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

We have audited the financial statements on pages 60 to 92 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

## Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

## Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

Hong Kong, China
29 March 2005

# Consolidated Income Statement

*For the year ended 31 December 2004*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|---|
| **Turnover** | 4 | **13,348,471** | 10,343,641 |
| **Cost of sales** | | **(12,219,933)** | (9,319,671) |
| **Gross profit** | | **1,128,538** | 1,023,970 |
| Selling expenses | | **(177,406)** | (167,269) |
| Administrative expenses | | **(437,415)** | (447,694) |
| Other operating income | | **16,661** | 21,500 |
| Other operating expenses | | **(92,083)** | (7,922) |
| Employee reduction expenses | 5 | **(21,694)** | (54,786) |
| (Loss)/gain on disposal of property, plant and equipment | | **(67,633)** | 472 |
| **Profit from operations** | | **348,968** | 368,271 |
| Net financing costs | 6(a) | **(72,176)** | (54,873) |
| **Profit from ordinary activities before taxation** | 6 | **276,792** | 313,398 |
| **Income tax expense** | 7(b) | **(33,860)** | (48,652) |
| **Profit from ordinary activities after taxation** | | **242,932** | 264,746 |
| **Minority interests** | | **(2,549)** | (5,615) |
| **Profit attributable to shareholders** | 9 | **240,383** | 259,131 |
| **Dividend attributable to the year:** | | | |
| **Final dividend proposed after the balance sheet date** | 10(a) | **100,000** | 100,000 |
| **Basic earnings per share (in Rmb)** | 11(a) | **0.060** | 0.065 |

The notes on pages 65 to 92 form part of these financial statements.

# Consolidated Balance Sheet

*As at 31 December 2004*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12(a) | **8,044,113** | 8,525,854 |
| Construction in progress | 13 | **268,306** | 294,963 |
| Lease prepayments | 14 | **203,558** | 208,538 |
| Unlisted investment | 16 | **62,500** | 62,500 |
| Deferred tax assets | 7(c) | **56,459** | 29,000 |
| | | **8,634,936** | 9,120,855 |
| **Current assets** | | | |
| Inventories | 17 | **1,626,564** | 990,715 |
| Trade and other receivables | 18 | **614,215** | 581,681 |
| Deposits with banks and other financial institutions | 19 | **130,834** | 664,969 |
| Cash and cash equivalents | 20 | **228,152** | 563,761 |
| | | **2,599,765** | 2,801,126 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **1,309,961** | 1,658,629 |
| Bank loans | 22(a) | **509,726** | 818,820 |
| Income tax payable | | **52,163** | 82,224 |
| | | **1,871,850** | 2,559,673 |
| **Net current assets** | | **727,915** | 241,453 |
| **Total assets less current liabilities** | | **9,362,851** | 9,362,308 |
| **Non-current liabilities** | | | |
| Bank loans | 22(a) | **190,000** | 340,000 |
| **Minority interests** | | **52,529** | 53,455 |
| **Net assets** | | **9,120,322** | 8,968,853 |
| **Shareholders' funds** | | | |
| Share capital | 23 | **4,000,000** | 4,000,000 |
| Share premium | | **2,518,833** | 2,518,833 |
| Reserves | 24 | **1,246,617** | 1,188,963 |
| Retained profits | 25 | **1,354,872** | 1,261,057 |
| | | **9,120,322** | 8,968,853 |

Approved and authorised for issue by the Board of Directors on 29 March 2005.

**Xu Zheng-ning**
*Chairman*

**Xiao Wei-zhen**
*Director*

The notes on pages 65 to 92 form part of these financial statements.

# Balance Sheet

*As at 31 December 2004*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2004<br>Rmb'000 | 2003<br>Rmb'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12(b) | **7,511,335** | 7,958,415 |
| Construction in progress | 13 | **266,699** | 290,402 |
| Lease prepayments | 14 | **123,142** | 126,142 |
| Interest in subsidiaries | 15 | **687,661** | 694,937 |
| Unlisted investment | 16 | **62,500** | 62,500 |
| Deferred tax assets | 7(c) | **50,830** | 29,000 |
| | | **8,702,167** | 9,161,396 |
| **Current assets** | | | |
| Inventories | 17 | **1,428,039** | 820,332 |
| Trade and other receivables | 18 | **669,231** | 668,366 |
| Deposits with banks and other financial institutions | 19 | **32,000** | 610,000 |
| Cash and cash equivalents | 20 | **160,239** | 374,253 |
| | | **2,289,509** | 2,472,951 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **1,214,410** | 1,510,961 |
| Bank loans | 22(a) | **413,878** | 733,869 |
| Income tax payable | | **46,412** | 75,617 |
| | | **1,674,700** | 2,320,447 |
| **Net current assets** | | **614,809** | 152,504 |
| **Total assets less current liabilities** | | **9,316,976** | 9,313,900 |
| **Non-current liabilities** | | | |
| Bank loans | 22(a) | **190,000** | 340,000 |
| **Net assets** | | **9,126,976** | 8,973,900 |
| **Shareholders' funds** | | | |
| Share capital | 23 | **4,000,000** | 4,000,000 |
| Share premium | | **2,518,833** | 2,518,833 |
| Reserves | 24 | **1,246,617** | 1,188,963 |
| Retained profits | 25 | **1,361,526** | 1,266,104 |
| | | **9,126,976** | 8,973,900 |

Approved and authorised for issue by the Board of Directors on 29 March 2005.

**Xu Zheng-ning**
*Chairman*

**Xiao Wei-zhen**
*Director*

The notes on pages 65 to 92 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2004*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 31 | **381,555** | 1,385,863 |
| Interest paid | | **(89,606)** | (105,121) |
| Income tax paid | | **(91,380)** | (53,039) |
| **Net cash from operating activities** | | **200,569** | 1,227,703 |
| **Cash flow from investing activities** | | | |
| Acquisition of property, plant and equipment and construction in progress | | **(530,628)** | (931,308) |
| Proceeds from disposal of property, plant and equipment | | **8,068** | 891 |
| Interest and dividend income received | | **14,816** | 20,506 |
| Payment for purchase of minority interests in subsidiaries | | **–** | (3,170) |
| Decrease in deposits with banks and other financial institutions | | **534,135** | 49,601 |
| **Net cash from/(used in) investing activities** | | **26,391** | (863,480) |
| **Cash flow from financing activities** | | | |
| Proceeds from bank loans | | **4,849,631** | 5,956,959 |
| Repayment of bank loans | | **(5,308,725)** | (6,183,915) |
| Dividends paid | | **(100,000)** | (60,000) |
| Dividends paid to minority shareholders | | **(3,475)** | (4,310) |
| **Net cash used in financing activities** | | **(562,569)** | (291,266) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(335,609)** | 72,957 |
| **Cash and cash equivalents at 1 January** | | **563,761** | 490,804 |
| **Cash and cash equivalents at 31 December** | 20 | **228,152** | 563,761 |

The notes on pages 65 to 92 form part of these financial statements.

# Consolidated Statement of Changes in Shareholders' Funds

*For the year ended 31 December 2004*
*(Prepared under International Financial Reporting Standards)*

| | Note | Share capital Rmb'000 | Share premium Rmb'000 | Reserves Rmb'000 | Retained profits Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|---|
| At 1 January 2003 | | 4,000,000 | 2,518,833 | 1,136,413 | 1,110,549 | 8,765,795 |
| Profit attributable to shareholders | | – | – | – | 259,131 | 259,131 |
| Appropriation | 24 | – | – | 48,623 | (48,623) | – |
| Dividend | 10(b) | – | – | – | (60,000) | (60,000) |
| Others | | – | – | 3,927 | – | 3,927 |
| At 31 December 2003 | | 4,000,000 | 2,518,833 | 1,188,963 | 1,261,057 | 8,968,853 |
| Profit attributable to shareholders | | – | – | – | 240,383 | 240,383 |
| Appropriation | 24 | – | – | 46,568 | (46,568) | – |
| Dividend | 10(b) | – | – | – | (100,000) | (100,000) |
| Others | | – | – | 11,086 | – | 11,086 |
| **At 31 December 2004** | | **4,000,000** | **2,518,833** | **1,246,617** | **1,354,872** | **9,120,322** |

The notes on pages 65 to 92 form part of these financial statements.

## 1. *Background of the Company*

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

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

## 2. *Significant accounting policies*

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

### (a) Statement of compliance

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

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

The Company also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. A reconciliation of the Group's and the Company's profit attributable to shareholders and shareholders' funds under IFRS and the PRC Accounting Rules and Regulations is presented on page 141.

The IASB has issued a number of new and revised IFRS and IAS ("**new IFRS**") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31 December 2004. The Group has commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

### (b) Basis of preparation

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

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

## 2. *Significant accounting policies* *(Continued)*

### (c) Basis of consolidation

*(i) Subsidiaries*

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

*(ii) Transactions eliminated on consolidation*

Intra-group transactions and balances, and any material unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

*(iii) Goodwill*

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is stated at cost less accumulated amortisation and impairment losses (see accounting policy r).

Negative goodwill arising on acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition.

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

### (d) Translation of foreign currencies

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

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

Foreign currency translation differences relating to funds borrowed to finance the construction of property, plant and equipment to the extent that they are regarded as an adjustment to interest charges are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

## 2. *Significant accounting policies* *(Continued)*

### (e) Cash equivalents

Cash equivalents consist of time deposits with banks with an initial term of less than three months when acquired. Cash equivalents are stated at cost, which approximate fair value.

### (f) Trade and other receivables

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

### (g) Inventories

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

Cost includes the cost of materials computed using the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sales.

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

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

### (h) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation (see note 12(c)) less accumulated depreciation and impairment losses (see accounting policy r). Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

*(i) Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement as an expense in the period in which it is incurred.

## 2. Significant accounting policies *(Continued)*

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

*(ii) Depreciation*

Depreciation is provided to write off the cost or revalued amount of property, plant and equipment over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

| | |
|---|---|
| Buildings | 25 to 40 years |
| Plant, machinery and equipment | 8 to 22 years |
| Motor vehicles and other fixed assets | 4 to 10 years |

*(iii) Retirement or disposal*

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

### (i) Lease prepayments

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

### (j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

### (k) Investments

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

(ii) Unlisted equity investments are stated at cost less impairment losses (see accounting policy r).

## 2. *Significant accounting policies* *(Continued)*

### (l) Provisions and contingent liabilities

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

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

### (m) Revenue recognition

*(i) Sales of goods*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added tax and is after deduction of any trade discounts and returns. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, 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) Rendering of services*

Revenue from the rendering of services is recognised in the income statement upon performance of the services.

*(iii) Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

*(iv) Dividend income*

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

### (n) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income form bank deposits, foreign exchange gains and losses and bank charges.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

## 2. Significant accounting policies *(Continued)*

### (o) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are charged to the income statement as and when they are incurred.

### (p) Research and development costs

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

### (q) Retirement benefits

Contributions to defined contribution schemes are recognised as an expense in the income statement as incurred. Further information is set out in note 26.

### (r) Impairment loss

The carrying amounts of the Group's assets, other than trade and other receivables (refer to accounting policy f), inventories (refer to accounting policy g), and deferred tax assets (refer to accounting policy t), are reviewed periodically at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

*(i) Calculation of recoverable amount*

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

*(ii) Reversals of impairment losses*

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (s) Dividends

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

## 2. Significant accounting policies *(Continued)*

### (t) Income tax

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

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

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

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

### (u) Related parties

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

### (v) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

## 3. Segment reporting

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

## 4. Turnover

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

## 5. Employee reduction expenses

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of Rmb 21,694,000 (2003: Rmb 54,786,000) during the year ended 31 December 2004 in respect of the voluntary resignation of 343 (2003: 912) employees.

## 6. Profit from ordinary activities before taxation

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

| | | 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|---|
| **(a)** | **Net financing costs:** | | |
| | Interest expense | **89,189** | 105,886 |
| | *Less:* Amounts capitalised as construction in progress * | **(6,455)** | (35,781) |
| | Net interest expense | **82,734** | 70,105 |
| | Interest income | **(11,497)** | (17,006) |
| | Net foreign exchange gain | **(3,126)** | (1,429) |
| | Others | **4,065** | 3,203 |
| | Net financing costs | **72,176** | 54,873 |

* *The borrowing costs have been capitalised at an average rate of 4.9% (2003: 4.9%) per annum for construction in progress.*

**(b) Other items:**

| | 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|
| Cost of inventories # | **12,219,933** | 9,316,628 |
| Staff costs: | | |
| – wages and salaries, welfare and other costs | **590,220** | 561,048 |
| – contributions to defined contribution schemes | **85,950** | 74,963 |
| Total staff costs # | **676,170** | 636,011 |
| Depreciation # | **940,286** | 817,581 |
| Repairs and maintenance expenses # | **189,875** | 116,113 |
| Research and development costs # | **36,868** | 26,281 |
| Amortisation of lease prepayments | **4,980** | 4,608 |
| Auditors' remuneration | **6,617** | 6,617 |
| Impairment losses of property, plant and equipment | **66,728** | – |
| Dividend income from unlisted investment | **(3,000)** | (5,658) |

\# *Cost of inventories includes Rmb 1,550,138,000 (2003: Rmb 1,347,212,000) relating to staff costs, depreciation, repairs and maintenance expenses and research and development costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.*

*The number of employees of the Group as at 31 December 2004 was about 13,000 (2003: 14,000).*

## 7. *Income tax*

**(a)** The charge for PRC income tax of the Company is calculated at the rate of 15% (2003: 15%) on the estimated assessable income of the year determined in accordance with the relevant income tax rules and regulations. The Company has not received notice from the Ministry of Finance and the State Administration of Taxation that the 15% tax rate will be revoked in 2005. It is possible that the Company's tax rate will increase in future periods.

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

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

| | **2004** | 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Current tax expense | | |
| – Current year | **63,285** | 46,798 |
| – Over-provision in respect of prior years | **(1,966)** | (1,486) |
| | **61,319** | 45,312 |
| Deferred taxation (note (c)) | **(27,459)** | 3,340 |
| | **33,860** | 48,652 |

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

| | **2004** | 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Profit from ordinary activities before taxation | **276,792** | 313,398 |
| Expected income tax using the Company's tax rate of 15% | **41,519** | 47,010 |
| Differential tax rate of subsidiaries | **1,567** | 4,503 |
| Effect of tax losses of subsidiaries not recognised | **2,274** | 1,341 |
| Over-provision of income tax in respect of prior years | **(1,966)** | (1,486) |
| Non-deductible expenses | **1,475** | 1,467 |
| Tax exempt revenue | **(1,419)** | (4,183) |
| Recognition of deferred tax assets | **(9,590)** | – |
| Income tax expense | **33,860** | 48,652 |

## 7. *Income tax* *(Continued)*

**(c) Movements in the deferred tax assets are as follows:**

**The Group**

| | Balance at 1 January 2003 *Rmb'000* | Recognised in income statement *Rmb'000* | Balance at 31 December 2003 ***Rmb'000*** | Recognised in income statement *Rmb'000* | Balance at 31 December 2004 ***Rmb'000*** |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Provisions, primarily for receivables and inventories | – | – | **–** | 18,527 | **18,527** |
| **Non-current** | | | | | |
| Land use rights | 32,340 | (792) | **31,548** | (792) | **30,756** |
| Property, plant and equipment | – | (2,548) | **(2,548)** | 9,724 | **7,176** |
| | 32,340 | (3,340) | **29,000** | 27,459 | **56,459** |

**The Company**

| | Balance at 1 January 2003 *Rmb'000* | Recognised in income statement *Rmb'000* | Balance at 31 December 2003 ***Rmb'000*** | Recognised in income statement *Rmb'000* | Balance at 31 December 2004 ***Rmb'000*** |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Provisions, primarily for receivables and inventories | – | – | **–** | 12,898 | **12,898** |
| **Non-current** | | | | | |
| Land use rights | 32,340 | (792) | **31,548** | (792) | **30,756** |
| Property, plant and equipment | – | (2,548) | **(2,548)** | 9,724 | **7,176** |
| | 32,340 | (3,340) | **29,000** | 21,830 | **50,830** |

The Group has not recognised deferred tax assets in respect of tax losses of certain subsidiaries amounting to Rmb 2,274,000 (2003: Rmb 1,341,000). Except for this, there is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

## 8. Directors' and supervisors' emoluments

**(a) Directors' and supervisors' emoluments are as follows:**

| Name | Fees | | Basic salaries, allowances and bonus | | Retirement scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2004 Rmb'000** | 2003 Rmb'000 | **2004 Rmb'000** | 2003 Rmb'000 | **2004 Rmb'000** | 2003 Rmb'000 | **2004 Rmb'000** | 2003 Rmb'000 |
| **Directors:** | | | | | | | | |
| Xu Zheng-ning | **–** | – | **190** | 150 | **40** | 33 | **230** | 183 |
| Sun Zhi-hong | **–** | – | **190** | 150 | **40** | 33 | **230** | 183 |
| Qian Heng-ge | **–** | – | **190** | 150 | **40** | 33 | **230** | 183 |
| Xiao Wei-zhen | **–** | – | **174** | 120 | **37** | 27 | **211** | 147 |
| Long Xing-ping | **–** | – | **158** | 120 | **33** | 27 | **191** | 147 |
| Zhang Hong | **–** | – | **158** | 120 | **33** | 27 | **191** | 147 |
| Shen Xi-jun | **–** | – | **158** | – | **33** | – | **191** | – |
| Cao Yong | **–** | – | **158** | – | **33** | – | **191** | – |
| Li Zhen-feng | **–** | – | **154** | – | **33** | – | **187** | – |
| Fu Xing-tang | **–** | – | **–** | 150 | **–** | 33 | **–** | 183 |
| Yao Han-chong | **–** | – | **–** | 120 | **–** | 27 | **–** | 147 |
| Ye Zhong-shan | **–** | – | **–** | 120 | **–** | 27 | **–** | 147 |
| **Independent non-executive directors:** | | | | | | | | |
| Li Zhong-he | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Wang Hua-cheng | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Yi Ren-ping | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Qian Zhi-hong | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| **Supervisors:** | | | | | | | | |
| Zhou Wen-fei | **–** | – | **149** | 91 | **31** | 19 | **180** | 110 |
| Tao Chun-sheng | **–** | – | **92** | – | **19** | – | **111** | – |
| Chen Jian | **–** | – | **149** | 108 | **31** | 23 | **180** | 131 |
| Huang Zhi-wei | **30** | 30 | **–** | – | **–** | – | **30** | 30 |
| Chu Su-hua | **30** | 30 | **–** | – | **–** | – | **30** | 30 |
| Huang Gui-geng | **–** | – | **–** | 120 | **–** | 27 | **–** | 147 |
| | **220** | 220 | **1,920** | 1,519 | **403** | 336 | **2,543** | 2,075 |

For the years ended 31 December 2004 and 2003, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

**(b) Five individuals with highest emoluments**

The five individuals with highest emoluments of the Company in 2004 and 2003 were all executive directors whose total emoluments have been shown above.

## 9. *Profit attributable to shareholders*

The profit attributable to shareholders includes a profit of Rmb 241,990,000 (2003: Rmb 256,468,000) which has been dealt with in the financial statements of the Company.

## 10. *Dividend*

### (a) Dividend attributable to the year

| | **2004** | 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Final dividend proposed after the balance sheet date of Rmb 2.5 cents (2003: Rmb 2.5 cents) per share | **100,000** | 100,000 |

Pursuant to a resolution passed at the Board of Directors' meeting on 29 March 2005, a final dividend of Rmb 2.5 cents (2003: Rmb 2.5 cents) per share totalling Rmb 100,000,000 (2003: Rmb 100,000,000) was proposed for shareholders' approval at the Annual General Meeting.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

| | **2004** | 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of Rmb 2.5 cents (2003: Rmb 1.5 cents) per share | **100,000** | 60,000 |

## 11. *Earnings per share*

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of Rmb 240,383,000 (2003: Rmb 259,131,000) and the weighted average number of ordinary shares of 4,000,000,000 (2003: 4,000,000,000) in issue during the year.

### (b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2003 and 2004.

## 12. *Property, plant and equipment*

**(a) The Group**

| | Buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost or valuation:** | | | | |
| At 1 January 2004 | 2,079,189 | 12,353,340 | 621,226 | 15,053,755 |
| Additions | 3,939 | 604 | 8,486 | 13,029 |
| Transfer from construction in progress *(note 13)* | 18,953 | 557,191 | 11,801 | 587,945 |
| Disposals | (16,908) | (184,594) | (46,186) | (247,688) |
| **At 31 December 2004** | **2,085,173** | **12,726,541** | **595,327** | **15,407,041** |
| **Accumulated depreciation:** | | | | |
| At 1 January 2004 | 617,175 | 5,455,141 | 455,585 | 6,527,901 |
| Depreciation charge for the year | 76,838 | 784,270 | 79,178 | 940,286 |
| Impairment losses | 453 | 65,530 | 745 | 66,728 |
| Written back on disposal | (6,244) | (128,607) | (37,136) | (171,987) |
| **At 31 December 2004** | **688,222** | **6,176,334** | **498,372** | **7,362,928** |
| **Net book value:** | | | | |
| **At 31 December 2004** | **1,396,951** | **6,550,207** | **96,955** | **8,044,113** |
| At 31 December 2003 | 1,462,014 | 6,898,199 | 165,641 | 8,525,854 |

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

**(b) The Company**

| | Buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost or valuation:** | | | | |
| At 1 January 2004 | 1,872,386 | 11,588,876 | 580,469 | 14,041,731 |
| Additions | – | – | 277 | 277 |
| Transfer from construction in progress *(note 13)* | 18,496 | 536,958 | 11,716 | 567,170 |
| Disposals | (16,908) | (184,117) | (45,781) | (246,806) |
| **At 31 December 2004** | **1,873,974** | **11,941,717** | **546,681** | **14,362,372** |
| **Accumulated depreciation:** | | | | |
| At 1 January 2004 | 568,255 | 5,081,884 | 433,177 | 6,083,316 |
| Depreciation charge for the year | 66,363 | 729,364 | 76,418 | 872,145 |
| Impairment losses | 453 | 65,530 | 745 | 66,728 |
| Written back on disposal | (6,244) | (128,130) | (36,778) | (171,152) |
| **At 31 December 2004** | **628,827** | **5,748,648** | **473,562** | **6,851,037** |
| **Net book value:** | | | | |
| **At 31 December 2004** | **1,245,147** | **6,193,069** | **73,119** | **7,511,335** |
| At 31 December 2003 | 1,304,131 | 6,506,992 | 147,292 | 7,958,415 |

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

In accordance with IAS 16 "Property, plant and equipment", subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation, as of 31 December 2004, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

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

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

**(e)** In view of the current market conditions, the Group carried out a review of its property, plant and equipment for impairment in 2004. Based on this review, the carrying amounts of certain machines and equipment were written down by Rmb 66,728,000 (included in "Other operating expenses"). The estimates of recoverable amount were based on the net selling price of the relevant machines and equipment.

## 13. Construction in progress

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Balance at 1 January | **294,963** | 1,636,005 | **290,402** | 1,596,885 |
| Additions | **561,288** | 965,598 | **543,467** | 949,982 |
| Transfer to property, plant and equipment *(note 12)* | **(587,945)** | (2,306,640) | **(567,170)** | (2,256,465) |
| Balance at 31 December | **268,306** | 294,963 | **266,699** | 290,402 |

## 14. Lease prepayments

Lease prepayments represent land use rights on land located in the PRC, which were granted in 1995 and 2001 for a period of 50 years and 44 years respectively from the respective dates of grant.

## 15. Interest in subsidiaries

| | The Company | |
|---|---|---|
| | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* |
| Share of net liabilities, unlisted | **(112,339)** | (105,063) |
| Amounts due from subsidiaries | **800,000** | 800,000 |
| | **687,661** | 694,937 |

## 15. Interest in subsidiaries *(Continued)*

The following list contains only the particulars of subsidiaries, all of which are companies established and operating in the PRC, which principally affected the results, assets or liabilities of the Group:

| Name of company | Registered capital *(in thousand)* | Percentage of equity held: directly by the Company | Percentage of equity held: by subsidiary | Type of legal entity | Principal activity |
|---|---|---|---|---|---|
| Foshan Chemical Fibre United Company Limited | Rmb 32,933 | 90% | 10% | Limited company | Management and administration |
| Yizheng Chemical Fibre Foshan Polyester Company Limited ("**Foshan Polyester**") | US$ 85,427 | 59% | 41% | Limited company | Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after-sales services |
| Yihua Kangqi Chemical Fibre Company Limited | Rmb 60,000 | 95% | 5% | Limited company | Investment holding and trading of polyester chips and polyester fibre |

The amount due from subsidiaries of Rmb 800,000,000 (2003: Rmb 800,000,000) is expected to be recovered after more than one year.

None of the subsidiaries has issued any debt securities.

## 16. Unlisted investment

| | The Group and the Company: **2004** | The Group and the Company: 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| **At cost:** | | |
| Equity investment in Sinopec Finance Company Limited ("**Sinopec Finance**") | **62,500** | 62,500 |

## 17. Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Raw materials | **953,553** | 522,109 | **883,102** | 449,121 |
| Work in progress | **128,745** | 65,666 | **123,282** | 59,802 |
| Finished goods | **312,725** | 171,523 | **255,936** | 129,663 |
| Goods in transit | **41,552** | 24,494 | **–** | – |
| | **1,436,575** | 783,792 | **1,262,320** | 638,586 |
| Spare parts and consumables | **189,989** | 206,923 | **165,719** | 181,746 |
| | **1,626,564** | 990,715 | **1,428,039** | 820,332 |
| Inventories stated at net realisable value | **339,267** | 251,028 | **299,096** | 220,984 |

## 18. Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Trade receivables | **170,411** | 114,186 | **121,581** | 72,263 |
| Bills receivable | **310,550** | 314,170 | **259,987** | 270,340 |
| Amounts due from subsidiaries and fellow subsidiaries – trade | **11,820** | 78,477 | **13,552** | 78,446 |
| | **492,781** | 506,833 | **395,120** | 421,049 |
| Amounts due from parent company and fellow subsidiaries – non-trade | **1,312** | 1,715 | **1,312** | 1,715 |
| Amounts due from subsidiaries – non-trade | **–** | – | **174,545** | 190,424 |
| Other receivables, deposits and prepayments | **120,122** | 73,133 | **98,254** | 55,178 |
| | **614,215** | 581,681 | **669,231** | 668,366 |

Sales are generally on a cash term. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

## 18. Trade and other receivables *(Continued)*

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| **Invoice date:** | | | | |
| Within 1 year | **488,060** | 504,139 | **394,164** | 421,049 |
| Between 1 and 2 years | **3,554** | 2,009 | **956** | – |
| Between 2 and 3 years | **1,165** | 685 | **–** | – |
| Over 3 years | **2** | – | **–** | – |
| | **492,781** | 506,833 | **395,120** | 421,049 |

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

The amount due from a subsidiary is unsecured, interest bearing at 4.56% per annum and has no fixed repayment terms.

## 19. Deposits with banks and other financial institutions

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Balances with banks and other financial institutions | **306,953** | 423,539 | **164,719** | 212,670 |
| Balances with the banks and other financial institutions, which are related parties | | | | |
| – Sinopec Finance | **21,824** | 754,217 | **21,824** | 754,217 |
| – CITIC Industrial Bank | **30,060** | 50,815 | **5,658** | 17,347 |
| | **51,884** | 805,032 | **27,482** | 771,564 |
| | **358,837** | 1,228,571 | **192,201** | 984,234 |
| *Less:* Balances with banks and other financial institutions with an initial term of less than three months *(note 20)* | **(228,003)** | (563,602) | **(160,201)** | (374,234) |
| | **130,834** | 664,969 | **32,000** | 610,000 |

Time deposits of a subsidiary amounting to Rmb 11,035,000 (2003: Rmb nil) were pledged as security for short-term bank loans of Rmb 8,000,000 (2003: Rmb nil) borrowed by a sub-subsidiary as at 31 December 2004.

## 20. Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Cash in hand | **149** | 159 | **38** | 19 |
| Balances with banks and other financial institutions with an initial term of less than three months *(note 19)* | **228,003** | 563,602 | **160,201** | 374,234 |
| | **228,152** | 563,761 | **160,239** | 374,253 |

## 21. Trade and other payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Trade payables | **591,368** | 543,739 | **470,944** | 411,630 |
| Bills payable | **3,462** | 20,239 | **–** | – |
| Amounts due to fellow subsidiaries – trade | **64,172** | 470,555 | **64,172** | 470,555 |
| Amounts due to subsidiaries – trade | **–** | – | **51,685** | 42,085 |
| | **659,002** | 1,034,533 | **586,801** | 924,270 |
| Amounts due to parent companies and fellow subsidiaries – non-trade | **21,492** | 62,361 | **21,492** | 62,361 |
| Other payables and accrued expenses | **629,467** | 561,735 | **606,117** | 524,330 |
| | **1,309,961** | 1,658,629 | **1,214,410** | 1,510,961 |

The maturity analysis of trade payables, bills payable and amounts due to fellow subsidiaries – trade and amounts due to subsidiaries-trade 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 | **659,002** | 827,640 | **586,801** | 729,270 |
| Due after 1 month but within 6 months | **–** | 206,893 | **–** | 195,000 |
| | **659,002** | 1,034,533 | **586,801** | 924,270 |

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

## 22. Bank loans

**(a)** Bank loans as at 31 December 2004 were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Within 1 year or on demand | | | | |
| (i) Short-term bank loans | **281,726** | 718,820 | **193,878** | 633,869 |
| (ii) Short-term loans from the banks and other financial institutions, which are related parties | | | | |
| – Sinopec Finance | **20,000** | – | **20,000** | – |
| – CITIC Industrial Bank | **8,000** | – | **–** | – |
| (iii) Current portion of long-term bank loans | **200,000** | 100,000 | **200,000** | 100,000 |
| | **509,726** | 818,820 | **413,878** | 733,869 |
| After 1 year but within 2 years | **90,000** | 250,000 | **90,000** | 250,000 |
| After 2 years but within 5 years | **100,000** | 90,000 | **100,000** | 90,000 |
| | **190,000** | 340,000 | **190,000** | 340,000 |
| | **699,726** | 1,158,820 | **603,878** | 1,073,869 |

Except for short-term loans of Rmb 8,000,000 (2003: Rmb nil) secured by a pledge of time deposits as detailed in note 19, all the Group's bank loans are unsecured and not guaranteed.

**(b)** At 31 December 2004, the Group's and the Company's weighted average interest rates per annum on short-term bank loans were 3.6% (2003: 4.3%) and 3.9% (2003: 4.5%) respectively.

All the short-term bank loans are denominated in Renminbi and USD.

## 22. Bank loans *(Continued)*

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

| Long-term bank loans | Interest rate | Interest type | The Group and the Company 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|---|---|
| – Due in 2004 | 4.94% | Fixed | **–** | 100,000 |
| – Due in 2005 | 4.94% | Fixed | **200,000** | 250,000 |
| – Due in 2006 | 4.94% | Fixed | **90,000** | 90,000 |
| – Due in 2007 | 4.94% | Fixed | **100,000** | – |
| Total long-term bank loans *(note 30(d))* | | | **390,000** | 440,000 |
| *Less:* Current portion of long-term bank loans | | | **(200,000)** | (100,000) |
| Non-current portion of long-term bank loans | | | **190,000** | 340,000 |

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

## 23. Share capital

| | The Group and the Company 2004 Rmb'000 | 2003 Rmb'000 |
|---|---|---|
| **Registered, issued and paid up capital:** | | |
| 2,400,000,000 "Legal person A" shares of Rmb 1 each | **2,400,000** | 2,400,000 |
| 200,000,000 "A" shares of Rmb 1 each | **200,000** | 200,000 |
| 1,400,000,000 "H" shares of Rmb 1 each | **1,400,000** | 1,400,000 |
| | **4,000,000** | 4,000,000 |

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

## 24. Reserves

| | The Group and the Company | | | | | |
|---|---|---|---|---|---|---|
| | Capital reserve Rmb'000 | Excess over share capital Rmb'000 (note (a)) | Statutory surplus reserve Rmb'000 (note (b)) | Statutory public welfare fund Rmb'000 (note (c)) | Discretionary surplus reserve Rmb'000 (note (d)) | Total Rmb'000 |
| At 1 January 2003 | – | (224,400) | 465,113 | 301,153 | 594,547 | 1,136,413 |
| Transfer from retained profits *(note 25)* | – | – | 24,649 | 23,974 | – | 48,623 |
| Others | 3,927 | – | – | – | – | 3,927 |
| At 31 December 2003 | 3,927 | (224,400) | 489,762 | 325,127 | 594,547 | 1,188,963 |
| Transfer from retained profits *(note 25)* | – | – | 23,284 | 23,284 | – | 46,568 |
| Others | 11,086 | – | – | – | – | 11,086 |
| **At 31 December 2004** | **15,013** | **(224,400)** | **513,046** | **348,411** | **594,547** | **1,246,617** |

*Notes:*

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

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

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

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

The Board of Directors of the Company has resolved to transfer 10% of its current year's profit after taxation amounting to Rmb 23,284,000 (2003: Rmb 23,974,000), to the statutory public welfare fund.

(d) The transfer to the discretionary surplus reserve from profit after taxation is subject to the approval by shareholders at Annual General Meetings. The utilisation of the reserve is similar to that of the statutory surplus reserve.

Neither the Company nor any of its subsidiaries has proposed to transfer any of its profit after taxation to discretionary surplus reserve in respect of the financial year 2004 (2003: Rmb nil).

## 25. *Retained profits*

| | Note | The Group Rmb'000 | The Company Rmb'000 |
|---|---|---|---|
| At 1 January 2003 | | 1,110,549 | 1,118,259 |
| Profit attributable to shareholders | | 259,131 | 256,468 |
| Transfer to reserves | *24* | (48,623) | (48,623) |
| Dividend in respect of previous year and approved during the year | *10(b)* | (60,000) | (60,000) |
| At 31 December 2003 | | 1,261,057 | 1,266,104 |
| Profit attributable to shareholders | | 240,383 | 241,990 |
| Transfer to reserves | *24* | (46,568) | (46,568) |
| Dividend in respect of previous year and approved during the year | *10(b)* | (100,000) | (100,000) |
| **At 31 December 2004** | | **1,354,872** | **1,361,526** |

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. As at 31 December 2004, the amount of retained profits available for distribution, which was the amount determined in accordance with the PRC Accounting Rules and Regulations, was Rmb 724,967,000 (2003: Rmb 638,691,000). Final dividend of Rmb 100,000,000 (2003: Rmb 100,000,000) in respect of the financial year 2004 was proposed after the balance sheet date.

## 26. *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 the schemes of the Company and its principal subsidiary, Foshan Polyester, are as follows:

| **Administrator** | **Beneficiary** | **Contribution rate** | |
|---|---|---|---|
| | | **2004** | 2003 |
| Yizheng Municipal Government, Jiangsu Province | Employees of the Company | **18%** | 17% |
| Foshan Municipal Government, Guangdong Province | Employees of Foshan Polyester | **10%** | 15% |

All employees are entitled to retirement benefits equal to a fixed proportion of their salaries and benefits in kind prevailing at their normal retirement ages.

## 26. Retirement benefits *(Continued)*

Other than the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. 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 2004 was 9% (2003: 9%).

The Group has no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

## 27. Related party transactions

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

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

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

| | **2004**<br>***Rmb'000*** | 2003<br>*Rmb'000* |
|---|---|---|
| **Yangzi** | | |
| Purchases of raw materials | **2,768,827** | 1,923,625 |
| **Zhenhai** | | |
| Purchases of raw materials | **1,771,026** | 293,474 |
| **Yihua and its subsidiaries ("Yihua Group")** | | |
| Sales | **658,276** | 1,109,627 |
| Purchases | **120,068** | 140,340 |
| Miscellaneous service fee charges *(see note below)* | **105,797** | 123,447 |
| Miscellaneous service fee income *(see note below)* | **20,059** | 30,313 |
| Trademark licence fee *(see note below)* | **10,000** | 10,000 |
| Payments relating to the construction and maintenance work | **41,329** | 91,648 |

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

## 27. *Related party transactions (Continued)*

| | 2004<br>Rmb'000 | 2003<br>Rmb'000 |
|---|---|---|
| **Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)** | | |
| Service charges for the purchase of import equipment | – | 5,435 |
| Purchase of equipment | **10,053** | 34,983 |
| Purchase of raw materials | **266,418** | 150,504 |
| Subsidy received in respect of technological research and development | – | 12,270 |
| **CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries and Sinopec Finance)** | | |
| Payments for construction work | **15,860** | 37,542 |
| Purchase of equipment | – | 12,707 |
| Purchase of raw materials | **194,919** | 22,264 |
| Insurance premium | **34,152** | 25,672 |
| **Sinopec Finance** | | |
| Interest income | **4,339** | 10,752 |
| Interest expense | **5,519** | – |
| **CITIC Industrial Bank** | | |
| Interest income | **957** | 800 |
| Interest expense | **16,871** | 1,115 |

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

## 28. *Contingent liabilities*

At 31 December 2004, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank credit facilities granted to a wholly-owned subsidiary totalling Rmb 147,968,000 (2003: Rmb 181,311,000).

## 29. Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding at 31 December 2004 not provided for in the financial statements as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Contracted for | **–** | 17,520 | **–** | – |
| Authorised but not contracted for | **562,908** | 991,461 | **562,908** | 991,461 |
| | **562,908** | 1,008,981 | **562,908** | 991,461 |

## 30. Financial instruments

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

### (b) Credit risk

*Deposits with banks and other financial institutions*

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.

*Trade and other receivables*

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

### (c) Foreign currency risk

The Group has foreign currency risk as dividend paid to H-share shareholders was in Hong Kong dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

## 30. *Financial instruments* *(Continued)*

### (d) Fair value

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

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

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

The following table presents the carrying amount and fair value of the Group's long-term bank loans at 31 December 2004:

| | **2004** | | 2003 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***Rmb'000*** | ***Rmb'000*** | *Rmb'000* | *Rmb'000* |
| Long-term bank loans *(note 22(c))* | **390,000** | **376,656** | 440,000 | 442,544 |

The fair values of long-term bank loans as estimated based on applying a discounted cash flow using current market interest rates for similar financial instruments.

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

## 31. Note to the consolidated cash flow statement

Reconciliation of profit from ordinary activities before taxation to cash generated from operations is as follows:

| | **2004** | 2003 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Profit from ordinary activities before taxation | **276,792** | 313,398 |
| Depreciation charge | **940,286** | 817,581 |
| Interest and dividend income | **(14,497)** | (22,664) |
| Interest expense | **82,734** | 70,105 |
| Impairment losses of property, plant and equipment | **66,728** | – |
| Loss/(gain) on disposal of property, plant and equipment | **67,633** | (472) |
| (Increase)/decrease in inventories | **(635,849)** | 196,135 |
| (Increase)/decrease in trade and other receivables | **(32,853)** | 53,404 |
| Decrease in lease prepayments | **4,980** | 4,608 |
| Decrease in trade and other payables | **(374,399)** | (46,232) |
| Cash generated from operations | **381,555** | 1,385,863 |

## 32. Parent companies

The directors consider the immediate parent company and the ultimate parent company at 31 December 2004 to be Sinopec Corp and CPC respectively, which are incorporated in the PRC.