

21. Deferred income

	Negative goodwill		Net assets obtained		Total	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cost:						
At 1 January	8,492	33,044	115,177	115,177	123,669	148,221
Disposal	-	(24,552)	-	-	-	(24,552)
At 31 December	8,492	8,492	115,177	115,177	123,669	123,669
Accumulated amortisation:						
At 1 January	5,094	16,520	69,108	57,590	74,202	74,110
Disposal	-	(12,275)	-	-	-	(12,275)
Amortisation for the year (Note 3)	849	849	11,518	11,518	12,367	12,367
At 31 December	5,943	5,094	80,626	69,108	86,569	74,202
	2,549	3,398	34,551	46,069	37,100	49,467

In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB 115,117,000 and was recorded as deferred income in the consolidated financial statements.

22. Bank loans

Bank loans are repayable as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
After five years	65,559	56,000	15,000	15,000
Between two and five years	518,877	1,348,275	439,038	1,262,275
Between one and two years	1,430,178	1,802,573	1,404,899	1,664,673
	2,014,614	3,206,848	1,858,937	2,941,948
Within one year				
-Current portion of long term loans	1,257,578	999,141	1,114,899	755,815
-Short term loans	3,612,727	4,445,588	3,034,556	3,694,990
	4,870,305	5,444,729	4,149,455	4,450,805
-Loans from a fellow subsidiary	130,000	130,000	-	-
	5,000,305	5,574,729	4,149,455	4,450,805
	7,014,919	8,781,577	6,008,392	7,392,753

At 31 December 2004, no bank loans were secured by the way of pledge of property, plant and equipment. (2003: RMB 75,000,000)

23. Trade accounts payable

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors	797,753	1,033,107	528,901	643,807
Bills payable	259,746	238,583	80,634	163,627
Amounts due to parent company and fellow subsidiaries	639,445	780,222	631,889	780,222
	1,696,944	2,051,912	1,241,424	1,587,656

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	1,420,092	1,685,991	1,040,473	1,309,340
Due after 1 month and within 3 months	276,852	365,921	200,951	278,316
	1,696,944	2,051,912	1,241,424	1,587,656

24. Amounts due from / to parent companies and fellow subsidiaries

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

25. Share capital

	The Group and the Company	
	2004	2003
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

26. Reserves

Movements on reserves comprise:

	Note	The Group and the Company	
		2004 RMB'000	2003 RMB'000
Share premium			
At 1 January and 31 December	(a)	2,420,841	2,420,841
Statutory surplus reserve			
At 1 January		1,060,664	922,108
Appropriation		397,127	138,556
At 31 December	(b)	1,457,791	1,060,664
Statutory public welfare fund			
At 1 January		978,575	840,019
Appropriation		397,127	138,556
At 31 December	(c)	1,375,702	978,575
General surplus reserve			
At 1 January and 31 December	(d)	82,089	82,089
Capital reserve			
At 1 January and 31 December	(e)	4,180	4,180
Discretionary surplus reserve			
At 1 January and 31 December	(f)	1,280,514	1,280,514
Excess over share capital			
At 1 January and 31 December	(g)	(148,604)	(148,604)
Retained profits	(h)	4,744,476	2,143,627
		11,216,989	7,821,886

26. Reserves (continued)

Notes:

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

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

- (c) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its profit after taxation, as determined under PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of a dividend to shareholders. The Directors have resolved to transfer 10% (2003: 10%) of the current year's profit after taxation to the fund.
- (d) When the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund is transferred from the statutory public welfare fund to the general surplus reserve. This reserve is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. In 2004, the Company did not utilise the statutory public welfare fund (2003: RMB Nil). As at 31 December 2004, the net book value of assets acquired utilising the statutory public welfare fund was RMB 37,282,000 (2003: RMB 40,639,000).
- (e) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.
- (f) The transfer to this reserve from the retained profit is subject to the approval by shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.
- (g) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amounts.
- (h) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRS. As of 31 December 2004, the reserve available for distribution was RMB 4,649,907,000 (2003: RMB 2,048,896,000). Final dividend of RMB 1,440,000,000 (2003: RMB 576,000,000) in respect of the financial year 2004 was declared after the balance sheet date.

27. Related party transactions

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2004 have been effected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and other relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2004, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	2004 RMB'000	2003 RMB'000
Purchases of crude oil	19,563,608	15,904,304

- (b) Other transactions between the Group and other related parties during the year ended 31 December 2004 were as follows:

	2004 RMB'000	2003 RMB'000
Sales of goods and service fee income	15,334,038	10,481,474
Purchases other than crude oil	961,919	757,053
Insurance premiums paid	97,332	85,460
Research and development expenses	-	25,000
Net withdrawal from deposits in related party	(11,416)	(197,366)
Interest received and receivable	4,894	1,580
New loans obtained from a related party	130,000	130,000
Loans repaid to a related party	130,000	130,000
Interest paid and payable	6,643	6,774
Transportation fee	151,163	44,733
Construction and installation fees	199,676	297,525
Proceeds from sales of property, plant & equipment	99,969	-

27. Related party transactions (continued)

(c) Deposits in related party

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits, with maturity within 3 months	252,438	263,854	250,125	260,617

(d) Loans with related party

	The Group	
	2004	2003
	RMB'000	RMB'000
Short-term loans	130,000	130,000

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

28. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. The contribution rate has been changed to 22% since August 2004. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set out a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2004, the Company's contribution to this plan amounted to RMB 42,379,000 (2003: RMB 39,153,000).

29. Commitments

(i) Capital commitments

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

	The Group and the Company	
	2004	2003
	RMB'000	RMB'000
Property, plant and equipment		
Contracted but not provided for	322,797	119,990
Authorised by the Board but not contracted for	1,824,985	2,094,840
	2,147,782	2,214,830
Investment		
Contracted but not provided for	295,886	858,706
	2,443,668	3,073,536

(ii) Management fee commitments

At 31 December 2004, the Group and the Company had annual contractual obligation for management fee approximately to RMB 7,609,000 and RMB 8,928,000 respectively.

30. Contingent liabilities

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	778,859	1,114,408
- associates	40,000	54,600	40,000	54,600
- joint ventures	61,886	74,498	29,200	32,800
	101,886	129,098	848,059	1,201,808

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2004 and 2003, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

31. Details of bank loans

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

Repayment terms and last payment date	Interest rate at 31 December 2004	Interest type	The Group		The Company	
			2004	2003	2004	2003
			RMB'000	RMB'000	RMB'000	RMB'000
Arranged by Central Treasury of the Company:						
U.S. Dollar denominated:						
Payable semi-annually through 2004(Note)	7.10%	Fixed	-	17,954	-	17,954
Due in 2007	2.24%	Floating	416,402	-	416,402	-
Payable semi-annually through 2008(Note)	1.80%	Fixed	52,434	71,621	52,434	71,621
Japanese Yen denominated:						
Payable semi-annually through 2004	5.70%	Fixed	-	23,188	-	23,188
Renminbi denominated:						
Due in 2004	5.22%-5.30%	Fixed	-	700,000	-	700,000
Due in 2005	4.94%-5.58%	Fixed	1,100,000	1,650,000	1,100,000	1,650,000
Due in 2006	4.94%-5.30%	Fixed	1,220,000	1,220,000	1,220,000	1,220,000
Due in 2006	4.94%	Fixed	170,000	-	170,000	-
Other loans due in 2005	Interest free	-	15,000	15,000	15,000	15,000

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

31. Details of bank loans (continued)

Repayment terms and last payment date	Interest rate at 31 December 2004	Interest type	The Group		The Company	
			2004	2003	2004	2003
			RMB'000	RMB'000	RMB'000	RMB'000
Arranged by subsidiaries:						
U.S. Dollar denominated:						
Payable semi-annually through 2004	1.70%	Floating	-	42,135	-	-
Payable annually through 2011	Interest free	-	20,856	24,154	-	-
Renminbi denominated:						
Payable semi-annually through 2004	5.76%	Floating	-	68,100	-	-
Payable semi-annually through 2004	Interest free	-	-	66,912	-	-
Payable annually from 2001 through 2005	Interest free	-	7,400	14,800	-	-
Payable annually through 2010	Interest free	-	123,000	143,500	-	-
Payable annually through 2011	Interest free	-	12,600	14,125	-	-
Due in 2005 and thereafter	4.94%-5.58%	Fixed	134,500	134,500	-	-
Total long-term bank loans outstanding			3,272,192	4,205,989	2,973,836	3,697,763
Less: Amounts due within one year (Note 22)			(1,257,578)	(999,141)	(1,114,899)	(755,815)
Amounts due after one year (Note 22)			2,014,614	3,206,848	1,858,937	2,941,948

Note: Guaranteed by China Petrochemical Corporation

The weighted average short-term interest rates for the Group and the Company were 3.56% (2003: 3.50%) at 31 December 2004.

32. Segment reporting

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

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

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

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

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

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

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

32. Segment reporting (continued)

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

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

Turnover

	2004 RMB'000	2003 RMB'000
Manufactured Products		
Synthetic Fibres		
-external sales	4,777,981	4,114,966
-intersegment sales	63	707
Total	4,778,044	4,115,673
Resins and Plastics		
-external sales	12,154,361	8,907,410
-intersegment sales	19,952	25,850
Total	12,174,313	8,933,260
Intermediate Petrochemicals		
-external sales	5,941,589	3,879,846
-intersegment sales	9,753,690	8,288,481
Total	15,695,279	12,168,327
Petroleum Products		
-external sales	13,692,352	10,834,580
-intersegment sales	846,488	800,070
Total	14,538,840	11,634,650

32. Segment reporting (continued)

Turnover (continued)

	2004 RMB'000	2003 RMB'000
All others		
-external sales	2,836,250	1,830,338
-intersegment sales	3,452,657	3,520,710
Total	6,288,907	5,351,048
Eliminations of intersegment sales	(14,072,850)	(12,635,818)
Turnover	39,402,533	29,567,140

External sales include sales to Sinopec Corp group companies.

Profit from ordinary activities before taxation

	2004 RMB'000	2003 RMB'000
Profit from operations		
Synthetic Fibres	250,419	112,316
Resins and Plastics	1,886,537	627,870
Intermediate Petrochemicals	1,550,796	597,411
Petroleum Products	986,578	452,077
All others	350,822	216,729
Profit from operations	5,025,152	2,006,403
Share of losses of associates	(36,915)	(24,017)
Net financing costs	(292,008)	(392,021)
Profit from ordinary activities before taxation	4,696,229	1,590,365

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

32. Segment reporting (continued)

Assets	2004 RMB'000	2003 RMB'000
Segment assets		
Synthetic Fibres	3,168,259	3,034,919
Resins and Plastics	3,981,270	4,138,796
Intermediate Petrochemicals	5,647,630	6,090,790
Petroleum Products	8,075,376	7,383,556
All others	2,589,245	2,338,076
Total segment assets	23,461,780	22,986,137
Interests in associates	1,906,917	1,370,339
Unallocated	2,907,904	2,768,981
Total assets	28,276,601	27,125,457

Liabilities	2004 RMB'000	2003 RMB'000
Segment liabilities		
Synthetic Fibres	286,338	393,708
Resins and Plastics	728,239	852,185
Intermediate Petrochemicals	355,975	371,081
Petroleum Products	820,301	1,036,311
All others	169,726	175,076
Total segment liabilities	2,360,579	2,828,361
Unallocated	7,499,033	8,933,970
Total liabilities	9,859,612	11,762,331

32. Segment reporting (continued)

Depreciation and amortisation	2004 RMB'000	2003 RMB'000
Synthetic Fibres	250,930	261,810
Resins and Plastics	356,097	359,380
Intermediate Petrochemicals	630,467	648,628
Petroleum Products	399,200	409,152
All others	177,581	193,865
Segment depreciation and amortisation	1,814,275	1,872,835
Unallocated	1,036	-
Depreciation and amortisation	1,815,311	1,872,835
Total capital expenditures for segment long-lived assets		
	2004 RMB'000	2003 RMB'000
Synthetic Fibres	555,441	123,335
Resins and Plastics	124,768	121,630
Intermediate Petrochemicals	378,542	746,555
Petroleum Products	469,080	188,019
All others	165,783	105,329
Total segment capital expenditures	1,693,614	1,284,868
Unallocated	512,343	-
Capital expenditures for segment long-lived assets	2,205,957	1,284,868

33. Financial instruments

Financial assets of the Company and the Group include cash and cash equivalents, deposits with banks, investments, trade debtors, bills receivable, deposits, other debtors and amounts due from parent companies and fellow subsidiaries. Financial liabilities of the Company and the Group include bank loans, trade creditors, other creditors and amounts due to parent company and fellow subsidiaries. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2004 and 2003.

(a) Interest rate risk

The interest rates and terms of repayment of loans of the Company and the Group are disclosed in note 31.

(b) Credit risk

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

(c) Foreign currency risk

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

(d) Fair value

The following table presents the carrying amounts and fair values of the Group's long-term bank loans as at 31 December 2004 and 2003.

	2004		2003	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Liabilities:				
Long-term bank loans	3,272,192	3,218,533	4,205,989	4,204,084

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

33. Financial instruments (continued)

(d) Fair value (continued)

Investments are unquoted interests, primarily equity interests in joint ventures. There is no quoted market price for such interest and securities in the PRC, and accordingly a reasonable estimate of fair value could not be made without incurring excessive costs. Further details pertinent to the valuation of these interests are disclosed in note 17.

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

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

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

34. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2004 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC.