ended 31 December 2003.



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27. Related parties and related transactions

(a) Related party having the ability to exercise significant influence:

Name of Company:	China Petroleum & Chemical Corporation ("Sinopec")
Registered Address:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal operations:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Relationship with the Company:	The immediate holding company
Economic nature:	Joint stock limited company
Authorised representative:	Chen Tong Hai
Registered capital:	Rmb86.7 billion

The above mentioned related party, having the ability to exercise significant influence over the Group, has registered share capital of Rmb86,702,439,000. There was no change during the year.

The equity holding of the company having the ability to exercise significant influence over the Group and the Company is as follows:

	Number of shares	Per cent
As at 31 December 2002 and 2003	1,680,000,000	42%

(b) Related parties not subject to direct control:

Name of company	Relationship with Company
CPC	Ultimate holding company
CITIC	Shareholder
Yihua	Common ultimate holding company
Sinopec Yangzi Petrochemical Company Limited (" Yangzi ")	Common immediate holding company
Sinopec Finance	Common ultimate holding company
CITIC Industrial Group	Subsidiary of CITIC
Nanjing Chemical Industrial Group Limited (" Nanhua ")	Common ultimate holding company
Sinopec Maoming Petrochemical Corporation (" Maoming ")	Common ultimate holding company
Sinopec Zhenhai Refining and Chemical Company Limited (" Zhenhai ")	Common immediate holding company



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27. Related parties and related transactions (Continued)

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

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
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Yangzi

Purchase of raw materials	<u>1,923,625</u>	<u>2,082,970</u>
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	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
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Zhenhai

Purchase of raw materials	<u>293,474</u>	<u>—</u>
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	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
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Yihua and its subsidiaries ("Yihua Group")

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	<u>91,648</u>	<u>102,501</u>

Notes: The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 12 December 2001 and 27 November 2002 signed between the Company and Yihua.

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
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Sinopec and its subsidiaries, excluding Yangzi and Zhenhai

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



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27. Related parties and related transactions (Continued)

(c) Significant transactions between the Group and the related parties during the year were as follows: (Continued)

	2003 Rmb'000	2002 Rmb'000
CPC Group (excluding Yangzi, Zhenhai, Yihua Group, Sinopec and its subsidiaries)		
Payments 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	<u>25,672</u>	<u>13,834</u>
	2003 Rmb'000	2002 Rmb'000

Sinopec Finance

Interest income	<u>10,752</u>	<u>11,362</u>
	2003 Rmb'000	2002 Rmb'000

CITIC Industrial Bank

Interest income	800	557
Interest expense	<u>1,115</u>	<u>–</u>

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 these transactions.

(d) Deposits with Sinopec Finance

	2003 Rmb'000	2002 Rmb'000
Cash at bank and in hand	<u>754,217</u>	<u>772,439</u>

(e) Deposits with CITIC Industrial Bank

	2003 Rmb'000	2002 Rmb'000
Cash at bank and in hand	50,815	60,971
Short-term loan	<u>–</u>	<u>45,000</u>



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27. Related parties and related transactions (Continued)

(f) Details of amounts due from/(to) CPC Group are as follows:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Advance payment	30,730	8,291
Other receivables	930	1,791
Trade payables	(55,924)	(30,024)
Other creditors	(25,812)	(37,105)
Bills payable	(400,000)	(670,000)
	<u>(450,076)</u>	<u>(727,047)</u>

(g) Details of amounts due from/(to) Yihua Group are as follows:

	2003 <i>Rmb'000</i>	2002 <i>Rmb'000</i>
Trade receivables	9,675	4,434
Bills receivable	38,035	43,841
Other receivables	466	917
Trade payables	-	(2,548)
Receipts in advance	(14,631)	(8,126)
Other creditors	(36,549)	(17,217)
	<u>(3,004)</u>	<u>21,301</u>

28. Contingent liabilities

- (a) At 31 December 2003, contingent liabilities in respect of guarantees given to banks by the Company in respect of banking credit facilities granted to a wholly owned subsidiary amounted to Rmb181,311,000 (2002: Rmb74,776,000).
- (b) At 31 December 2003, the Group discounted commercial acceptance bills of exchange totalled Rmb17,804,000 (2002: Rmb42,900,000).



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29. Capital commitments

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

	The Group		The Company	
	2003 Rmb'000	2002 Rmb'000	2003 Rmb'000	2002 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
	<u>1,008,981</u>	<u>1,196,531</u>	<u>991,461</u>	<u>1,192,111</u>

These capital commitments are for 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. Retirement benefits

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution retirement schemes organised by their respective Municipal Governments under which they are governed. Details of these 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. Based on the salaries, bonuses and certain allowances of its employees, the Group has to make contributions according to the contributions rate stated above. Except for the above, the Group is not required to bear any other material obligation on the basic retirement benefits.

Other than the above, pursuant to a directive "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 Company's 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% (2002: 9%).

31. Post balance sheet event

Up to the approval date of these financial statements, there were no material post balance sheet events for the Group.



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32. Net profit before non-operating losses

	The Group 2003 Rmb'000
Net profit	240,204
<i>Add/(less):</i> Non-operating losses	
Non-operating income	(6,539)
Non-operating expenses	62,708
Gain on disposal of fixed assets	(472)
Write-back of provision for inventories	(35,854)
Tax effect of non-operating losses	(2,976)
Total effect of non-operating losses	16,867
Net profit before non-operating losses	257,071

33. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.