

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE 'S REPUBLIC OF CHINA)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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REPORT OF THE AUDITORS TO THE HOLDERS OF B SHARES OF
SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
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(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

We have audited the accompanying consolidated balance sheets of the Shenzhen Petrochemical Industry (Group) Co., Ltd (the "Company") and its subsidiaries (the "Group") as of 31 December 2003, and the related consolidated income statement, cash flow and changes in equity for the year then ended. These financial statements set out on pages 3 to 4 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with International Standards on Auditing. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our ability to obtain reasonable assurance on the financial statements was impeded as stated in the following paragraphs:

As discussed in Notes 14 and 16 to the financial statements, the Company was unable to implement controls over certain of its subsidiaries and, as a result, did not include these subsidiaries in the consolidated financial statements. Owing to the inability of management to estimate the effect of non-consolidation, we cannot substantiate the effects of not incorporating the financial statements of the subsidiaries in the Company's financial statements.

As discussed in Note 34 to the financial statements, there exists uncertainty relating to the proper transfer of a bank loan in the amount of RMB\$270,000,000 from the Company to another company and whether the Company should recognize this bank loan. We were not provided with adequate financial information in respect of this event and there were no other satisfactory audit procedures that we could adopt to assess the impact of this event to the financial statements as at 31 December 2003.

As discussed in Note 2 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared, the Group has incurred a net loss for the year ended 31 December 2003 of RMB309,773,000 and, as of that date, the Group's liabilities exceeded its assets by RMB2,406,774,000. Notwithstanding the loss for the year and the deficiency of net assets at 31 December 2003, the directors have prepared the financial statements on the going concern basis. In the opinion of the directors, in order for the Group to continue as a going concern, a restructuring of the Group's debts will be required and such restructuring will require the strong support of both the relevant government authorities and the Group's creditors. At the date of this report, the aforementioned issues have not been successfully resolved and it is likely that the Company will be de-listed as it has experienced losses for three consecutive years. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Because of the significance of the matters referred to in the preceding paragraphs, we do not express an opinion on the financial statements.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

26 April 2004

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Turnover	4	—	614,678
Cost of sales		—	(526,422)
		—————	—————
Gross profit		—	88,256
Other revenue	6	4,561	6,786
Distribution costs		—	(29,752)
Administrative expenses		(8,518)	(76,461)
Write-back of / (provision for) doubtful debts		10,777	(59,616)
Provision for compensation payment for litigation		—	(42,866)
Provision for payment for breach of contracts		—	(9,856)
Provision for economic compensation for employees		(1,714)	(36,036)
Other operating expenses		(761)	(2,161)
Write-back of / (provision for) impairment loss on fixed assets	12	26,567	(91,110)
Provision for impairment loss on construction in progress		—	(5,346)
Provision for impairment loss on intangible assets		—	(360)
		—————	—————
Profit /(loss) from operating activities	7	30,912	(258,522)
Finance costs	8	(68,361)	(102,359)
Share of results of associates		—	(4,047)
Provision for impairment loss on interests in non-consolidated subsidiaries	16	(66,230)	—
Provision for impairment loss on long term investments		—	(14,091)
Gain on disposal of long term investments and subsidiaries		496	13,974
Loss on disposal of other investments		—	(167)
Provision for guarantees given to banks	22	(206,590)	(116,844)
		—————	—————
Loss before taxation		(309,773)	(482,056)
Taxation	9	—	(4,891)
		—————	—————
Loss before minority interests		(309,773)	(486,947)
Minority interests		—	35,257
		—————	—————
Loss attributable to shareholders		(309,773)	(451,690)
		=====	=====

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003(continued)

Loss per share				
---basic	11	RMB(1.02)	RMB (1.49)	
---diluted	11	N/A	N/A	

The notes on page 10 to 41 form part of these financial statements

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Non-current assets			
Fixed assets	12	88,004	330,487
Construction in progress	13	—	14,763
Intangible assets	15	—	10,366
Interests in non-consolidated subsidiaries	16	108,394	30,762
Interests in associates	17	(46)	2,977
Long term investments	18	12,172	29,766
		208,524	419,121
Current assets			
Inventories	19	—	88,457
Accounts receivable, other receivables and prepayments		2,075	160,591
Short term investments	20	—	200
Cash and bank balances		1,485	72,277
		3,560	321,525
Current liabilities			
Accounts payable and other payables		812,306	520,862
Bank and government loans due within one year	21	722,581	1,230,163
Tax payable		1,059	6,784
Staff bonus and welfare fund		441	1,518
Provision for guarantees given to banks	22	1,063,627	878,341
Provision for guarantees given to customers	22	18,844	18,850
Provision for compensation payment for litigation		—	42,866
Provision for payment for breach of contracts		—	9,856
Provision for economic compensation for staffs	23	—	35,030
		2,618,858	2,744,270
Net current liabilities		(2,615,298)	(2,422,745)
Total assets less current liabilities		(2,406,774)	(2,003,624)

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED BALANCE SHEET (continued)
AS AT 31 DECEMBER 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Non-current liabilities			
Long term bank loans	21	—	3,106
Long term payables	24	—	7,596
Minority interests		—	82,675
		—————	—————
Net liabilities		(2,406,774)	(2,097,001)
		=====	=====
Equity			
Share capital	25	303,355	303,355
Reserves	26	(2,710,129)	(2,400,356)
		—————	—————
Shareholders' deficiency		(2,406,774)	(2,097,001)
		=====	=====

The notes on page 10 to 41 form part of these financial statements

Approved and authorized for issue by the board of directors on 26 April 2004

DIRECTOR

DIRECTOR

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
 (ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 AS AT 31 DECEMBER 2003

	<u>Share capital</u>	<u>Capital</u> <u>reserve</u>	<u>Accumulated</u> <u>losses</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 25)			
At 1 January 2002	303,355	233,386	(2,182,052)	(1,645,311)
Net loss for the year	—	—	(451,690)	(451,690)
At 31 December 2002	303,355	233,386	(2,633,742)	(2,097,001)
	=====	=====	=====	=====
At 1 January 2003	303,355	233,386	(2,633,742)	(2,097,001)
Net loss for the year	—	—	(309,773)	(309,773)
At 31 December 2003	303,355	233,386	(2,943,515)	(2,406,774)
	=====	=====	=====	=====

SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for operating activities	(309,773)	(451,690)
Adjustments for:		
Loss attributable to minority shareholders	—	(35,257)
Depreciation	1,666	30,207
Amortization of intangible assets	—	5,034
Loss on disposal of and scrapped fixed assets	379	1,518
Interest received	(15)	(776)
Interest paid	—	19,029
Exchange loss	—	445
Share of loss in associates	—	4,047
Provision for impairment loss on interests in non-consolidated subsidiaries and long term investments	66,230	14,091
Gain on disposal of long term investments	(496)	(13,974)
Gain on disposal of other investments	—	167
(Write-back of)/provision for impairment loss on fixed assets and other assets	(26,567)	96,816
Decrease in inventories	88,457	39,629
Increase in interests payable	68,374	79,520
Decrease in accounts receivable	158,516	95,663
Decrease/(increase) in accounts payable	272,769	(60,049)
Provision for guarantees given	185,286	204,595
Income tax paid	—	(2,157)
Others	(5)	131
	<hr/>	<hr/>
Net cash generated from operating activities	504,821	26,989
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SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD.
(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA)

CONSOLIDATED CASH FLOW STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	15	776
Interest paid	—	(19,029)
Dividends received	—	2,721
Purchases of fixed assets	—	(14,946)
Proceeds from disposal of fixed assets	460	2,573
Increase in cash from return of investments	14	16
Cash equivalents in non-consolidated subsidiaries at beginning of year	(68,720)	(1,633)

Net cash used in investing activities	(68,231)	(29,522)
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CASH FLOWS FROM FINANCING ACTIVITIES

New bank loans raised	—	19,200
Repayment of bank loans	(507,582)	(30,642)
New long term bank loans raised	—	1,150
Payment of financing expenses	—	(265)

Net cash used in financing activities	(507,582)	(10,557)
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Net decrease in cash and cash equivalents held	(70,992)	(13,090)
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Cash and cash equivalents at beginning of the year	72,477	85,567
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Cash and cash equivalents at end of year	1,485	72,477
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CASH AND CASH EQUIVALENTS AT END OF
YEAR

Cash and bank balances	1,485	72,277
Short term investments	—	200

	1,485	72,477
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Shenzhen Petrochemical Industry (Group) Co., Ltd. (the "Company"), formerly known as Shenzhen Petrochemical Holding Company Limited was formed by the merger of two state-owned enterprises, Shenzhen Petrochemical Industry Company (established in February 1983), and Shenzhen Gulf Petrochemical Industry Corporation (established in September 1984). On 12 November 1991, the Company obtained approval from the Shenzhen Municipal People's Government to reorganize into a joint stock limited company. Under the approval of the People's Bank of China Shenzhen Branch, the Company issued A Shares for the PRC investors and B Shares for the overseas investors. Both A Shares and B Shares are listed on the Shenzhen Stock Exchange and carry equal rights. On 28 October 1999, the Company changed its name from Shenzhen Petrochemical Holding Company Limited to Shenzhen Petrochemical Industry (Group) Co., Ltd following its strategic restructuring.

The principal activities of the Company and its subsidiaries (the "Group") include manufacturing and trading of new chemical materials, fine chemicals, bio-engineering products, chemical fiber, plastic and related products, new and high-tech products development, investments, import and export.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and are prepared under the historical cost convention. The accounting policies adopted by the Group under IFRS differ from the accounting policies adopted in the preparation of the PRC statutory financial statements of the Group, which were prepared in accordance with the Accounting Standards for Enterprise Business and Accounting Systems for Enterprise Business in the PRC. To conform with IFRS, adjustments have been made to the PRC statutory financial statements. Details of the impacts of such adjustments on the net liabilities as at 31 December 2003 and net loss for the year then ended are included in note 36 of the financial statements.

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.

The directors are of the opinion that the going concern of the Group will be dependent upon a successful debt restructuring of the Group and such restructuring will require the strong support of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

both the relevant government authorities and the creditors. As at the date of this report, the above issues have not been successfully resolved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries as set out in note 14 as at 31 December 2003 and of the results for the year then ended. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively and the share attributable to minority interests is deducted from or added to profit from ordinary activities after taxation. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or right to participate in a distribution of either profits and capital for long term purposes.

Non-consolidated subsidiaries

In the consolidated balance sheet, the non-consolidated subsidiaries are stated at cost less impairment loss.

Associates

An associate is a company over which the Group is in the position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The interests in associates are accounted for under the equity method of accounting in the Group's financial statements. Such interests are stated in the consolidated balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associates and include goodwill on acquisition, if any, less any impairment losses of individual investment. Goodwill or negative goodwill

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates. Where a group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealized losses provide evidence of an impairment of the asset transferred.

Investments

Listed and unlisted investments held for long term investment purposes are stated at cost less any impairment losses.

Short-term investments are stated at market value at the balance sheet date. Dividend income from investments is recognized when the shareholder's right to receive payment is established.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognized as an asset and amortised on a straight-line basis over its estimated useful life.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition. Negative

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognized as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognized as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Fixed assets

Fixed assets are stated at cost, less provisions for depreciation and any impairment losses. Details are set out in note 12. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. When an asset is sold, any gain or loss resulting from the disposal, being the difference between the sales proceeds and the carrying amount of the asset, is included in the income statement.

Fixed assets are depreciated, over their estimated useful lives, using the straight-line method, taking into account an estimated residual value of 5 percent of the asset value. The annual rates of depreciation of fixed assets are set out as follows:

	Estimated useful lives	Depreciation rate
Land and buildings	40-50 years	2%-2.38%
Machinery and equipment	14 years	6.79%
Motor vehicles	10 years	9.5%
Furniture, fixtures and office equipment	8-12 years	7.92%-11.88%
Leasehold improvements	3-5 years	20%-33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction in progress

Construction in progress is stated at cost, less any impairment loss. Cost includes all direct construction expenditure and other indirect costs attributable to such construction in accordance with the Group's accounting policy. No depreciation is provided on these assets prior to its completion

Intangible assets

Intangible assets mainly represent the cost of acquisition of technical know-how and die expenses and are stated at cost less amortization and provision, if necessary, for any impairment loss. Amortization is provided on a straight-line basis over the estimated useful lives of relevant intangible assets. The estimated useful lives are as follows:

Technical know-how	10 years
Die expenses and others	5 years or benefit periods, if shorter

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out or weighted average basis and comprises direct materials and, where applicable, direct labor, other direct costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling prices in the ordinary course of business less any all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation of which a reliable estimate can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions, contingent liabilities and contingent assets (continued)

A contingent liability is a possible obligation that arises from past events and its existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that it is probable, it will be recognized as a provision.

A contingent asset is a possible asset that arises from past events and its existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. Only when an inflow is virtually certain, a contingent asset is recognized.

Foreign currency translation

The financial statements are expressed in Renminbi. All transactions in foreign currencies during the year are translated into Renminbi at the applicable rates of exchange prevailing at the respective dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China prevailing at the balance sheet date. Exchange differences arising in these transactions are included in the income statement.

On consolidation, the financial statements of overseas subsidiaries maintained in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange differences arising on consolidation, if any, are included in reserves.

Deferred taxation

The charge for current income tax is based on the results for the year as adjusted for items which are

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Operating leases

The income and expenses under operating leases are dealt with in the income statement on a straight-line basis over the period of the respective leases.

Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

which generally coincides with the time when goods are delivered to customers and the title has passed.

Interest income is recognized on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognized on time proportion basis over lease term.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Value added tax

Value added tax is calculated in accordance with the relevant tax laws of the PRC, expressed by way of the difference between the output tax on local sales and the input tax on local purchases. These taxes are not included in the sales and purchases respectively in the income statement. For goods manufactured and sold in Shenzhen SEZ, the value-added tax is exempted in accordance with the local tax regulations of the Shenzhen SEZ. Excess of output over input value added tax is dealt with in the income statement as other operating income.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular operating divisions/(business segment) which subject to risks and rewards that are different from the other segments.

Related parties

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and 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 the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverse, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Retirement benefits costs

Payments to defined contribution retirement benefits plans are charged as expenses as they fall due..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Payments made to the retirement schemes operated by the Bureau of Social Security Administration of Shenzhen SEZ are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit plans

Research and development costs

Research and development costs are written off as incurred, except for development expenditure incurred on an individual project or process which is capitalized and carried forward when its future recoverability can be regarded as reasonably assured.

Financial instruments

Financial Assets

The Group's principal financial assets are bank balances and cash and trade receivable and equity investments.

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Long-term investments, where the Group is not in a position to exercise significant influence or joint control, are stated at cost less any impairment losses, where the investments' carrying amount exceeds its estimated recoverable amount.

Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Group and the holder, are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities include interest-bearing bank loans and overdrafts and trade and other payables.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables are stated at their nominal value.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of qualifying asset which necessarily take a substantial period of time to get ready for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

4. TURNOVER

Turnover represents gross invoiced sales less sales tax, returns and discounts. There was no turnover for the year as there were no manufacturing and selling of products business activities during the year.

5. SEGMENT REPORTING

(a) Business segments

During the year, there were no manufacturing and selling of products business activities. Therefore, analysis of the business segments cannot be provided.

(b) Geographical segments

The Group's operations and markets are all located in the PRC and no business on manufacturing and sales of products. Therefore, analysis of the geographical segment is not required.

6. OTHER REVENUE

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Rental income	4,107	4,172
Net income from sale of raw materials	—	710
Export subsidies	—	315
Value-added tax return from local sales	—	1,463
Accounts payable written off	—	114
Others	454	12
Total	<u>4,561</u>	<u>6,786</u>
	=====	=====

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7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Profit / (loss) from operating activities is arrived at after charging / (crediting):		
Staff costs	1,346	70,164
Cost of inventories	—	526,422
Depreciation of fixed assets	1,666	30,207
(Write-back of) / provision for bad and doubtful debts	(10,777)	59,616
Amortization of intangible assets	—	5,034
Loss on disposal of fixed assets	379	174
Loss on scrapped fixed assets	—	1,344
Rentals in respect of premises under operating leases	479	3,996
Auditors' remuneration	650	650

8. FINANCE COSTS

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Interest paid	68,374	101,564
Interest income	(15)	(776)
Exchange difference	—	445
Bank expenses	2	1,126
Total	<u>68,361</u>	<u>102,359</u>
	=====	=====

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9. TAXATION

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
The charge comprises:		
PRC income tax for the year	—	4,891
	=====	=====

Domestic income tax is calculated in accordance with applicable income tax regulations and at 15% (2002:15%) of the estimated assessable profit determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC. Taxation for other jurisdiction is calculated at rates prevailing in the respective jurisdictions, details of which are as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
PRC enterprises income tax		
-enterprises in Shenzhen	15%	15%
-enterprises outside Shenzhen	33%	33%

Reconciliation to the domestic tax expense is as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Accounting profit under IFRS	(309,773)	(482,056)
Difference arising from accounting policies based on IFRS	(18,161)	(114)
Accounting profit under Accounting Standards for Business Enterprises of the PRC	(327,934)	(482,170)
Tax at the domestic rate of 15%	(49,190)	(72,326)
Tax effect of unrecognized tax losses	22,863	62,164
Net tax effect of expenses not deductible for tax purposes and other factors	26,327	15,053
Tax expense	—	4,891
	=====	=====

In accordance with the tax law of the PRC, in a maximum period of 5 successive years, operating loss made in the year by a company can be used to offset against the profits earned in the following years. Therefore, the Group has unused tax losses of approximately RMB129,573,000 (2002: RMB100,350,000) available for offsetting against future profits. No deferred tax asset has been recognized in the financial statements due to the unpredictability of the future profit streams.

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10. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the year.

11. LOSS PER SHARE

The calculation of loss per share is based on the net loss attributable to shareholders of RMB309,773,000(2002: RMB451,690,000) on 303,354,979 A and B shares of RMB 1.00 each in issue during the year. No diluted loss per share has been presented as there were no dilutive potential shares during the year ended 31 December 2003 and 2002.

12. FIXED ASSETS

<u>Items</u>	<u>Land and Buildings</u>	<u>Machinery and Equipment</u>	<u>Motor Vehicles</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Leaseholds Improvements</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost or Valuation</u>						
At 1 January 2003	374,888	270,386	17,465	21,912	8,371	693,022
Additions	—	—	—	—	—	—
Disposals	(7,736)	—	(765)	—	—	(8,501)
Effect of non-consolidation of subsidiaries (Note 14)	(199,875)	(270,386)	(15,407)	(16,152)	(8,371)	(510,191)
At 31 December 2003	167,277	—	1,293	5,760	—	174,330
<u>Accumulated Depreciation</u>						
At 1 January 2003	145,139	184,399	9,457	15,343	8,197	362,535
Additions	1,508	—	102	56	—	1,666
Disposals	(1,568)	—	(643)	—	—	(2,211)
Effect of non-consolidation of subsidiaries (Note 14)	(38,627)	(184,399)	(8,051)	(9,823)	(8,197)	(249,097)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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12. FIXED ASSETS (continued)

(Reversal of)/provision for impairment	(26,775)	—	104	104	—	(26,567)
At 31 December 2003	79,677	—	969	5,680	—	86,326
<u>Net Book Value</u>						
At 31 December 2003	87,600	—	324	80	—	88,004
At 31 December 2002	229,749	85,987	8,008	6,569	174	330,487

An impairment loss recognized for an asset in prior years has been reversed in 2003 as there has been a change in the estimates used to determine the property's recoverable amount since the last impairment loss was recognized. The impairment loss was previously recognized based on the professional valuation results performed in the past years. Subsequent to the balance sheet date, the property was auctioned at a consideration which was significantly higher than its recoverable amount and therefore, an impairment loss has been reversed.

Land and buildings include properties which net book value are RMB52,718,000 were auctioned by the court in February and March 2004 at a consideration of RMB57,622,000.

The Group's land and buildings are located in the PRC and are held under long-term leases up to a maximum of 50 years. In the opinion of the directors, the carrying value of the fixed assets is not less than their fair value.

13. CONSTRUCTION IN PROGRESS

	RMB'000
Cost	
At 1 January 2003	14,763
Effect of non-consolidation of subsidiaries (Note 14)	(9,053)
Less: Impairment loss	(5,710)
At 31 December 2003	<u> </u>

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14. SUBSIDIARIES

Details of the subsidiaries as at 31 December 2003 are as follows:

<u>Company Name</u>	<u>Note</u>	<u>Registered Capital</u>	<u>Proportion of Shares</u>		<u>Principal Activities</u>	<u>Consolidated or not</u>	
				<u>Directly Held</u>		2003	2002
Shenzhen SPEC Investment & Development Co., Ltd.		'000 RMB40,000	100%	100%	Security investment and consulting	Yes	Yes
Shenzhen SPEC (Holding) Technical Center	*a	RMB2,100	100%	100%	Petrochemical products development	No	No
Shenzhen SPEC Keyi Fine Chemical Co., Ltd	*a	RMB1,000	100%	100%	Fine chemicals manufacturing and trading	No	No
Shenzhen SPEC Donghong Laminating & Coating Fabrics Co., Ltd.	*c	RMB80,000	75%	75%	Laminating and coating	No	Yes
Shenzhen SPEC Plastics Co., Ltd.	*d	RMB99,300	65.405%	65.405%	PVC material manufacturing and trading	No	Yes
Shenzhen SPEC Fibers Co., Ltd.	*e	USD3,203	51%	51%	Chemical fibers manufacturing	No	Yes
Shenzhen Tongda Packing Products Co., Ltd.	*a	RMB3,500	100%	100%	Packing materials manufacturing	No	No
Shenzhen SPEC Home Appliance Accessory Co., Ltd.	*a	RMB4,130	51.57%	51.57%	Home appliances repairing and maintenance	No	No
Shenzhen Lanbo Industrial Co., Ltd.	*b	RMB9,300	100%	100%	Manufacturing and sales of air-condition	No	No
Shenzhen SPEC Oil Refining Services Co., Ltd.	*a	RMB50,000	100%	100%	Oil refining services	No	No

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CONSOLIDATED INCOME STATEMENT
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14. SUBSIDIARIES(continued)

*(a) These companies have not been included in the consolidated financial statements because of the suspension of their normal operations. Provisions for impairment loss have been made, and the value of long-term investments has been offset directly. The operating results and net assets of these companies have no significant effect on the Group.

*(b) This subsidiary is insolvent and ceased its normal operations. Investment in this subsidiary has been written off in full. Provision for bad debts has been made, and the contingent liabilities resulting from the guarantees for bank loans and customers have been dealt with as liabilities in the balance sheet.

*(c). The company has not been included in the consolidated financial statements because it was sealed by the court and in the process of being auctioned. Therefore the Group has lost its control on this subsidiary at the balance sheet date and was reclassified as long-term investment. Provision for impairment loss has been provided on this long-term investments, according to estimated losses.

*(d). The company has not been included in the consolidated financial statements because of the suspension of their normal operations, and the Group has lost its control on this subsidiary at the balance sheet date and was reclassified as long-term investment. Provision for impairment loss has been provided on this long-term investment, according to estimated losses.

*(e). The company has not been included in the consolidated financial statements because it was auctioned by the court for settling bank loans in February 2004. The Group has lost its control on this subsidiary at the balance sheet date and was reclassified as long-term investment. Provision for impairment loss has been provided on this long-term investment, according to estimated losses.

All subsidiaries are incorporated in the People's Republic of China.

15. INTANGIBLE ASSETS

	<u>Technical</u> <u>Know-how</u> RMB'000	<u>Dies Expenses</u> RMB'000	<u>Others</u> RMB'000	<u>Total</u> RMB'000
Net book value at 1 January 2003	8,600	572	1,194	10,366
Additions	—	—	—	—
Amortization	—	—	—	—
Provision for impairment	—	—	—	—
Effect of non-consolidation of subsidiaries (Note 14)	(8,600)	(572)	(1,194)	(10,366)
Net book value at 31 December 2003	—	—	—	—
	=====	=====	=====	=====

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CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003(continued)

16. INTERESTS IN NON-CONSOLIDATED SUBSIDIARIES

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Unlisted shares – stated at cost	197,247	53,385
- provision for impairment	(88,853)	(22,623)
	<u>108,394</u>	<u>30,762</u>
	=====	=====

a. The investments of unlisted shares

<u>Company Name</u>	<u>2003</u>		
	<u>Cost</u>	<u>Provision for impairment</u>	Net amount
Shenzhen SPEC Donghong Laminating & Coating Fabrics Co., Ltd.	75,522	—	75,522
Shenzhen SPEC Plastics Co., Ltd.	59,780	(59,780)	—
Shenzhen SPEC Fibers Co., Ltd.	26,685	(24,575)	2,110
Shenzhen SPEC (Holding) Technical Center	2,100	(880)	1,220
Shenzhen SPEC Keyi Fine Chemical Co., Ltd	501	(501)	—
Shenzhen Tongda Packing Products Co., Ltd.	1,485	(1,485)	—
Shenzhen SPEC Home Appliance Accessory Co., Ltd.	1,632	(1,632)	—
Shenzhen Lanbo Industrial Co., Ltd.	—	—	—
Shenzhen SPEC Oil Refining Services Co., Ltd.	29,542	—	29,542
	<u>197,247</u>	<u>(88,853)</u>	<u>108,394</u>
	=====	=====	=====

The impairment arose from the disposal of subsidiaries below book value subsequent to the balance sheet date.

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17. INTEREST IN ASSOCIATES

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Share of net assets	—	2,477
Amount due from associates	—	546
Amount due to associates	(46)	(46)
	<u>(46)</u>	<u>2,977</u>
	=====	=====

The amount due from/to associate are unsecured, interest-free and they are not repayable within the next 12 months.

Details of the principal associates are as follows:

<u>Name of Associate</u>		<u>Place of</u> <u>Registrati</u> <u>n</u>	<u>Percentage of</u> <u>Shares Held</u>		<u>Principal Activities</u>
			2003	2002	
Shenzhen SPEC Jinxin Chemical Electronics Co., Ltd.	*	Shenzhen	30%	30%	Chemical and electronic instruments manufacturing and trading
Shenzhen Best Plastics Color-Printing Co., Ltd.	*	Shenzhen	25%	25%	Printing
Shenzhen SPEC Biltrite Soling Co., Ltd.	*	Shenzhen	25%	25%	Soling materials manufacturing

* These companies ceased trading and the relevant investments have been fully written off. Accordingly, full provisions for the amounts due from these companies and the guarantees given to banks have been made.

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18. LONG TERM INVESTMENTS

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Unlisted shares, at cost	22,414	40,152
Less: provision for impairment	(10,242)	(10,386)
	<u>12,172</u>	<u>29,766</u>
	=====	=====

19. INVENTORIES

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Raw materials	—	40,627
Work in progress	—	4,694
Finished goods	—	43,136
	<u>—</u>	<u>88,457</u>
	=====	=====

20. SHORT TERM INVESTMENTS

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Listed securities, at cost	—	200
Listed funds, at cost	—	—
	<u>—</u>	<u>200</u>
	=====	=====
Market value of listed securities	—	198.4
	=====	=====

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21. LOANS

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Bank Loans – secured		
-within one year	99,800	155,124
Bank Loans –unsecured		
-within one year	622,781	1,055,039
-two to five years	—	3,106
Loan from Government-unsecured		
-within one year	—	20,000
	<u>722,581</u>	<u>1,233,269</u>
	=====	=====
Payable:		
-within one year	722,581	1,230,163
-two to five years	—	3,106
	<u>722,581</u>	<u>1,233,269</u>
	=====	=====

Interest rates on bank loans vary between the range of 4.11% and 19.95% per annum.

22. PROVISION FOR GUARANTEES GIVEN TO BANKS AND CUSTOMERS/BANK LOANS

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
A. Provision for guarantees given to banks:		
a. To banks in respect of bank loans provided to third parties	516,067	341,887
b. To banks in respect of bank loans provided to associates and fellow subsidiaries	547,560	536,454
B. Provision for guarantee to customers in respect of sales made in previous years by a non-consolidated subsidiary	18,844	18,850
	<u>1,082,471</u>	<u>897,191</u>
	=====	=====

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22. PROVISION FOR GUARANTEES GIVEN TO BANKS AND CUSTOMERS/BANK LOANS
(continued)

The provision for the year 2002 includes RMB21,310,000 provision for providing guarantees to banks by Shenzhen SPEC Plastics Co. Ltd. Which does not show in 2003.

A(a)The Group has provided guarantees to banks in respect of bank loans granted by the banks to third parties as follows:

<u>Company name</u>	<u>2003</u>		<u>2002</u>	
	<u>Guaranteed loans</u>	<u>Dealt with in income statement</u>	<u>Guaranteed loans</u>	<u>Dealt with in income statement</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen Neptune Group Co., Ltd.	163,000	—	163,000	—
Gintian Industry (Group) Co., Ltd.	185,735	152,734	116,945	49,781
China Aidi Group Corporation	33,500	8,000	33,500	—
Shenzhen Shun Kong Industrial & Trading Co.	24,090	24,090	24,090	24,090
China Baoan Group Co., Ltd.	61,071	24,810	46,761	10,500
Shanghai Baoan Group Co.,Ltd	50,000	—	50,000	—
Shenzhen Sunlight Industrial Co., Ltd.	46,953	46,953	43,953	43,953
Guangdong Shengrun Group Co., Ltd.	312,005	212,370	290,977	165,902
Shenzhen Zhonghao Group Co., Ltd.	41,600	26,600	41,600	26,600
Shenzhen Tellus Holdings Co., Ltd.	49,680	—	49,680	—
Shenzhen Hongling Investment & Development Co., Ltd.	1,759	1,759	2,000	2,000
Shenzhen SPEC Jiankun Holdings Co., Ltd.	18,751	18,751	18,751	18,751
China Kejian Co., Ltd.	—	—	310	310
Total	988,144	516,067	881,567	341,887
	=====	=====	=====	=====

RMB516,067,000 has been provided in the income statement for guarantees in respect of which legal action has been taken by the banks against the Group. The remaining RMB472,077,000 has been treated as contingent liabilities as referred to in Note 28.

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22. PROVISIONS FOR GUARANTEES GIVEN TO BANKS AND CUSTOMERS/BANK LOANS
(continued)

A(b) The Group has provided guarantees to banks in respect of bank loans granted by the banks to associates and fellow subsidiaries as follows:

<u>Company name</u>	<u>2003</u>		<u>2002</u>	
	<u>Guaranteed</u>	<u>Dealt with in</u>	<u>Guaranteed</u>	<u>Dealt with in</u>
	<u>Loans</u>	<u>income</u>	<u>loans</u>	<u>income</u>
	<u>statement</u>	<u>statement</u>	<u>statement</u>	<u>statement</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen SPEC Jinxin Chemical Electronics Co.,Ltd.	279,259	279,259	234,328	234,328
Shenzhen SPEC Petroleum storage Co.,Ltd.	26,150	26,150	44,765	44,765
Shenzhen SPEC Petroleum Co., Ltd.	23,789	23,789	23,999	23,999
Shenzhen SPEC Real Estate Co., Ltd.	30,450	23,150	31,450	24,150
Shenzhen SPEC Chemicals Co., Ltd.	82,539	82,539	82,539	82,539
Shenzhen SPEC Bonded trading Petrochemical Co., Ltd.	—	—	5,000	—
Hangzhou SPEC Industrial & Trading Co.	—	—	7,000	7,000
Shenzhen Dahua Chemicals Co., Ltd.	4,620	4,620	10,620	10,620
Shenzhen Jinliyu Petroleum Co.	37,538	37,538	37,538	37,538
Shenzhen Haipeng Import & Export Co., Ltd	10,610	10,610	10,610	10,610
Shenzhen Lanbo Industrial Co., Ltd.	7,500	7,500	7,500	7,500
Huizhou Daya Bay Shencheng Petrochemical Co., Ltd.	15,690	15,690	15,690	15,690
Shenzhen SPEC Silicon Material Co., Ltd.	7,000	—	7,000	—
Shenzhen SPEC Fine Chemical Co., Ltd.	1,900	—	1,900	—
Shenzhen SPEC Beauty Star Fotas Plastics Co., Ltd.	600	—	11,200	—
Shenzhen Petrochemical (Holdings) Co.,Ltd.	36,715	36,715	34,715	34,715
Shenzhen SPEC Liquid Chemicals Co., Ltd.	—	—	3,000	3,000
Shenzhen SPEC Import & Export Co., Ltd.	—	—	—	—
Total	564,360	547,560	568,854	536,454

RMB547,560,000 has been provided in the income statement on either of the following grounds:

1. Where legal action has already been taken by the banks against the Group, or
2. Where, in the opinion of directors, the repayment of the loans has been overdue and the financial

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22. PROVISIONS FOR GUARANTEES GIVEN TO BANKS AND CUSTOMERS/BANK LOANS
(continued)

position of the associates and fellow subsidiaries concerned has seriously deteriorated.

The remaining guarantees of RMB16,800,000 were treated as contingent liabilities as referred to in note 28.

B. The Company has provided guarantees to customers generally in respect of products sold by a subsidiary totaling RMB18,844,000. Provision has been made in the income statement for these guarantees since the subsidiary is unable to pay the claims made by the customers.

C. The Company has provided guarantees to banks in respect of bank loans granted to non-consolidated subsidiaries as follows:

<u>Company name</u>	<u>2003</u>		<u>2002</u>	
	<u>Guaranteed Loan</u>	<u>Dealt with in income statement</u>	<u>Guaranteed Loans</u>	<u>Dealt with in income statement</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen SPEC Fibers Co., Ltd.	96,099	—	90,172	—
Shenzhen SPEC Plastics Co., Ltd.	61,509	—	73,479	—
Total	<u>157,608</u>	<u>—</u>	<u>163,651</u>	<u>—</u>
	=====	=====	=====	=====

The above guarantees of RMB157,608,000 were treated as contingent liabilities as referred to in Note 28.

23. PROVISION FOR ECONOMIC COMPENSATION FOR STAFFS

Some of the subsidiaries may be subject to restructuring or being disposed of by auction due to continuing operating losses and the inability to continue as a going concern. In view of the above circumstances, a provision of RMB35,030,000 was made for economic compensation for these subsidiaries' employees.

24. LONG TERM PAYABLES

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Government loans-unsecured	—	7,596
	=====	=====

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25. SHARE CAPITAL

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Registered, issued and paid-up (303,354,979 shares in total)		
270,594,979 "A" Shares of RMB 1.00 each	270,595	270,595
32,760,000 "B" Shares of RMB 1.00 each	32,760	32,760
	<u>303,355</u>	<u>303,355</u>
	=====	=====

26. RESERVES

	<u>Capital reserve</u> RMB'000	<u>Accumulated</u> <u>losses</u> RMB'000	<u>Total</u> RMB'000
At 1 January 2002	233,386	(2,182,052)	(1,948,666)
Net loss for the year 2002	<u>—</u>	(451,690)	(451,690)
At 31 December 2002	233,386	(2,633,742)	(2,400,356)
	=====	=====	=====
At 1 January 2003	233,386	(2,633,742)	(2,400,356)
Net loss for the year 2003	<u>—</u>	(309,773)	(309,773)
At 31 December 2003	233,386	(2,943,515)	(2,710,129)
	=====	=====	=====

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26. RESERVES (continued)

Capital reserve

According to the relevant PRC regulations, capital reserve can only be utilized to increase share capital.

Surplus reserve

Statutory surplus reserve and discretionary surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of reserves due to losses incurred, any other usage must not result in the balance thereof falling below 25% of the registered capital. According to the relevant PRC regulations, the usage of the statutory public welfare fund is restricted to capital expenditures for employee facilities. The statutory public welfare fund is not available for distribution to shareholders except in the event of liquidation.

27. RELATED PARTY TRANSACTIONS

A. Rental arrangement with a related party

	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
Rental income from a fellow subsidiary	—	2,085
Rental expense paid to a fellow subsidiary	360	—

B. Settlement of liabilities owing to a related party

During the year, the Company has entered an arrangement with Shenzhen SPEC Donghong Laminating & Coating Co. Ltd. ("SPEC Donghong") to settle an amount of RMB4,192,179 payable to SPEC Donghong by transferring its land to SPEC Donghong. The land is located in Bujibantian Longgang District Shenzhen City.

C. Liabilities paid for a related party

Shenzhen SPEC Fibres Co. Ltd. ("SPEC Fibres") was unable to settle the bank loan of USD5,180,000 and related interest amounts from the Chinese Merchantics Bank at the maturity date. A verdict was issued by the Shenzhen Intermediate People's Court on 20 November 2003 that SPEC Fibres's liabilities should be borne by the Company, as its guarantor. A flat, which is located at Room 1505, North Tower, International Commercial Plaza, was valued at an estimated amount of RMB346,840 and was used to pay off the said liabilities.

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27. RELATED PARTY TRANSACTIONS(continued)

D. Liabilities paid by a related party

a) KBC Bank took legal actions against the Company for failure to repay bank loans amounting to

USD1,000,000 (RMB8,280,000) and all the related interests. On 4 September 2003, the Shenzhen Intermediate People's Court issued a verdict stating that SPEC Fibres should bear the liabilities for the Company and SPEC Fibres's shareholding in Shenzhen SPEC Donggang Fibers Co. Ltd was auctioned at a consideration of RMB29,786,800 to pay off the liabilities.

b) Shenzhen Commercial Bank took legal actions against the Company for failure to repay the bank loans and related interest in 2003; Shenzhen SPEC Plastics (Group) Co Ltd (the "SPEC Plastics") subsequently settled partially in cash for the Company with a total amount of RMB7,931,700. Furthermore, on 31 March 2003, the Shenzhen Intermediate People's Court issued a verdict stating that the SPEC Plastics, the guarantor of the Company, should bear the liabilities. Properties and the leasehold land located at 3006 Shuibei Road West Luohu District Shenzhen City was valued at RMB 5,300,000 and was used to pay off the liabilities for the Company.

c) The Company was unable to settle the bank loan principals and related interests payable to the Bank of China – Zhuzhou Branch, SPEC Plastics settled partially with a total amount of USD1,262,000 (RMB10,484,000) in February 2003.

d) On 11 April 2003, a debts restructuring agreement was signed among the Company, the Industrial and Commercial Bank of China ("the bank"), Shenzhen Investment Management Co. Ltd ("SIM") as the Company was unable to repay two bank loans amounting to RMB65,000,000 and RMB14,350,000 and all the related interests. The agreement stipulates that the bank loan of RMB65,000,000 should be borne by SIM while the related interests should be borne by the Company. The bank will not demand temporarily for repayment of loan principal of RMB14,350,000, but in future, the debts should be paid off by SIM. However, the Company is still liable to pay the interest portion but no penalized interest would be charged by the bank.

e) There is an amount of RMB70,000,000 relating to bank loans and related interest owing to the China Construction Bank Shenzhen Shangbu Branch at 31 December 2003 included within other payables. According to the bank audit confirmation letter, the balance is nil at 31 December 2003 and the debt was repaid by the guarantee company, Shenzhen Investment Management Co Ltd.

28. CONTINGENT LIABILITIES

At 31 December 2003, guarantees given by the Group to banks in respect of bank loans granted to companies within the Group totaling RMB174,408,000 and to third parties totaling RMB472,077,000. (Note 22)

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29. PLEDGE OF ASSETS

At 31 December 2003, the Company pledged fixed assets with an aggregate net book value of RMB80,126,000 to secure bank loans obtained in the PRC totaling RMB68,000,000, and HKD30,000,000 respectively.

30. COMMITMENTS

(a) Capital commitment

Contracted for but not provided for in the financial statement:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Purchase of fixed assets	—	6,298
Purchase of intangible assets	—	31,220
Construction contract	—	1,766

No other capital commitments are authorized.

(b) Operating lease commitment

As at 31 December 2003, the Group has minimum outstanding operating lease commitments under non-cancelable operating leases in respect of buildings which fall due as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Within one year	—	1,774
In the second to fifth years, inclusive	—	2,995

31. LITIGATION

As at 31 December 2003, the Company's had been involved in litigation with a total value of RMB1,839,294,000. Provision of RMB1,082,471,000 has been made.

	<u>Amount</u> RMB'000
Overdue bank loans and interests	563,496
Repaying acquired by the guarantees arising from bank loans paid for the Company	28,119
Defaults in payment for construction contract	3,895
Capital of related parties	16,326
Joint liabilities arising from guarantees to banks for bank loans granted to subsidiaries	144,987

31. LITIGATION (continued)

Joint liabilities arising from guarantees to banks for bank loans granted to associates	547,560
Joint liabilities arising from guarantees to banks for bank loans granted to third parties	516,067
Joint liabilities arising from guarantees to Lanbo Company for customers generally in respect of products sold	18,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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32. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amount due from fellow subsidiaries, loans to third parties, due from associates and jointly controlled entities, and other receivables. Financial liabilities of the Group include bank and other loans, trade accounts payable, bills payable, amount due to fellow subsidiaries, receipts in advance, and advances from third parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts at 31 December 2003 and 2002.

Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivable, and other current assets, except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade account relates to sales of petrochemical and plastic products etc. to third parties operating in these industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The

Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations.

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

Currency risk

Substantially all of the revenue generating operations of the Group is transacted in Renminbi, which is not freely convertible into foreign currencies. At 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. 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 People's Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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32. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The interest rates and terms of repayment of short term and long term debts of the Group are disclosed in Note 21.

The disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 32. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made solely to comply with the requirements of IFRS 32 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimated of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize 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.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

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

33. POST BALANCE SHEET EVENTS

a. Due to the inability to repay the bank loans, the Company's property located in No.401 Shenzhen SEZ Industry Zone, was frozen and auctioned by the Shenzhen Intermediate People's Court at a consideration of RMB52million subsequent to the balance sheet date. Since the net book value of the property as at the balance sheet date was RMB76,290,000, and the consideration is substantially lower than the net book value, an impairment loss has been provided during the year.

b. Due to the joint liabilities arising from the Company's provision of guarantees in respect of bank loans for an ex-shareholder, Shenzhen SPEC (Group) Holding Co Ltd, the Company's 54 properties which are located at 402B Shenzhen Shangbu Industry Zone at an aggregate net book value of RMB718,300 at 31 December 2003, were auctioned at a total consideration of RMB5,622,000 by the Shenzhen Intermediate People's Court in February 2004.

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33. POST BALANCE SHEET EVENTS(continued)

c. As the Company was unable to repay the bank loan, its shares in SPEC Fibres were auctioned at a consideration of RMB2,110,000 by the Shenzhen Intermediate People's Court in February 2004. An impairment loss of RMB375,900 has been made against investment cost.

34. OTHER SIGNIFICANT EVENT

a. In December 2000, the Company signed an agreement relating to the conversion of bank loans into investment with the Agriculture Bank of China, Shenzhen Branch (the "Agriculture Bank") and the China Great-wall Asset Management Co., Shenzhen Representative Office (the "Great-wall Asset Management Company"). According to the terms of the agreement, the Agriculture Bank agrees to transfer bank loans of RMB 270,000,000 (including a loan of RMB3,000,000 borrowed in the name of a related company) due from the Company to Great-wall Asset Management through the holding company, Shenzhen Petrochemical (Holdings) Co. Ltd. (the "SPH") conditionally. The company reflected this assignment through SPH in its books thereby the bank loan had been treated as fully repaid. Since the condition had not been fulfilled up to 11 December 2002, the Agriculture Bank demanded to restore its rights as the creditor for the above loans on the same date. As the position relating to the restoration of the bank loans has not been established, the Company did not restore this bank liability.

b. As the ex-shareholder, Shenzhen SPEC (Group) Co. Ltd. ("SPEC Co") has joint liability arising from providing guarantees in relation to bank loans borrowed from the Guangdong Development Bank Hangzhou Branch for the Hangzhou SPEC Industrial and Commercial Co.Ltd which failed to pay off its bank loans, SPEC Co's 164,546,553 shares in the Company were auctioned by Zhejiang, Hangzhou Intermediate People's Court in November 2003. These shares were acquired by Guangzhou City Puliqi Communication Investment Co.

35. COMPARATIVES

Certain significant comparative figures have been appropriately reclassified to conform to the presentation of the financial statement of the current year.

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36. IMPACT OF IFRS ADJUSTMENTS ON LOSS ATTRIBUTABLE TO SHAREHOLDERS
AND NET LIABILITIES

	<u>Loss attributable to</u> <u>shareholders</u> RMB'000	<u>Net liabilities</u> RMB'000
As reported in the "A" shares consolidated audited statutory financial statements under the PRC accounting standards	(327,934)	(2,406,260)
IFRS adjustments		
Adjustment to capital reserve	454	—
Adjustment to provision for guarantees given to banks and interests	23,423	—
Effect of non-consolidation of subsidiaries	(5,147)	—
Others	(569)	(514)
As reported after IFRS adjustments in the "B" shares financial statements	<u>(309,773)</u>	<u>(2,406,774)</u>
	=====	=====