1. ORGANISATION AND PRINCIPAL ACTIVITIES

Sinopec Beijing Yanhua Petrochemical Company Limited (the "Company") was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 23 April 1997 as part of the reorganisation ("Reorganisation") of Beijing Yanshan Petrochemical Company Limited ("Yanshan Company") in preparation for the listing of the Company's shares. The Company's shares and American Depository Shares ("ADSs") were listed on the Hong Kong Stock Exchange and the New York Stock Exchange respectively in June 1997.

Upon the Reorganisation, the Company became a subsidiary of Yanshan Company. On 25 February 2000, China Petrochemical Corporation ("Sinopec Group" or "Ultimate Parent Company"), underwent a reorganisation, and formed a subsidiary, China Petroleum and Chemical Corporation ("Sinopec" or "Immediate Parent Company"). In accordance with the reorganisation agreement, Yanshan Company, previously the Company's parent company, transferred its 70% equity interest in the Company to Sinopec.

The principal activities of the Company are the manufacturing and sale of petrochemical products in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board. IFRS includes 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 the Securities on The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation

These financial statements are prepared on the historical cost convention as modified by the revaluation of property, plant and equipment as stated in accounting policy (d). The accounting policies have been consistently applied by the Company.

The International Accounting Standards Board 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 Company has not early adopted these new IFRS in the financial statements for the year ended 31 December 2004. The Company 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.

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 the 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.

(c) Translation of foreign currencies

The functional and reporting currency of the Company is Renminbi. Transactions in foreign currencies are translated into Renminbi at the applicable exchange rates quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable PBOC rates at the balance sheet date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Translation of foreign currencies (continued)

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

(d) Property, plant and equipment

(i) Property, plant and equipment are initially stated at cost less accumulated depreciation and impairment losses (refer to accounting policy (j)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 9), 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. Revaluations are 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. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the period in which it is incurred.

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer to accounting policy (j)). 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 periods of construction.

Capitalisation of these borrowing costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

(ii) Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

(iii) Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment after taking into account the asset's estimated residual value. The estimated useful lives are as follows:

Buildings	20-40 years
Plant, machinery and equipment	4-20 years
Motor vehicles	8 years
Office equipment and others	5-30 years

No depreciation is provided in respect of construction in progress.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate 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 sale.

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

(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 the evaluation of the recoverability of these accounts at the balance sheet date.

(g) Cash and cash equivalents

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

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

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.

(i) Revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Company assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(k) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(l) Operating leases

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

(m) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income from bank deposits, foreign exchange gains and losses, and other related costs incurred in connection with borrowings.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Repairs and maintenance expenses

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

(o) Retirement benefits

The contributions payable under the Company's retirement scheme are charged to the income statement as incurred and according to the contribution determined by the scheme. Further information is set out in Note 21.

(p) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rate. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to the income statement.

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.

(q) Dividends

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

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company 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 Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.

3. TURNOVER

Turnover represents revenue from sales of goods to customers, net of value added tax.

4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

(a) Net financing costs

	2004 RMB'000	2003 RMB'000
Interest expense	72,330	152,424
Less: Amount capitalised as construction in progress*	(2,600)	(9,600)
Interest expense, net	69,730	142,824
Interest income	(4,147)	(2,391)
Foreign exchange loss, net	292	8
Others	23,625	25,495
	89,500	165,936

* Borrowing costs have been capitalised at a rate of between 1.62% to 5.31% (2003: 1.67% to 5.31%) per annum for construction in progress.

(b) Other items

	2004 RMB'000	2003 RMB'000
Cost of inventories#	12,758,732	9,723,562
Depreciation#	931,603	890,779
Repairs and maintenance expenses#	488,742	382,281
Research and development costs	51,033	79,036
Staff costs#		
--Wages and salaries, welfare and other costs	470,990	334,621
--Contributions to defined contribution retirement scheme	56,801	42,674
Auditors' remuneration	3,477	2,980
Operating lease expenses in respect of machinery and equipment	14,688	15,504

Cost of inventories includes RMB 1,744,975,000 (2003: RMB 1,483,608,000) relating to staff costs, depreciation, repairs and maintenance expenses, which amount is also included in the respective total amounts disclosed separately.

5. INCOME TAX EXPENSE

Income tax expense in the income statement represents:

	2004 RMB'000	2003 RMB'000
Provision for PRC income tax for the year	1,421,076	286,903
Deferred taxation (Note 10)	(59,681)	(43,681)
	1,361,395	243,222

The provision for PRC income tax is calculated at the rate of 33% (2003: 33%) on the estimated assessable income of the Company determined in accordance with relevant income tax rules and regulations of the PRC. The Company did not carry on business overseas or in Hong Kong and therefore did not incur overseas and Hong Kong income taxes.

A reconciliation of the expected income tax with the actual income tax expense is as follows:

	2004 RMB'000	2003 RMB'000
Profit from ordinary activities before taxation	4,257,254	877,107
Expected PRC income tax at a statutory tax rate of 33%	1,404,894	289,445
Non-deductible expenses	2,765	240
Tax credit for capital expenditure (Note (a))	(46,264)	(36,858)
Non-taxable items	-	(9,605)
Income tax expense	1,361,395	243,222

Note (a): Pursuant to the document "Cai Shui Zi (1999) No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company was entitled to an income tax credit of RMB 46,264,000 (2003: RMB 36,858,000) during the year which is determined based on a percentage of the purchased amount of equipment produced in the PRC for technological improvements.

6. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

Name	Basic salaries and allowance		Bonus		Retirement scheme contributions		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Amounts in RMB'000)									
Directors:										
Du Guosheng#	36	73	31	147	7	13	4	3	78	236
Wang Yongjian#	36	-	150	-	7	-	7	-	200	-
Yang Qingyu	64	60	147	134	14	12	9	3	234	209
Xu Hongxing	61	59	143	133	14	13	9	3	227	208
Wang Yuying	-	-	-	-	-	-	-	-	-	-
Wang Ruihua	-	-	-	-	-	-	-	-	-	-
Cui Guoqi	-	-	-	-	-	-	-	-	-	-
Xiang Hanyin	-	-	-	-	-	-	-	-	-	-
Independent directors:										
Zhang Yanning	-	-	-	-	-	-	-	-	-	-
Liu Haiyan	-	-	-	-	-	-	-	-	-	-
Yang Xuefeng	-	-	-	-	-	-	-	-	-	-
Supervisors:										
Shang Bo	-	-	-	-	-	-	-	-	-	-
Ren Jinxiang	-	-	-	-	-	-	-	-	-	-
Wang Guifen	-	-	-	-	-	-	-	-	-	-
Wang Shulan	-	-	-	-	-	-	-	-	-	-
Liu Changwei	51	34	154	83	6	11	4	2	215	130
Rong Guozhong	49	42	108	65	13	9	4	1	174	117
Zhang Jianjun	-	-	-	-	-	-	-	-	-	-
Geng Dianming	-	-	-	-	-	-	-	-	-	-
Zhao Shaohua	-	-	-	-	-	-	-	-	-	-
	297	268	733	562	61	58	37	12	1,128	900

\# Mr. Du Guosheng was resigned as executive director and chairman of the Company with effect from 10 July 2004. Mr. Wong Yongjian, a non-executive director, was re-designated as executive director and assume the role of chairman of the Company with effect from the same date.

No directors or supervisors received any fees during the years ended 31 December 2004 and 2003.

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. There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the years ended 31 December 2004 and 2003.

6. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

(b) Emoluments to the five highest paid individuals (including directors, supervisors and employees)

	2004	2003
	RMB'000	RMB'000
Basic salaries and allowance	270	292
Bonus	736	622
Retirement scheme contributions and others	95	75
	1,101	989

For the year ended 31 December 2004, the five highest paid individuals of the Company included three directors and one supervisor (2003: three directors), whose emoluments had been included in Note (a) above. Each of the highest paid individuals received less than HK$ 1,000,000.

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

7. DIVIDENDS

(a) The Directors did not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: RMB 0.05 per share).

(b) Dividends 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 0.05 per share (2003: Nil)	168,700	-

Pursuant to the shareholders' approval at the Annual General Meeting on 18 June 2004, a final dividend of RMB 0.05 per share totalling RMB 168,700,000 in respect of the year ended 31 December 2003 was declared and paid on 2 July 2004.

8. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB 2,895,859,000 (2003: RMB 633,885,000) and the weighted average number of shares of 3,374,000,000 (2003: 3,374,000,000) during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years ended 31 December 2004 and 2003.

9. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, Machinery and Equipment	Motor Vehicles	Office Equipment and Others	Construction in Progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:						
At 1 January 2004	1,072,222	13,194,226	120,249	857,093	68,052	15,311,842
Additions	-	4,412	-	-	293,740	298,152
Transfer in/(out)	12,003	179,554	6,991	22,074	(220,622)	-
Disposals	(34,851)	(610,892)	(11,440)	(75,753)	-	(732,936)
Reclassification	6,443	(7,684)	-	1,241	-	-
At 31 December 2004	1,055,817	12,759,616	115,800	804,655	141,170	14,877,058
Accumulated depreciation:						
At 1 January 2004	(418,051)	(6,993,320)	(69,379)	(442,972)	-	(7,923,722)
Depreciation for the year	(45,467)	(816,363)	(9,253)	(60,520)	-	(931,603)
Written back on disposal	30,476	547,070	11,056	70,637	-	659,239
Reclassification	396	(43)	-	(353)	-	-
At 31 December 2004	(432,646)	(7,262,656)	(67,576)	(433,208)	-	(8,196,086)
Net book value:						
At 31 December 2004	623,171	5,496,960	48,224	371,447	141,170	6,680,972
At 31 December 2003	654,171	6,200,906	50,870	414,121	68,052	7,388,120

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

The property, plant and equipment of the Company were valued by a firm of qualified independent valuers on 23 April 1997, using the depreciated replacement costs and open market value approach. The valuation was performed in compliance with the PRC laws and regulations as part of the Reorganisation. As a result of the appraisal, an increase in value of the property, plant and equipment of approximately RMB 989 million was recorded as of 23 April 1997. The land use rights in respect of land located in the PRC granted in 1997 for a period of 50 years from the date of grant are stated at their historical costs less accumulated amortisation and impairment losses.

In accordance with IAS 16 Property, Plant and Equipment, subsequent to this revaluation, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less accumulated depreciation and impairment losses. 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. Based on a revaluation performed at 31 December 2004, which was based on depreciated replacement costs, the carrying amounts of property, plant and equipment did not differ materially from their fair values.

10. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

	2004 RMB'000	2003 RMB'000
Deferred tax assets:		
Current		
Provision for receivables	91,354	77,793
Provision for inventories	30,437	21,404
Non-current		
Land use rights	229,546	234,970
	351,337	334,167
Deferred tax liabilities:		
Non-current		
Property, plant and equipment	(139,146)	(166,074)
Accelerated depreciation	(41,394)	(55,581)
Interest capitalisation	(23,142)	(24,538)
	(203,682)	(246,193)
Net deferred tax assets	147,655	87,974

10. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in the deferred tax assets and liabilities are as follows:

	Balance at 1 January 2004 RMB'000	Recognised in income statement RMB'000	Balance at 31 December 2004 RMB'000
Current			
Provision for receivables	77,793	13,561	91,354
Provision for inventories	21,404	9,033	30,437
Non-current			
Land use rights	234,970	(5,424)	229,546
Property, plant and equipment	(166,074)	26,928	(139,146)
Accelerated depreciation	(55,581)	14,187	(41,394)
Interest capitalisation	(24,538)	1,396	(23,142)
Net deferred tax assets	87,974	59,681	147,655

11. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	405,440	361,463
Work in progress	336,388	207,272
Finished goods	207,964	184,498
Spare parts and consumables	347,072	322,955
	1,296,864	1,076,188
Less: Allowance for diminution in value of inventories	(92,232)	(64,860)
	1,204,632	1,011,328

At 31 December 2004, the Company had inventories, other than spare parts and consumables, carried at net realisable value with carrying amount of RMB 56,983,000 (2003: RMB 70,320,000).

12. TRADE RECEIVABLES AND BILLS RECEIVABLE

	2004 RMB'000	2003 RMB'000
Trade receivables		
--Third parties	261,429	309,071
--Parent companies and fellow subsidiaries (Note 16)	116,705	98,715
Less: Allowance for doubtful accounts	(241,449)	(200,100)
Subtotal	136,685	207,686
Bills receivable		
--Third parties	720,771	213,435
--Parent companies and fellow subsidiaries (Note 16)	7,475	2,000
Subtotal	728,246	215,435
Total	864,931	423,121

The ageing analysis of trade receivables and bills receivable is as follows:

Within one year	807,561	299,219
Between one and two years	30,513	85,399
Between two and three years	63,224	24,505
Over three years	205,082	214,098
Less: Allowance for doubtful accounts	(241,449)	(200,100)
	864,931	423,121

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

13. PREPAYMENTS AND OTHER CURRENT ASSETS

	2004 RMB'000	2003 RMB'000
Other receivables		
--Third parties	42,734	74,753
--Parent companies and fellow subsidiaries (Note 16)	118,690	88,198
Less: Allowance for doubtful accounts	(35,380)	(35,633)
Subtotal	126,044	127,318
Prepayments		
--Third parties	11,468	13,002
--Parent companies and fellow subsidiaries (Note 16)	49,503	16,808
Subtotal	60,971	29,810
Total	187,015	157,128

14. TRADE PAYABLES AND BILLS PAYABLE

	2004 RMB'000	2003 RMB'000
Trade payables		
--Third parties	709	34,918
--Parent companies and fellow subsidiaries (Note 16)	14,974	134,882
Subtotal	15,683	169,800
Bills payable		
--Parent companies and fellow subsidiaries (Note 16)	-	30,000
Total	15,683	199,800

The ageing analysis of trade payables and bills payable is as follows:

Due within three months or on demand	14,974	199,374
Due after three months and within six months	-	-
Due after six months	709	426
	15,683	199,800

15. ACCRUALS AND OTHER PAYABLES

	2004 RMB'000	2003 RMB'000
Receipts in advance		
--Third parties	193,373	143,003
--Parent companies and fellow subsidiaries (Note 16)	10,161	3,099
Subtotal	203,534	146,102
Amounts due to parent companies and fellow subsidiaries (Note 16)	70,020	38,827
Accrued expenses	183,552	302,156
Others	97,473	42,677
	554,579	529,762

16. AMOUNTS DUE FROM/TO PARENT COMPANIES AND FELLOW SUBSIDIARIES

Amounts due from/to parent companies and fellow subsidiaries are unsecured, interest free with no fixed repayment terms and arose in the ordinary course of business (See Note 22).

17. BANK LOANS

Bank loans are unsecured and are repayable as follows:

	2004 RMB'000	2003 RMB'000
Between two to five years	-	887,166
Between one to two years	704,153	709,193
Subtotal	704,153	1,596,359
Within one year		
Current portion of long-term loans	9,203	18,401
Short-term loans	100,000	1,070,000
Subtotal	109,203	1,088,401
Total	813,356	2,684,760

Short-term loans are unsecured loans without guarantee and repayable in full when due. The Company's weighted average interest rate on short-term loans was 4.64% (2003: 4.82%).

17. BANK LOANS (Continued)

Long-term bank loans comprise:

	Interest rate	2004 RMB'000	2003 RMB'000
US Dollar denominated:			
Due in 2006	Libor+0.5%~ Floating rate quoted by the PBOC	704,153	887,166
Payable semi-annually through 2005	Libor+1%	9,203	27,594
Renminbi denominated:			
Due in 2005	Fixed at 4.94%	-	700,000
Total long-term loans outstanding		713,356	1,614,760
Less: Amounts due within one year		(9,203)	(18,401)
Amounts due after one year		704,153	1,596,359

18. LOANS FROM PARENT COMPANIES AND FELLOW SUBSIDIARIES

Loans from parent companies and fellow subsidiaries are unsecured and are repayable on demand as follows:

	2004 RMB'000	Interest rate	2003 RMB'000
Loan from Sinopec	-	Interest free	30,000
Loan from Sinopec Group	-	Floating rate quoted by the PBOC	70,000
	-		100,000

19. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
Registered, issued and fully paid		
2,362,000,000 domestic shares of RMB 1.00 each	2,362,000	2,362,000
1,012,000,000 H shares of RMB 1.00 each	1,012,000	1,012,000
	3,374,000	3,374,000

All the H shares and domestic shares rank pari passu in all material respects. Domestic shares are those issued to Yanshan Company in the PRC for the net assets transferred to the Company in connection with the Reorganisation. H shares are those issued to investors outside the PRC and traded on the Hong Kong Stock Exchange and, in the form of ADSs, on the New York Stock Exchange.

20. RESERVES

	Statutory surplus reserve	Statutory public welfare fund	Capital reserve	Revaluation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (b)	Note (c)	Note (d)		
At 1 January 2003	111,909	111,908	(951,146)	740,237	12,908
Appropriations	52,226	52,226	-	-	104,452
Revaluation surplus realised	-	-	-	(34,793)	(34,793)
At 31 December 2003	164,135	164,134	(951,146)	705,444	82,567
At 1 January 2004	164,135	164,134	(951,146)	705,444	82,567
Appropriations	286,696	286,696	-	-	573,392
Revaluation surplus realised	-	-	-	(69,032)	(69,032)
At 31 December 2004	450,831	450,830	(951,146)	636,412	586,927

Notes:

(a) According to the Company's Articles of Association, the net profit for the year can only be appropriated after offsetting the previous years' losses, if any, as determined in accordance with the PRC Accounting Rules and Regulations.

(b) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit (subject to Note (a) described above), as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be 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.

For the year ended 31 December 2004, the Company transferred RMB 286,696,000 (2003: RMB 52,226,000), being 10% of the current year's net profit after offsetting the previous years' losses determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

20. RESERVES (Continued)

(c) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit (subject to Note (a) described above), as determined in accordance with the 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 fund must be made before distribution of a dividend to shareholders.

For the year ended 31 December 2004, the directors authorised a transfer of RMB 286,696,000 (2003: RMB 52,226,000), subject to shareholders' approval, being 10% of the current year's net profit after offsetting the previous years' losses determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

(d) The capital reserve represents the difference between the total amount of the par value of shares issued to Yanshan Company and the amount of the net assets received from Yanshan Company in connection with the Reorganisation.

(e) According to the Company's Articles of Association, the retained earnings 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. At 31 December 2004, the amount of retained profits available for distribution was RMB 2,542,681,000 (2003: RMB 417,808,000), being the amount determined in accordance with the PRC Accounting Rules and Regulations. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2004 (2003: RMB 168,700,000).

21. RETIREMENT SCHEME

The Company's full-time employees are covered by a state-sponsored pension scheme, and are entitled to an annual pension equal to a fixed proportion of their basic salaries at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Company is required to make contributions to the retirement scheme at a rate of 20% (2003: 20%) of the employees' salaries. The Company provides no retirement benefits other than the contributions described above.

22. RELATED PARTY TRANSACTIONS

A significant portion of the transactions undertaken by the Company is with, and on terms determined by Sinopec Group and Sinopec and its affiliates.

The following is a summary of significant related party transactions with Sinopec Group and Sinopec and its affiliates:

	2004	2003
	RMB'000	RMB'000
Sale of goods	2,862,045	1,594,649
Purchase of inventories	9,391,593	6,226,765
Utilities provided to the Company	1,180,899	1,025,145
Social services (environmental protection, employee housing, health care, education, public security and other ancillary services) provided to the Company	115,293	115,093
Construction and repair services provided to the Company	14,183	52,776
Miscellaneous expenses paid on behalf of the Company	70,000	-
Interest expense paid	1,164	5,528
Interest income received	604	218
Technological development expenses paid	1,688	30,000
Technological development fees received	-	23,130
Insurance premium paid	40,650	40,030
Insurance premium received	12,416	8,735
Sale of property, plant and equipment	24,691	8,844
Agency fee	19,272	-

In accordance with the supply agreement, Sinopec and its affiliates provide materials and services to the Company at state or market prices, and the Company provides products to Sinopec and its affiliates at state or market prices.

Interest income received represents interest from deposits placed with Sinopec Group and its affiliates. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2004 was RMB 142,589,484 (2003: RMB 864,578).

The Company maintains insurance coverage on its properties, facilities and inventories with Sinopec Group. Insurance premium is paid on a semi-annual basis and is determined on a percentage of the book value of the covered assets. The Company has no obligations to the insurance scheme maintained by Sinopec Group other than the payment of insurance premiums.

22. RELATED PARTY TRANSACTIONS (Continued)

At 31 December 2004, guarantees provided by Sinopec Group and its affiliates in respect of the Company's long-term bank loans which consisted of loans of USD 86,190,529 (2003: USD 88,412,529).

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, all of which have been reviewed and approved by the independent non-executive directors.

23. SEGMENT INFORMATION

All of the Company's production and sales operations are conducted in the PRC.

The Company's reportable business segments include resins and plastics, synthetic rubber, basic organic chemical products and others. The resins and plastics unit manufactures and sells petrochemical products including LDPE, polypropylene, HDPE, polyester chips and polystyrene. The synthetic rubber unit manufactures and sells cis-polybutadiene and SBS rubber. The basic organic chemical products unit manufactures and sells organic chemical products including phenol, acetone, ethylene glycol, ethylene and propylene. The others segment includes miscellaneous petrochemical products not classified in the above three business segments.

The reportable business segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that Company operates mainly in the PRC, no geographical segmental information is presented.

The Company evaluates the performance and allocates resources to its operating segments on a gross profit basis. The accounting policies of the Company's segments are the same as those described in the Significant Accounting Policies (see Note 2).

23. SEGMENT INFORMATION (Continued)

	2004 RMB'000	2003 RMB'000
External sales		
Resins and Plastics	9,621,409	6,332,332
Synthetic Rubber	2,594,692	1,923,773
Basic Organic Chemical Products	4,859,694	2,700,036
Others	864,026	517,787
Total external sales	17,939,821	11,473,928
Cost of sales		
Resins and Plastics	(6,726,852)	(5,575,377)
Synthetic Rubber	(1,913,125)	(1,474,901)
Basic Organic Chemical Products	(3,511,425)	(2,172,872)
Others	(607,330)	(500,412)
Total cost of sales	(12,758,732)	(9,723,562)
Segment gross profit		
Resins and Plastics	2,894,557	756,955
Synthetic Rubber	681,567	448,872
Basic Organic Chemical Products	1,348,269	527,164
Others	256,696	17,375
Total segment gross profit	5,181,089	1,750,366
Selling, general and administrative expenses	(785,300)	(721,418)
Net financing costs	(89,500)	(165,936)
Other operating income	44,052	73,243
Other operating expenses	(93,087)	(59,148)
Profit from ordinary activities before taxation	4,257,254	877,107
Income tax expense	(1,361,395)	(243,222)
Profit attributable to shareholders	2,895,859	633,885

23. SEGMENT INFORMATION (Continued)

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consist primarily of cash and cash equivalents, deferred tax assets and office equipment. "Unallocated liabilities" consist primarily of bank loans, loans from parent companies and fellow subsidiaries, income tax payable and deferred tax liabilities.

	2004	2003
	RMB'000	**RMB'000**
Segment assets		
Resins and Plastics	4,658,196	4,918,531
Synthetic Rubber	1,230,891	1,289,174
Basic Organic Chemical Products	2,430,625	2,154,306
Others	395,525	431,422
Total segment assets	8,715,237	8,793,433
Unallocated assets	1,425,329	751,878
Total assets	10,140,566	9,545,311
Segment liabilities		
Resins and Plastics	169,466	232,731
Synthetic Rubber	48,438	58,355
Basic Organic Chemical Products	100,143	98,095
Others	16,073	18,139
Total segment liabilities	334,120	407,320
Unallocated liabilities	1,423,455	3,482,159
Total liabilities	1,757,575	3,889,479

23. SEGMENT INFORMATION (Continued)

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 year.

	2004	2003
	RMB'000	RMB'000
Capital expenditure		
Resins and Plastics	157,191	230,628
Synthetic Rubber	44,707	61,013
Basic Organic Chemical Products	82,194	90,281
Others	14,060	20,315
	298,152	402,237
Depreciation		
Resins and Plastics	491,159	510,740
Synthetic Rubber	139,690	135,116
Basic Organic Chemical Products	256,824	199,934
Others	43,930	44,989
	931,603	890,779

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

The Company leases machinery and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of these operating lease agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2004, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	2004	2003
	RMB'000	RMB'000
Within one year	12,978	12,978

24. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Capital commitments

At 31 December 2004, the Company had capital commitments as follows:

	2004	2003
	RMB'000	RMB'000
Authorised and contracted for	73,187	56,996
Authorised but not contracted for	52,371	196,330
	125,558	253,326

These capital commitments relate to the purchase or construction of production facilities.

25. FINANCIAL INSTRUMENTS

Financial assets of the Company include cash and cash equivalents, trade receivables, bills receivable and other receivables. Financial liabilities of the Company include bank loans, trade payables and other payables. The Company had no positions in derivative contracts that qualified or were designated as hedging instruments as at 31 December 2004 and 2003.

(a) Interest rate risk

The interest rates and terms of repayment of loans of the Company are disclosed in Notes 17 and 18.

(b) Credit risk

The carrying amounts of cash and cash equivalents, trade and bills receivables, and other receivables represent the Company's maximum exposure to credit risk in relation to financial assets.

The majority of the Company's trade receivables relate to sales of chemical products to related parties and third parties operating in the chemical industries. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Company maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

25. FINANCIAL INSTRUMENTS (Continued)

(c) Foreign currency risk

Substantially all of the revenue generating operations of the Company are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy or sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

(d) Fair value

The following disclosure of the estimated fair value of financial instruments is made in accordance with requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Company's financial instrument, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Company's financial statements and related notes. The estimated fair value amounts have been determined by the Company using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

25. FINANCIAL INSTRUMENTS (Continued)

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

	2004		2003	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Long-term bank loans	704,153	704,153	1,596,359	1,596,359

The fair values of long-term bank loans are estimated by discounting future cash flows thereon using current market interest rates offered to the Company for debts with substantially the same characteristics and maturities.

The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

26. POST BALANCE SHEET EVENT

The Company and Sinopec issued a joint announcement on 29 December 2004 regarding the proposed privatisation of the Company by Sinopec through Beijing Feitian Petrochemical Company Limited, a wholly owned subsidiary of Sinopec, by way of merger by absorption under Article 184 of the PRC Company Law. A composite document detailing the Company's privatisation scheme was issued on 17 January 2005. Respective special general meetings were held by shareholders and independent shareholders of the Company on 4 March 2005, and passed the resolution to approve the proposed privatisation.

27. PARENT COMPANIES

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