

## 14. Taxation

(a) Taxation in the income statement represents:

	Six-month periods ended 30 June			
	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the period	284,909	100,524	256,251	84,423
Deferred taxation	(16,427)	(1,012)	(15,020)	(1,012)
	268,482	99,512	241,231	83,411
Tax refund	(10,262)	–	(10,262)	–
	<b>258,220</b>	<b>99,512</b>	<b>230,969</b>	<b>83,411</b>

The charge for PRC income tax is calculated at the rate of 15% (2003: 15%) on the estimated assessable profit of the period determined in accordance with relevant income tax rules and regulations. The Group did not carry out business in overseas and Hong Kong and therefore no provision has been made for overseas and Hong Kong income tax.

The Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2004. It is possible that the Company's tax rate will increase in the future.

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 received an income tax refund of RMB 10,262,000(period ended 30 June 2003: RMB Nil) during the period relating to the purchase of equipment produced in the PRC for technological improvements.

#### 14. Taxation (continued)

(b) Taxes payable in the balance sheets represents:

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Income tax	71,405	76,565	57,290	72,658
VAT	146,270	102,080	142,037	97,878
Consumption tax	46,633	71,600	46,633	71,600
Business tax	1,959	2,815	222	346
Other taxes	14,625	25,272	13,239	22,745
	<b>280,892</b>	<b>278,332</b>	<b>259,421</b>	<b>265,227</b>

(c) Deferred taxation

	The Group		The Company	
	2004 RMB'000	2003 RMB'000 (audited)	2004 RMB'000	2003 RMB'000 (audited)
At 1 January	24,853	15,171	24,853	15,171
Deferred taxation arising from provision for inventories and bad debts	3,794	5,992	2,387	5,992
Provision for impairment losses and disposal losses of fixed assets	12,633	3,690	12,633	3,690
At 30 June / 31 December	<b>41,280</b>	<b>24,853</b>	<b>39,873</b>	<b>24,853</b>

There is no significant deferred tax liability not provided for in the financial statements.

## 15. Short-term loans

The Group's and Company's short-term loans include:

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Short-term bank loans	3,807,446	4,445,588	3,145,614	3,694,990
Short-term loans with related party (Note 29(g))	105,000	130,000	-	-
	<b>3,912,446</b>	<b>4,575,588</b>	<b>3,145,614</b>	<b>3,694,990</b>

At 30 June 2004, there were no secured loans. The Group's secured loans of RMB75,000,000 at 31 December 2003 have been replaced by guaranteed loans during the period.

The weighted average interest rate of short-term loans of the Group at 30 June 2004 was 2.95% (31 December 2003: 2.74%)

As at 30 June 2004 and 31 December 2003, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 29(g), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

## 16. Trade creditors, bills payable, receipts in advance and other payables

There are no material trade creditors and other payables aged over 3 years.

There is no material receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 3 to 6 months.

Except for the balances disclosed in Note 29 (e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

## 16. Trade creditors, bills payable, receipts in advance and other payables (continued)

Ageing analysis of trade creditors is as follows:

By transaction date	The Group			
	At 30 June 2004		At 31 December 2003 (audited)	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within 3 months	1,160,792	87.17	1,202,038	88.66
Between 3 and 6 months	143,643	10.79	87,934	6.48
Over 6 months	27,211	2.04	65,861	4.86
	<b>1,331,646</b>	<b>100.00</b>	<b>1,355,833</b>	<b>100.00</b>

By transaction date	The Company			
	At 30 June 2004		At 31 December 2003 (audited)	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within 3 months	993,996	98.58	1,031,910	99.07
Between 3 and 6 months	11,629	1.15	5,482	0.53
Over 6 months	2,716	0.27	4,195	0.40
	<b>1,008,341</b>	<b>100.00</b>	<b>1,041,587</b>	<b>100.00</b>

## 17. Accrued expenses

At 30 June 2004, the Group's and the Company's accrued expenses primarily represented accrued interest expenses and other production expenses.

## 18. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting on 18 June 2004, a final dividend of RMB 0.08 per share totalling RMB 576,000,000 (2002: RMB 0.05 per share totalling RMB 360,000,000) in respect of the year ended 31 December 2003 was approved. During the period ended 30 June 2004, dividend of RMB 160,271,000 was paid to shareholders.

## 19. Long-term loans and current portion of long-term loans

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Between 1 and 2 years	2,027,578	1,802,573	1,884,898	1,664,673
Between 2 and 3 years	197,441	1,255,173	172,161	1,234,673
Between 3 and 5 years	72,750	93,102	22,190	27,602
After 5 years	90,058	56,000	15,000	15,000
	<b>2,387,827</b>	<b>3,206,848</b>	<b>2,094,249</b>	<b>2,941,948</b>
Current portion of long-term loans	<b>1,824,873</b>	<b>999,141</b>	<b>1,675,016</b>	<b>755,815</b>
	<b>4,212,700</b>	<b>4,205,989</b>	<b>3,769,265</b>	<b>3,697,763</b>

Long-term loans are analysed as follows:

	Interest type	Interest rate at 30 June 2004	Original currency	Exchange rate at 30 June 2004	The Group		The Company	
					At 30 June 2004 RMB'000	December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	December 2003 RMB'000 (audited)
<b>Repayment terms and last payment date</b>								
<b>Arranged by Central Treasury of the Company:</b>								
U.S. Dollar denominated:								
Payable semi-annually through 2004 (Note(a))	Fixed	7.1%	1,088	8,2766	9,001	17,954	9,001	17,954
Payable semi-annually through 2008 (Note(a))	Fixed	1.50%	7,181	8,2766	59,436	71,621	59,436	71,621
Due in 2007	Floating	LIBOR+0.6%	19,001	8,2766	157,263	-	157,263	-
Japanese Yen denominated:								
Payable semi-annually through 2004	Fixed	5.70%	111,961	0,0765	8,565	23,188	8,565	23,188
Renminbi denominated:								
Due in 2004	Floating	5.22%-5.30%			450,000	700,000	450,000	700,000
Due in 2005	Floating	4.94%-5.58%			1,650,000	1,650,000	1,650,000	1,650,000
Due in 2006	Floating	4.94%-5.30%			1,420,000	1,220,000	1,420,000	1,220,000
Other loans due in 2004	-	Interest free			15,000	15,000	15,000	15,000

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

Long-term loans are analysed as follows: (continued)

Repayment terms and last payment date	Interest type	Interest rate at 30 June 2004	Original currency '000	Exchange rate at 30 June 2004	The Group		The Company	
					At 30 June 2004	December 2003	At 30 June 2004	December 2003
					RMB'000	RMB'000	RMB'000	RMB'000
					(audited)	(audited)	(audited)	(audited)
Arranged by subsidiaries:								
U.S. Dollar denominated:								
Payable semi-annually through 2004	Floating	1.70%	2,545	8,2766	21,067	42,135	-	-
Payable semi-annually through 2004	-	Interest free	2,520	8,2766	20,858	4,137	-	-
Payable semi-annually through 2004	Fixed	5.00%	-	-	-	20,017	-	-
Renminbi denominated:								
Payable semi-annually through 2004	Floating	5.76%			34,000	68,100	-	-
Payable annually through 2004	-	Interest free			62,110	76,037	-	-
Payable annually through 2004	Floating	5.31%–5.85%			-	5,000	-	-
Payable annually from 2001 through 2005	-	Interest free			14,800	14,800	-	-
Payable annually through 2010	-	Interest free			143,500	143,500	-	-
Due in 2005 and after	Floating	4.94%–5.58%			134,500	134,500	-	-
Payable annually through 2011	-	Interest free			12,600	-	-	-
Total long-term loans outstanding					4,212,700	4,205,989	3,769,265	3,697,763
Less: Amounts due within one year					(1,824,873)	(999,141)	(1,675,016)	(755,815)
Amounts due after one year					<u>2,387,827</u>	<u>3,206,848</u>	<u>2,094,249</u>	<u>2,941,948</u>

Note: (a) Guaranteed by China Petrochemical Corporation.

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

## 20. Other long-term liabilities

### Deferred income

	The Group	
	2004 RMB'000	2003 RMB'000 (audited)
<b>Cost:</b>		
At 1 January and at 30 June / 31 December	115,177	115,177
<b>Accumulated amortisation:</b>		
At 1 January	69,108	57,590
Amortisation for the period / year	5,759	11,518
At 30 June / 31 December	74,867	69,108
<b>Net book value:</b>		
At 30 June / 31 December	<u>40,310</u>	<u>46,069</u>

In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB115,177,000 and was recorded as deferred income in the consolidated financial statements.

## 21. Share capital

	The Group and the Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
<b>Registered capital:</b>		
4,870,000,000 A shares at par value of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares at par value of RMB 1 each	2,330,000	2,330,000
	<u>7,200,000</u>	<u>7,200,000</u>
<b>Issued and paid up capital</b>		
Shares not in trade:		
4,150,000,000 A shares at par value of RMB 1 each		
of which:		
Domestic legal persons owned shares	4,150,000	4,150,000
Total shares not in trade	<u>4,150,000</u>	<u>4,150,000</u>
Shares in trade:		
720,000,000 A shares at par value of RMB 1 each		
2,330,000,000 H shares at par value of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	<u>3,050,000</u>	<u>3,050,000</u>
Total share capital	<u>7,200,000</u>	<u>7,200,000</u>

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

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



## 22. Capital reserves

	<b>The Group and the Company</b>	
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
		(audited)
Balance at 1 January and at 30 June / 31 December	<b>2,856,278</b>	2,856,278

Balance of capital reserves at 30 June 2004 and 31 December 2003 is represented by:

	<b>Note</b>	<b>The Group and the Company</b>	
		<b>At 30 June 2004</b>	At 31 December 2003
		<b>RMB'000</b>	RMB'000
			(audited)
Share premium		<b>2,420,841</b>	2,420,841
Safety fund	(a)	<b>4,180</b>	4,180
Valuation surplus	(b)	<b>44,887</b>	44,887
Government grants	(c)	<b>386,370</b>	386,370
		<b>2,856,278</b>	2,856,278

- (a) The safety fund represents gifts or grants received from Sinopec for enhancement of production safety.
- (b) Valuation surplus represents the excess of fair value over the carrying value of assets given up in part exchange for investments.
- (c) Government grants represent grants received for the purchase of equipment used for technology improvements.

## 23. Surplus reserves

The Group and the Company					
Note	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Discretionary surplus reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2003	922,108	840,019	82,089	1,280,514	3,124,730
Appropriation of net profit (a)	138,556	138,556	–	–	277,112
Balance at 1 January and 30 June 2004	<u>1,060,664</u>	<u>978,575</u>	<u>82,089</u>	<u>1,280,514</u>	<u>3,401,842</u>

(a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2003:

- |                                    |     |
|------------------------------------|-----|
| (i) Statutory surplus reserve      | 10% |
| (ii) Statutory public welfare fund | 10% |

## 24. Income from principal operations

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 34.

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

For the period ended 30 June 2004, total sales to top five customers are shown below:

	2004	2003
Amount (RMB'000)	4,574,267	5,126,300
Percentage of total sales	<u>25.73%</u>	<u>36.26%</u>

## 25. Business taxes and surcharges

	Six-month periods ended 30 June			
	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Consumption tax	249,422	199,624	249,422	199,624
City construction tax	69,562	46,697	66,840	43,191
Education surcharge and others	31,269	28,191	28,645	18,510
Total	<u>350,253</u>	<u>274,512</u>	<u>344,907</u>	<u>261,325</u>

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

## 26. Financial expenses

	Six-month periods ended 30 June			
	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expenses	185,842	223,190	155,253	205,909
Less: Interest income	(20,160)	(12,995)	(15,427)	(8,657)
Exchange loss	3,670	2,480	3,301	2,368
Less: Exchange gain	(9)	(4,623)	-	(3,958)
Others	2,152	1,289	1,091	312
Total	<u>171,495</u>	<u>209,341</u>	<u>144,218</u>	<u>195,974</u>

## 27. Investment income/(losses)

	Six-month periods ended 30 June			
	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cost method	13,965	13,113	11,292	6,086
Share of profit of subsidiaries	-	-	120,946	21,609
Share of losses of associates	(3,737)	(12,487)	-	-
Amortisation of equity investment differences	5,425	5,425	5,425	5,425
Loss on disposal of subsidiary	-	(7,229)	-	-
<b>Total</b>	<b>15,653</b>	<b>(1,178)</b>	<b>137,663</b>	<b>33,120</b>

## 28. Non-operating expenses

	Six-month periods ended 30 June			
	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Employee reduction expenses	86,713	-	86,713	-
Loss on disposal of fixed assets	47,416	2,529	45,372	3,100
Provision for impairment losses on fixed assets	34,345	-	34,345	-
Service fee	16,000	10,000	16,000	10,000
Donations	389	5,650	369	5,650
Other expenses	2,597	4,244	1,949	2,413
<b>Total</b>	<b>187,460</b>	<b>22,423</b>	<b>184,748</b>	<b>21,163</b>

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 86,713,000 (period ended 30 June 2003: RMB Nil) during the six-month periods ended 30 June, in respect of the voluntary resignation of approximately 1,100 employees.

## 29. Related parties and related party transactions

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

Name of company	:	China Petroleum & Chemical Corporation ("Sinopec Corp")
Registered address	:	No.6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Relationship with the Company	:	The immediate parent company
Economic nature	:	Joint stock limited company
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB86.7billion

The above registered capital has not been changed during the six-month period ended 30 June 2004.

As at 30 June 2004, Sinopec Corp held 4 billion shares of the Company. There are no changes during the reporting period.

### (b) Companies not having the direct ability to exercise significant influence over the Group

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

## 29. Related parties and related party transactions (continued)

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

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

	<b>Six-month periods ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Purchases of crude oil	<b>8,871,835</b>	7,845,725

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

	<b>Six-month periods ended 30 June</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales of products and service fee income	<b>7,302,057</b>	4,872,132
Purchases other than crude oil	<b>426,961</b>	315,820
Insurance expenses	<b>46,131</b>	44,821
Net decrease in deposits in related party	<b>29,980</b>	165,562
Interest received and receivable	<b>1,231</b>	653
New loans obtained from related party	<b>25,000</b>	25,000
Loans repaid to related party	<b>50,000</b>	50,000
Interest paid and payable	<b>3,330</b>	3,472
Transportation costs	<b>2,366</b>	5,624
Construction and installation fees	<b>68,580</b>	153,006

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

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

29. Related parties and related party transactions (continued)

(e) The Group's balances with related parties are as follow:

	Immediate Parent Company		Other related parties	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Bills receivable	382,663	118,628	-	-
Trade debtors	26,510	9,197	178,376	116,194
Other receivables	104,526	104,010	63,550	60,908
Advance payments	65,713	9,594	27,967	60,819
Bills payable	6,754	27,110	-	-
Trade creditors	193,577	98,503	481,924	490,180
Other payables	75,284	-	18,970	50,097
Receipts in advance	1,091	10,324	13,971	86,558

(f) Deposits in related party

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Cash at bank and in hand	233,874	263,854	230,880	260,617

(g) Loans with related party

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Short-term loans	105,000	130,000	-	-

### 30. Retirement schemes

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amount of contributions. During the six-month period ended 30 June 2004, the Company's contribution to this plan amounted to RMB21,230,000 (period ended 30 June 2003: RMB17,622,000).

### 31. Capital commitments

Capital commitments outstanding at 30 June 2004 and 31 December 2003 are as follows:

	<b>The Group and the Company</b>	
	<b>At 30 June</b>	At 31 December
	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Property, plant and equipment</b>		
Contracted but not provided for	<b>931,533</b>	119,990
Authorised by the Board but not contracted for	<b>1,508,240</b>	2,094,840
	<b>2,439,773</b>	2,214,830
<b>Investment</b>		
Contracted but not provided for	<b>573,180</b>	858,706
Authorised by the Board but not contracted for	<b>350,000</b>	—
	<b>923,180</b>	858,706
<b>Total</b>	<b>3,362,953</b>	3,073,536

At 30 June 2004, the Group and the Company do not have significant operating lease commitments.



### 32. Contingent liabilities

Contingent liabilities of the Group and the Company are as follows:

	The Group		The Company	
	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Guarantees issued to banks in favour of:				
-subsidiaries	-	-	1,223,274	1,114,408
-associates	40,000	54,600	40,000	54,600
-other unlisted investment companies	68,476	74,498	32,800	32,800
	<b>108,476</b>	<b>129,098</b>	<b>1,296,074</b>	<b>1,201,808</b>

Guarantees issued to banks in favour of subsidiaries are given to the extent of the Company's respective equity interest in these entities.

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Group's and the Company's respective equity interest in these entities.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognised any such losses under guarantees when those losses are estimable. At 30 June 2004, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under these guarantee arrangements.

### 33. Events after the balance sheet date

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

### 34. Segment reporting

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

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

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

### 34. Segment reporting (continued)

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

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

### 34. Segment reporting (continued)

#### Income from principal operations

	<u>Six-month periods ended 30 June</u>	
	2004 RMB'000	2003 RMB'000
Synthetic fibres		
External sales	2,417,891	1,904,874
Intersegment sales	34	478
Sub-total	2,417,925	1,905,352
Resins and plastics		
External sales	5,442,159	4,158,411
Intersegment sales	15,047	14,028
Sub-total	5,457,206	4,172,439
Intermediate petrochemicals		
External sales	2,290,996	1,950,095
Intersegment sales	5,065,567	3,847,506
Sub-total	7,356,563	5,797,601
Petroleum products		
External sales	6,201,821	5,240,592
Intersegment sales	447,452	377,199
Sub-total	6,649,273	5,617,791
All others		
External sales	1,425,270	885,098
Intersegment sales	1,851,705	1,709,274
Sub-total	3,276,975	2,594,372
Elimination of intersegment sales	(7,379,805)	(5,948,485)
Total	<u>17,778,137</u>	<u>14,139,070</u>

### 34. Segment reporting (continued)

#### Cost of principal operations

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Syntheticfibres	2,193,799	1,873,545
Resins and plastics	4,342,349	3,734,904
Intermediate petrochemicals	1,582,029	1,443,280
Petroleum products	5,174,371	4,587,525
All others	1,286,869	754,698
Total	<u>14,579,417</u>	<u>12,393,952</u>

#### Profit from principal operations

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Syntheticfibres	212,614	23,008
Resins and plastics	1,070,297	405,486
Intermediate petrochemicals	690,379	496,535
Petroleum products	740,622	428,353
All others	134,555	117,224
Total	<u>2,848,467</u>	<u>1,470,606</u>

### 35. Net profit before non-recurring items

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

	<u>Six-month period ended</u> <u>30 June 2004</u> <u>RMB'000</u>
Net profit	1,531,200
Items under non-recurring items	
Add: Non-operating expenses excluding provision for impairment losses on fixed assets	153,115
Less: Non-operating income	(15,092)
Written back of provision for impairment losses in previous years	(2,659)
Tax effect	(20,703)
Total of non-recurring items	<u>114,661</u>
Net profit excluding non-recurring items	<u>1,645,861</u>