

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

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

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2004	Original		The Group		The Company	
			currency	2004 Exchange rate	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Arranged by Central Treasury of the Company:								
U.S. Dollar denominated:								
Payable semi-annually through 2004(Note(a))	Fixed	7.10%	-	8.2765	-	17,954	-	17,954
Due in 2007	Floating	2.24%	50,000	8.2765	416,402	-	416,402	-
Payable semi-annually through 2008(Note(a))	Fixed	1.80%	6,300	8.2765	52,434	71,621	52,434	71,621
Japanese Yen denominated:								
Payable semi-annually through 2004	Fixed	5.70%	-	0.0764	-	23,188	-	23,188
Renminbi denominated:								
Due in 2004	Fixed	5.22%-5.30%	-	-	-	700,000	-	700,000
Due in 2005	Fixed	4.94%-5.58%	-	-	1,100,000	1,650,000	1,100,000	1,650,000
Due in 2006	Fixed	4.94%-5.30%	-	-	1,220,000	1,220,000	1,220,000	1,220,000
Due in 2006	Fixed	4.94%	-	-	170,000	-	170,000	-
Other loans through 2005	-	Interest free	-	-	15,000	15,000	15,000	15,000
Arranged by subsidiaries:								
U.S. Dollar denominated:								
Payable semi-annually through 2004	Floating	1.70%	-	8.2765	-	42,135	-	-
Payable annually through 2011	-	Interest free	2,520	8.2765	20,856	24,154	-	-

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

Repayment terms and last payment date	Interest type	Interest rate at 31 December 2004	Original currency '000	2004 Exchange rate	The Group		The Company		
					2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000	
Renminbi denominated:									
Payable semi-annually through 2004	Floating	5.76%			-	68,100	-	-	
Payable 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	-	-	
Due in 2005 and after	Fixed	4.94%-5.58%			134,500	134,500	-	-	
Payable annually through 2011 and after	-	Interest free			12,600	14,125	-	-	
Total long-term loans outstanding						3,272,192	4,205,989	2,973,836	3,697,763
Less: Amounts due within one year						(1,257,578)	(999,141)	(1,114,899)	(755,815)
Amounts due after one year						2,014,614	3,206,848	1,858,937	2,941,948

Note(a): Guaranteed by China Petrochemical Corporation

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

20. Other long-term liabilities

Deferred income

	The Group	
	2004 RMB'000	2003 RMB'000
Cost:		
At 1 January and at 31 December	115,177	115,177
Accumulated amortisation:		
At 1 January	69,108	57,590
Amortisation for the year	11,518	11,518
At 31 December	80,626	69,108
Net book value:		
At 31 December	34,551	46,069

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

21. Share capital

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1 each	2,330,000	2,330,000
	7,200,000	7,200,000
Issued and paid up capital		
Shares not in trade:		
4,150,000,000 A shares of RMB 1 each		
of which:		
Domestic legal persons shares	4,150,000	4,150,000
Total shares not in trade	4,150,000	4,150,000
Shares in trade:		
720,000,000 A shares of RMB 1 each		
2,330,000,000 H shares of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	3,050,000	3,050,000
Total share capital	7,200,000	7,200,000

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

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

22. Capital reserves

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Balance at 1 January and 31 December	2,856,278	2,856,278

	Note	The Group and the Company	
		2004 RMB'000	2003 RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Valuation surplus	(b)	44,887	44,887
Government grants	(c)	386,370	386,370
Total		2,856,278	2,856,278

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

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

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

23. Surplus reserves

	Note	The Group and the Company				Total RMB'000
		Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	General surplus reserve RMB'000	Discretionary surplus reserve RMB'000	
Balance at 1 January 2003		922,108	840,019	82,089	1,280,514	3,124,730
Transferred from the income statement		138,556	138,556	-	-	277,112
Balance at 1 January 2004		1,060,664	978,575	82,089	1,280,514	3,401,842
Transferred from the income statement	(a)	397,127	397,127	-	-	794,254
Balance at 31 December 2004		1,457,791	1,375,702	82,089	1,280,514	4,196,096

23. Surplus reserves (continued)

- (a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2004:
- | | |
|------------------------------------|-----|
| (i) Statutory surplus reserve | 10% |
| (ii) Statutory public welfare fund | 10% |

24. Income from principal operations/cost of sales

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

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

For the year 2004, total sales and proportion to top five customers are as follow:

	2004 RMB'000	2003 RMB'000
Amount	15,673,440	10,694,915
Percentage of total sales	39.78%	36.17%

25. Business taxes and surcharges

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Consumption tax	508,648	446,830	508,648	446,830
City construction tax	157,759	112,917	152,904	105,087
Education surcharge and others	72,067	64,710	65,530	45,037
	738,474	624,457	727,082	596,954

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

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26. Financial expenses

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	348,834	430,030	292,309	392,301
Less: Interest capitalised	-	(3,502)	-	(3,502)
Net interest expenses	348,834	426,528	292,309	388,799
Interest income	(42,830)	(27,419)	(32,637)	(19,178)
Net exchange loss	9,805	3,505	7,076	2,189
Total	315,809	402,614	266,748	371,810

27. Investment income

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cost method	45,599	19,288	27,689	16,471
Share of profit of subsidiaries	-	-	218,294	97,107
Share of profit of associates	(5,769)	(5,335)	-	11,478
Investment differences	10,849	10,849	10,849	10,849
Net gain/ (loss) on transfer of investment	21,860	(7,229)	-	-
Total	72,539	17,573	256,832	135,905

28. Non-operating expenses

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Employee reduction expenses	112,526	64,108	103,269	49,582
Net loss on disposal of fixed assets	68,457	57,571	62,963	48,114
Service fee	37,715	37,593	37,715	37,593
Donations	9,992	10,080	9,969	10,080
Other expenses	42,026	33,632	37,565	29,156
Total	270,716	202,984	251,481	174,525

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 112,526,000 (2003:RMB 64,108,000) during the year ended 31 December 2004, in respect of the voluntary resignation of approximately 1,500 employees.

29. Dividends

- (a) Dividends of ordinary shares declared during the year
Pursuant the shareholders' approval at the Annual General Meeting on 18 June 2004, a final dividend of RMB 0.08 per share totalling RMB 576,000,000 in respect of the year ended 31 December 2003 was declared and paid. (2003: RMB 0.05 per share totalling 360,000,000).
- (b) Dividends of ordinary shares proposed after the balance sheet date
Pursuant to a resolution passed at the Board of Directors' meeting on 23 March 2005, a final dividend in respect of the year ended 31 December 2004 of RMB 0.20 per share totalling RMB 1,440,000,000 was proposed for shareholders' approval at the Annual General Meeting. (2003: RMB 0.08 per share totalling 576,000,000). Dividends declared after the balance sheet date was not recognised as liabilities on that day.

30. Related parties and related party transactions

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

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

The above registered capital has not been changed during the year ended 31 December 2004 .
As at 31 December 2004, Sinopec Corp held 4 billion shares of the Company.

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

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

30. Related parties and related party transactions (continued)

- (c) Most of the transactions undertaken by the Group during the year ended 31 December 2004 have been effected with such counterparties and on such terms as have been determined by Sinopec Corp and other relevant authorities.

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

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

- (d) Other transactions between the Group and the other related parties during the year were as follows:

	2004 RMB'000	2003 RMB'000
Sales and service fee income	15,334,038	10,481,474
Purchases other than crude oil	961,919	757,053
Insurance expenses	97,332	85,460
Research and development expenses	-	25,000
Net decrease in deposits in related party	(11,416)	(197,366)
Interest received and receivable	4,894	1,580
New loans obtained from related party	130,000	130,000
Loans repaid to related party	130,000	130,000
Interest paid and payable	6,643	6,774
Transportation costs	151,163	44,733
Construction and installation fees	199,676	297,525
Proceeds from sale of property, plant & equipment	99,696	-
Guarantees issued	55,628	33,543

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

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

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

30. Related parties and related party transactions (continued)

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

	Immediate Parent Company		Other related parties	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	17,675	118,628	15,705	-
Trade debtors	-	9,197	207,244	116,194
Other receivables	67,343	104,010	183,440	60,908
Advance payments	49,760	9,594	44,251	60,819
Bills payable	14,254	27,110	-	-
Trade creditors	98,105	98,503	287,538	490,180
Other payables	179,551	-	9,584	50,097
Receipts in advance	15,275	10,324	35,138	86,558
Balance of guarantee	-	-	101,886	129,098

(f) Deposits in related party

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	252,438	263,854	250,125	260,617

(g) Loans with related party

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

31. Retirement schemes

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. 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 up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amount of contributions. For the year ended 31 December 2004, the Company's contribution to this plan amounted to RMB 42,379,000 (2003: RMB 39,153,000).

32. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2004	2003
	RMB'000	RMB'000
<u>Property, plant and equipment</u>		
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
<u>Investment</u>		
Contracted but not provided for	295,886	858,706
	2,443,668	3,073,536

At 31 December 2004, the Group and the Company did not have material operating lease commitment.

33. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	778,859	1,114,408
- associates	40,000	54,600	40,000	54,600
- other unlisted investment companies	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 are given to the extent of the Company's respective interest in these entities.

Guarantees issued to banks in favour of associates and joint ventures are given to the extent of the Group's and the Company's respective interest in these entities.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 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.

34. Events after the balance sheet date

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

35. Segment reporting

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

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

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

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

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

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(Prepared under PRC Accounting Rules and Regulations)

35. Segment reporting (continued)

Income from principal operations

	2004 RMB'000	2003 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	4,777,981	4,114,966
Intersegment sales	63	707
Sub-total	4,778,044	4,115,673
Resins and Plastics		
External sales	12,154,361	8,907,410
Intersegment sales	19,952	25,850
Sub-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
Sub-total	15,695,279	12,168,327
Petroleum Products		
External sales	13,692,352	10,834,580
Intersegment sales	846,488	800,070
Sub-total	14,538,840	11,634,650
All others		
External sales	2,836,250	1,830,338
Intersegment sales	3,452,657	3,520,710
Sub-total	6,288,907	5,351,048
Eliminations of intersegment sales	(14,072,850)	(12,635,818)
Total	39,402,533	29,567,140

35. Segment reporting (continued)

Cost of principal operations

	2004 RMB'000	2003 RMB'000
Synthetic Fibres	4,378,130	3,843,129
Resins and Plastics	9,610,613	7,720,287
Intermediate Petrochemicals	3,861,757	2,762,850
Petroleum Products	11,807,416	9,505,466
All others	2,351,166	1,410,465
Total	32,009,082	25,242,197

Gross profit of principal operations

	2004 RMB'000	2003 RMB'000
Synthetic Fibres	373,643	249,461
Resins and Plastics	2,475,354	1,143,979
Intermediate Petrochemicals	2,034,823	1,088,483
Petroleum Products	1,294,503	823,683
All others	476,654	394,880
Total	6,654,977	3,700,486

36. Net profit before non-recurring items

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

	2004 RMB'000	2003 RMB'000
Items under non-recurring items		
Non-operating expenses (excluding provision for impairment loss on fixed assets)	236,371	202,984
(Gain) / Loss on disposal of long-term equity investments	(21,860)	7,229
Non-operating income	(83,058)	(19,376)
Reversal of provision for long-term equity investments in prior years	(5,314)	(73,611)
Tax effect for the above items	(18,921)	(17,584)
Total	107,218	99,642