

Report of the PRC Auditors



The Shareholders of Sinopec Yizheng Chemical Fibre Company Limited (“the Company”):

We have audited the Company’s consolidated balance sheet and balance sheet as at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended on pages 94 to 137. The preparation of these financial statements is the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with China’s Independent Auditing Standards for Certified Public Accountants. Those 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 the significant estimates made by the Company’s management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People’s Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2004, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

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*Certified Public Accountants
Registered in The People’s Republic of China*

Hu Qiong

Yu Xiaojun

29 March 2005



Consolidated Balance Sheet

As at 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Assets			
Current assets			
Cash at bank and on hand	4	358,986	1,228,730
Bills receivable	5	310,550	352,205
Accounts receivable	6	175,537	123,861
Other receivables	7	39,812	30,687
Payments in advance	8	88,096	74,624
Inventories	9	1,626,564	990,715
Total current assets		<u>2,599,545</u>	<u>2,800,822</u>
Long-term investments			
Long-term equity investments (Including: equity investment difference (credit) of Rmb 29,341,000 (2003: Rmb 29,341,000))	10	<u>33,159</u>	<u>33,159</u>
Fixed assets			
Cost		15,507,926	15,154,640
Less: Accumulated depreciation		<u>7,246,334</u>	<u>6,508,055</u>
Net book value before provision for impairment		8,261,592	8,646,585
Less: Provision for impairment of fixed assets		<u>66,728</u>	<u>-</u>
Net book value after provision for impairment	11	8,194,864	8,646,585
Construction materials	13	11,230	24,483
Construction in progress	12	<u>253,963</u>	<u>270,480</u>
Total fixed assets		<u>8,460,057</u>	<u>8,941,548</u>
Intangible assets and other assets			
Intangible assets	14	261,017	303,127
Long-term deferred expenses	15	<u>220</u>	<u>304</u>
Total intangible assets and other assets		<u>261,237</u>	<u>303,431</u>
Deferred taxation			
Deferred tax assets	3(e)	<u>28,536</u>	<u>-</u>
Total assets		<u>11,382,534</u>	<u>12,078,960</u>

The notes on pages 104 to 137 form part of these financial statements.



Consolidated Balance Sheet

As at 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	16(a)	309,726	718,820
Bills payable	17	3,462	420,239
Accounts payable	17	450,369	382,866
Receipts in advance	17	205,171	231,428
Accrued payroll		152,697	162,044
Staff welfare payable		55,960	47,874
Taxes payable	3(d)	191,570	224,652
Other payables	18	24,798	19,969
Other creditors	17	276,883	250,150
Accrued expenses	19	1,214	1,631
Current portion of long-term loans	16(b)	200,000	100,000
Total current liabilities		1,871,850	2,559,673
Long-term liabilities			
Long-term loans	16(b)	190,000	340,000
Total liabilities		2,061,850	2,899,673
Minority interests			
		52,529	53,455
Shareholders' funds			
Share capital	20	4,000,000	4,000,000
Capital reserve	21	3,093,838	3,082,752
Surplus reserves (Including statutory public welfare fund of Rmb 348,411,000 (2003: Rmb 325,127,000))	22	1,456,004	1,409,436
Undistributed profits (Including cash dividends of Rmb 100,000,000 (2003: Rmb 100,000,000) approved and appropriated after the balance sheet date)		718,313	633,644
Total shareholders' funds		9,268,155	9,125,832
Total liabilities and shareholders' funds		11,382,534	12,078,960

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of the Asset
and Accounting Department

The notes on pages 104 to 137 form part of these financial statements.



Balance sheet

As at 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Assets			
Current assets			
Cash at bank and on hand	4	192,239	984,253
Bills receivable	5	261,719	313,375
Accounts receivable	6	126,707	81,938
Other receivables	7	156,512	156,842
Payments in advance	8	75,471	67,305
Inventories	9	1,428,039	820,332
Total current assets		2,240,687	2,424,045
Long-term investments			
Long-term equity investments (Including: equity investment difference (credit) of Rmb 29,341,000 (2003: Rmb29,341,000))	10	286,475	278,799
Receivables due after 1 year	10(d)	501,891	516,843
Total long-term investments		788,366	795,642
Fixed assets			
Cost		14,319,685	13,999,044
Less: Accumulated depreciation		6,690,231	6,021,238
Net book value before provision for impairment		7,629,454	7,977,806
Less: Provision for impairment of fixed assets		66,728	–
Net book value after provision for impairment	11	7,562,726	7,977,806
Construction materials	13	11,230	24,483
Construction in progress	12	252,356	265,919
Total fixed assets		7,826,312	8,268,208
Intangible assets and other assets			
Intangible assets	14	261,017	303,127
Long-term deferred expenses	15	220	304
Total intangible assets and other assets		261,237	303,431
Deferred taxation			
Deferred tax assets	3(e)	22,907	–
Total assets		11,139,509	11,791,326

The notes on pages 104 to 137 form part of these financial statements.



Balance sheet

As at 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	16(a)	213,878	633,869
Bills payable	17	–	400,000
Accounts payable	17	389,685	324,535
Receipts in advance	17	197,116	199,735
Accrued payroll		147,181	147,647
Staff welfare payable		46,878	38,688
Taxes payable	3(d)	185,058	219,310
Other payables	18	24,351	19,969
Other creditors	17	269,339	235,293
Accrued expenses	19	1,214	1,401
Current portion of long-term loans	16(b)	200,000	100,000
Total current liabilities		1,674,700	2,320,447
Long-term liabilities			
Long-term loans	16(b)	190,000	340,000
Total liabilities		1,864,700	2,660,447
Shareholders' funds			
Share capital	20	4,000,000	4,000,000
Capital reserve	21	3,093,838	3,082,752
Surplus reserves (Including: statutory public welfare fund of Rmb 348,411,000 (2003: Rmb 325,127,000))	22	1,456,004	1,409,436
Undistributed profits (Including cash dividends of Rmb 100,000,000 (2003: Rmb 100,000,000) approved and appropriated after the balance sheet date)		724,967	638,691
Total shareholders' funds		9,274,809	9,130,879
Total liabilities and shareholders' funds		11,139,509	11,791,326

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

Xu Zheng-ning
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The notes on pages 104 to 137 form part of these financial statements.



Consolidated Income and Profit Appropriation Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Sales from principal activities	24	13,348,471	10,343,641
Less: Cost of sales from principal activities	24	12,150,105	9,276,229
Business taxes and surcharges	3(c)	45,548	46,485
Profit from principal activities		1,152,818	1,020,927
Add: Profit from other operations		8,432	9,775
Less: Operating expenses		177,406	167,269
General and administrative expenses		468,805	449,931
Financial expenses	25	75,289	71,860
Operating profit		439,750	341,642
Add: Investment income	26	3,000	5,658
Non-operating income		6,041	6,539
Less: Non-operating expenses	27	182,222	62,708
Profit before income tax		266,569	291,131
Less: Income tax	3(b)	32,783	45,312
Minority interests		2,549	5,615
Net profit for the year		231,237	240,204
Add: Retained profits at the beginning of the year		633,644	502,063
Profits available for distribution		864,881	742,267
Less: Transfer to statutory surplus reserve	22,23(a)	23,284	24,649
Transfer to statutory public welfare fund	22,23(a)	23,284	23,974
Profits available for distribution to shareholders		818,313	693,644
Less: Cash dividends appropriated to shareholders		100,000	60,000
Retained profits at the end of the year		718,313	633,644
(Including cash dividends of Rmb 100,000,000 (2003: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date (Note 23(b))			

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

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The notes on pages 104 to 137 form part of these financial statements.

Income and Profit Appropriation Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2004 Rmb'000	2003 Rmb'000
Sales from principal activities	24	12,494,765	9,521,893
Less: Cost of sales from principal activities	24	11,375,393	8,546,296
Business taxes and surcharges	3(c)	44,540	45,495
Profit from principal activities		1,074,832	930,102
Add: Profit from other operations		6,388	4,118
Less: Operating expenses		147,822	140,208
General and administrative expenses		428,506	421,229
Financial expenses	25	64,221	64,221
Operating profit		440,671	308,562
Add: Investment (losses)/income	26	(4,276)	8,056
Non-operating income		5,173	5,220
Less: Non-operating expenses	27	180,200	47,971
Profit before income tax		261,368	273,867
Less: Income tax	3(b)	28,524	36,326
Net profit for the year		232,844	237,541
Add: Retained profits at the beginning of the year		638,691	509,773
Profits available for distribution		871,535	747,314
Less: Transfer to statutory surplus reserve	22,23(a)	23,284	24,649
Transfer to statutory public welfare fund	22,23(a)	23,284	23,974
Profits available for distribution to shareholders		824,967	698,691
Less: Cash dividends appropriated to shareholders		100,000	60,000
Retained profits at the end of the year		724,967	638,691
(Including cash dividends of Rmb 100,000,000 (2003: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date (Note 23(b))			

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

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The notes on pages 104 to 137 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Note to the
cash flow statement

2004
Rmb'000

Cash flows from operating activities:

Cash received from sale of goods and rendering of services	16,416,146
Refund of taxes	7,027
Other cash received relating to operating activities	5,229

Sub-total of cash inflows	16,428,402
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Cash paid for goods and services	(14,317,245)
Cash paid to and for employees	(699,125)
Cash paid for all types of taxes	(796,291)
Other cash paid relating to operating activities	(325,566)

Sub-total of cash outflows	(16,138,227)
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Net cash inflow from operating activities	(a)	290,175
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Cash flows from investing activities:

Cash received from return on investments	3,000
Net cash received from disposal of fixed assets	8,068
Other cash received relating to investing activities	11,816

Sub-total of cash inflows	22,884
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Cash paid for acquisition of fixed assets, construction in progress and other long-term assets	(530,628)
Other cash paid relating to investing activities	(11,035)

Sub-total of cash outflows	(541,663)
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Net cash outflow from investing activities		(518,779)
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Cash flows from financing activities:

Cash received from borrowings	4,849,631
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Sub-total of cash inflows	4,849,631
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Cash repayment of borrowings	(5,308,725)
Cash paid for dividends distribution or repayment of interest	(193,081)

Sub-total of cash outflows	(5,501,806)
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Net cash outflow from financing activities		(652,175)
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Net decrease in cash and cash equivalents	(b)	(880,779)
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The notes on pages 104 to 137 form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the cash flow statement

(a) Reconciliation of net profit to net cash flow from operating activities:

	2004 Rmb'000
Net profit	231,237
<i>Add:</i> Provision for bad and doubtful debts	14,823
Write-back of provision for inventories	(800)
Provision for inventories	26,910
Provision for impairment of fixed assets	66,728
Depreciation of fixed assets	910,266
Amortisation of intangible assets	42,110
Amortisation of long-term deferred expenses	84
Gains arising from investments	(3,000)
Financial expenses	74,350
Net losses on disposal of fixed assets	67,633
Deferred tax assets	(28,536)
Increase in gross inventories	(661,959)
Increase in gross operating receivables	(47,760)
Decrease in operating payables	(404,460)
Minority interests	2,549

Net cash inflow from operating activities

290,175

(b) Net decrease in cash and cash equivalents:

Cash and cash equivalents at the end of the year (Note 4)	347,951
Less: Cash and cash equivalents at the beginning of the year (Note 4)	1,228,730

Net decrease in cash and cash equivalents

(880,779)

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

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Chief Financial Officer

Yin Jia-dong
Supervisor of the Asset
and Accounting Department

The notes on pages 104 to 137 form part of these financial statements.



Cash Flow Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Note to the
cash flow statement

2004
Rmb'000

Cash flows from operating activities:

Cash received from sale of goods and rendering of services	14,749,740
Refund of taxes	3,367
Other cash received relating to operating activities	4,387

Sub-total of cash inflows	<u>14,757,494</u>
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Cash paid for goods and services	(12,773,765)
Cash paid to and for employees	(643,964)
Cash paid for all types of taxes	(740,586)
Other cash paid relating to operating activities	(254,021)

Sub-total of cash outflows	<u>(14,412,336)</u>
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Net cash inflow from operating activities	(a) 345,158
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Cash flows from investing activities:

Cash received from return on investments	3,000
Net cash received from disposal of fixed assets	7,995
Other cash received relating to investing activities	16,547

Sub-total of cash inflows	<u>27,542</u>
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Cash paid for acquisition of fixed assets, construction in progress and other long-term assets	(511,091)
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Sub-total of cash outflow	<u>(511,091)</u>
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Net cash outflow from investing activities	(483,549)
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Cash flows from financing activities:

Cash received from borrowings	4,530,914
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Sub-total of cash inflows	<u>4,530,914</u>
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Cash repayment of borrowings	(5,000,905)
Cash paid for dividends distribution or repayment of interest	(183,632)

Sub-total of cash outflows	<u>(5,184,537)</u>
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Net cash outflow from financing activities	(653,623)
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Net decrease in cash and cash equivalents	(b) (792,014)
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The notes on pages 104 to 137 form part of these financial statements.



Cash Flow Statement

For the year ended 31 December 2004
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the cash flow statement

	2004 Rmb'000
(a) Reconciliation of net profit to net cash flow from operating activities:	
Net profit	232,844
<i>Add:</i> Provision for inventories	26,910
Provision for impairment of fixed assets	66,728
Depreciation of fixed assets	840,145
Amortisation of intangible assets	42,110
Amortisation of long-term deferred expenses	84
Losses arising from investments	4,276
Financial expenses	63,875
Net losses on disposal of fixed assets	67,659
Deferred tax assets	(22,907)
Increase in gross inventories	(634,617)
Increase in gross operating receivables	(1,268)
Decrease in operating payables	(340,681)
Net cash inflow from operating activities	345,158
(b) Net decrease in cash and cash equivalents:	
Cash and cash equivalents at the end of the year (Note 4)	192,239
<i>Less:</i> Cash and cash equivalents at the beginning of the year (Note 4)	984,253
Net decrease in cash and cash equivalents	(792,014)

These financial statements have been approved by the Board of Directors of the Company on 29 March 2005.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of the Asset
and Accounting Department

The notes on pages 104 to 137 form part of these financial statements.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

1. Company status

Sinopec Yizheng Chemical Fibre Company Limited (the “**Company**”) was established in the People’s Republic of China (the “**PRC**”) on 31 December 1993 as a joint stock limited company as part of the restructuring of the Yihua Group Corporation (“**Yihua**”). On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other governmental authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited (“**CEUPEC**”) became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“**CITIC**”) continues to hold the 18% of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares.

Following the State Council’s approval of the reorganisation of China Petrochemical Corporation (“**CPC**”) on 21 July 1998, CEUPEC joined CPC. As a result of the reorganisation, Yihua replaced CEUPEC as the holder of the 42% of the Company’s issued share capital, and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“**Sinopec Corp**”), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec Corp and Sinopec Corp became the largest shareholder of the Company.

By a special resolution passed in the Shareholders’ Meeting on 18 October 2000, the name of the Company was changed from “Yizheng Chemical Fibre Company Limited” to “Sinopec Yizheng Chemical Fibre Company Limited”.

The principal activities of the Company and its subsidiaries (the “**Group**”) are the manufacturing and sale of chemical fibre and chemical fibre raw materials.

2. Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of the financial statements conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (the “**MOF**”).

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Company’s consolidated financial statements are prepared in accordance with the Accounting Regulations for Business Enterprises and Cai Kuai Zi [1995] No.11 “Temporary regulations on consolidated financial statements” issued by the MOF.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% (50% not inclusive) of the issued share capital, or has the power to control despite the issued share capital held by the Company is equal to or less than 50%. The results of the subsidiaries during the period in which the Company holds more than 50% of the issued share capital or the Company has the power to control despite the issued share capital held by the Company is equal to or less than 50%, are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company in preparing the consolidated financial statements. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions have been eliminated on consolidation.

Details of the Company's principal subsidiaries are disclosed in Note 10(a).

(c) Basis of preparation and measurement basis

The financial statements of the Group have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Reporting currency

The Group's reporting currency is Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 2(k)), are dealt with in the income statement.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

(g) Provision for bad and doubtful debts

The provision for bad debt losses is estimated based on individual accounts receivable which show signs of uncollectibility and an aging analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(h) Inventories

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

Costs comprise all costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of manufacturing overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are amortised in full when received for use.

The Group adopts a perpetual inventory system.

(i) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of the investors' equity in the investee enterprise.

Equity-investment difference, which is the difference between the initial investment cost and the Company's share of investors' equity in the investee enterprises, is accounted for as follows:

- Any excess of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year end.
- Any shortfall of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis if the investment was acquired before the MOF's issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10). The amortization period is determined according to the investment period as stipulated in the relevant agreement, or 15 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year end. Such shortfalls are recognised in the "Capital reserve – reserve for equity investment" if the investment was acquired after the issuance of the Cai Kuai [2003] No.10.

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

The Group makes provision for impairment losses on long-term equity investments (see note 2(m)).



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(j) Fixed assets

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods, rendering of services and for administrative purposes. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(m)). The revalued amount refers to the fixed assets value, which have been adjusted to the revalued amounts according to the fixed assets valuation carried out in accordance with the relevant rules and regulations.

The Group's fixed assets are depreciated using the straight-line method over their estimated useful lives. The respective estimated useful lives and the estimated rate of residual values on cost adopted for the Group's fixed assets are as follows:

	Estimated useful life	Estimated rate of residual value
Land and buildings	25 to 50 years	0%-3%
Machinery and equipment	8 to 22 years	3%
Motor vehicles and other fixed assets	4 to 10 years	3%

(k) Construction in progress

Construction in progress is stated in the balance sheet at cost less impairment losses (see note 2(m)). All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principle and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

(l) Intangible assets and long-term deferred expenses

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(m)). The cost of the intangible assets is amortised on a straight-line basis. The amortization period is determined according to the shorter of the contracted beneficial period and the effective period stipulated by law, or 10 years if the period is not specified in the contract or law.

(ii) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(m) Provision for impairment

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

(n) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises current tax paid and payable and movement of deferred tax assets and liabilities.

Current tax is calculated at the applicable tax rate on taxable income.

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(p) Revenue recognition

When it is probable that the economic benefits will flow to the Group and the revenue and cost can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Sales of goods

Sales revenue is recognised when the significant risks and rewards of the ownership of goods have been transferred to the buyers. No revenue is recognised if there are significant uncertainties regarding the receipt of the consideration and the return of goods, or when the revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Interest income

Interest income is recognised on a time proportion basis according to the principal outstanding and the applicable rate.

(iii) Rendering of services

When the provision of service is started and completed within the same accounting year, revenue from the rendering of services is recognised in the income statement at the time of completion of the services. When the provision of service is started and completed in different accounting years, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the progress of work performed, to the extent that the outcome of a transaction involving the rendering of service can be estimated reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of cost incurred that are expected to be recoverable.

(q) Research and development costs

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

(r) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(s) Repairs and maintenance expenses

Repairs and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred.

(t) Environmental preservation expenses

Environmental preservation expenses relating to circumstances arising as a result of the current or past businesses are recognized in the income statement when incurred.

(u) Dividends appropriated to shareholders

Cash dividends appropriated to the shareholders are recognised in the income and profit appropriation statement when approved. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are separately disclosed in the shareholders' fund in the balance sheet.

(v) Profit appropriation

Profit appropriation is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

(w) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement when they are due.

(x) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

3. Taxation

- (a) The types of tax applicable to the Group's sale of goods and rendering of services include value-added tax ("VAT"), business tax, city development tax and education surcharge.

The VAT rate is 17%.

The business tax rate is either 3% or 5%.

City development tax is paid at a rate of 7% of the sum of business tax payable and VAT payable.

Education surcharge is paid at a rate of 4% of the sum of business tax payable and VAT payable.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

3. Taxation (Continued)

(b) Income tax

Income tax in the income statement represents:

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Provision for income tax for the year	63,285	46,798	54,397	37,812
Overprovision for income tax in respect of prior years	(1,966)	(1,486)	(2,966)	(1,486)
	61,319	45,312	51,431	36,326
Deferred taxation	(28,536)	–	(22,907)	–
	32,783	45,312	28,524	36,326

Pursuant to the directive "Cai Shui Zi [1994] No. 17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the Company's income tax is calculated at 15%. The MOF and the State Administration of Taxation have not notified the Company whether this tax rate is still applicable in future periods. The Company's applicable tax rate may increase in future periods.

Except for the following subsidiaries which enjoy preferential tax rate, the income tax rate applicable to the Group's other major subsidiaries is 33%.

The names of subsidiaries which enjoy preferential tax rate are set out below:

Name of subsidiary	Preferential tax rate	Reason
Yizheng Chemical Fibre Wuhan Kangqi Technical Trading Co., Ltd.	15%	Enterprise established in Wuhan high and new technology development zone
Yizheng Chemical Fibre Xiamen Kangqi Co., Ltd.	15%	Enterprise established in Xiamen special economic zone

(c) Business taxes and surcharges

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
City development tax	28,985	29,550	28,344	28,941
Education surcharge	16,563	16,845	16,196	16,554
Others	–	90	–	–
	45,548	46,485	44,540	45,495



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

3. Taxation (Continued)

(d) Taxes payable

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Income tax payable	52,163	82,224	46,412	75,617
City development tax payable	38,664	22,973	38,495	22,780
VAT payable	83,231	109,823	82,561	111,675
Others	17,512	9,632	17,590	9,238
	<u>191,570</u>	<u>224,652</u>	<u>185,058</u>	<u>219,310</u>

(e) Deferred tax assets and liabilities

Deferred tax assets

	The Group 2004 Rmb'000	The Company 2004 Rmb'000
As at 1 January	—	—
Provision for bad and doubtful debts	10,234	4,605
Provision for inventories	8,293	8,293
Provision for impairment of fixed assets	10,009	10,009
	<u>28,536</u>	<u>22,907</u>

Deferred tax liabilities

The Group has no significant deferred tax liability.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

4. Cash at bank and on hand

	Original currency ('000)	The Group 2004 Exchange rate	Rmb/Rmb equivalent ('000)
<i>Cash on hand</i>			
Renminbi			149
<i>Cash at bank</i>			
Renminbi			284,365
Hong Kong Dollars	758	1.067	809
US Dollars	2,627	8.290	21,779
Cash at bank and on hand			307,102
Deposits with related companies			51,884
Total			358,986
Less: Pledged time deposits			(11,035)
Cash and cash equivalents			347,951
			<u><u> </u></u>
	Original currency ('000)	The Group 2003 Exchange rate	Rmb/Rmb equivalent ('000)
<i>Cash on hand</i>			
Renminbi			159
<i>Cash at bank</i>			
Renminbi			385,889
Hong Kong Dollars	140	1.064	149
US Dollars	4,491	8.350	37,501
Cash at bank and on hand			423,698
Deposits with related companies			805,032
Total			1,228,730
Less: Pledged time deposits			–
Cash and cash equivalents			1,228,730
			<u><u> </u></u>

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



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

4. Cash at bank and on hand (Continued)

	The Company 2004		
	Original currency (‘000)	Exchange rate	Rmb/Rmb equivalent (‘000)
<i>Cash on hand</i>			
Renminbi			38
<i>Cash at bank</i>			
Renminbi			144,886
Hong Kong Dollars	135	1.067	144
US Dollars	2,375	8.290	19,689
Cash at bank and on hand			164,757
Deposits with related companies			27,482
Cash and cash equivalents			192,239

	The Company 2003		
	Original currency (‘000)	Exchange rate	Rmb/Rmb equivalent (‘000)
<i>Cash on hand</i>			
Renminbi			19
<i>Cash at bank</i>			
Renminbi			176,556
Hong Kong Dollars	135	1.064	144
US Dollars	4,308	8.350	35,970
Cash at bank and on hand			212,689
Deposits with related companies			771,564
Cash and cash equivalents			984,253

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited (“**Sinopec Finance**”), which interest is calculated at market rates. Details are set out in Note 28.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

5. Bills receivable

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Bank acceptance bills	296,932	329,314	246,369	285,484
Customer acceptance bills	13,618	22,891	15,350	27,891
Total	<u>310,550</u>	<u>352,205</u>	<u>261,719</u>	<u>313,375</u>

As at 31 December 2004, the above bank and customer acceptance bills were not pledged.

Included in the above balances, there were no bills receivable due from shareholders who hold 5% or more of the voting shares of the Company.

6. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	The Group				The Company			
	2004 Rmb'000	%	2003 Rmb'000	%	2004 Rmb'000	%	2003 Rmb'000	%
Accounts receivable								
Within 1 year	182,997	90	121,227	87	125,751	92	81,998	87
Between 1 to 2 years	5,487	3	3,438	3	1,776	1	526	1
Between 2 to 3 years	2,912	1	3,198	2	–	–	1,244	1
Over 3 years	12,229	6	11,235	8	9,176	7	10,136	11
	<u>203,625</u>	100	<u>139,098</u>	100	<u>136,703</u>	100	<u>93,904</u>	100
Less: Provision for bad and doubtful debts								
Within 1 year	12,181	7	60	–	–	–	60	–
Between 1 to 2 years	1,933	35	1,429	42	820	46	526	100
Between 2 to 3 years	1,747	60	2,513	79	–	–	1,244	100
Over 3 years	12,227	100	11,235	100	9,176	100	10,136	100
	<u>28,088</u>	14	<u>15,237</u>	11	<u>9,996</u>	7	<u>11,966</u>	13
Accounts receivable, net	<u>175,537</u>		<u>123,861</u>		<u>126,707</u>		<u>81,938</u>	



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

6. Accounts receivable (Continued)

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Opening balance as at 1 January	15,237	10,832	11,966	10,065
Add: Charge for the year	14,823	5,147	–	2,510
Less: Write-off during the year	1,972	742	1,970	609
Closing balance as at 31 December	<u>28,088</u>	<u>15,237</u>	<u>9,996</u>	<u>11,966</u>

During 2004, the Group made a bad-debt provision of Rmb 12,000,000 against one of its customers due to the deterioration of the customer's financial status. The gross balance due from the customer was Rmb 15,884,000 as at 31 December 2004.

During 2004, the Group and the Company had no individually significant write-off or write-back of bad and doubtful debts which were fully or substantially provided for in the prior years.

Accounts receivable due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 28.

As at 31 December 2004, the amount and proportion of the Group's five largest accounts receivable over the total accounts receivable are as follows:

	2004		2003	
	Rmb'000	%	Rmb'000	%
Total of the five largest accounts receivable	<u>90,057</u>	<u>44</u>	<u>68,640</u>	<u>49</u>



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

7. Other receivables

Ageing analysis of other receivables is as follows:

	The Group				The Company			
	2004		2003		2004		2003	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Other receivables								
Within 1 year	31,016	46	20,810	36	151,906	67	150,548	66
Between 1 to 2 years	842	1	1,375	2	389	–	905	1
Between 2 to 3 years	675	1	383	1	190	–	383	–
Over 3 years	34,519	52	35,359	61	73,850	33	74,829	33
	<u>67,052</u>	100	<u>57,927</u>	100	<u>226,335</u>	100	<u>226,665</u>	100
Less: Provision for bad and doubtful debts								
Over 3 years	27,240	79	27,240	77	69,823	95	69,823	93
	<u>27,240</u>	41	<u>27,240</u>	47	<u>69,823</u>	31	<u>69,823</u>	31
Other receivables, net	<u>39,812</u>		<u>30,687</u>		<u>156,512</u>		<u>156,842</u>	

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Opening balance as at 1 January	27,240	23,622	69,823	66,205
Add: Charge for the year	–	4,149	–	4,149
Less: Write-off during the year	–	531	–	531
Closing balance as at 31 December	<u>27,240</u>	<u>27,240</u>	<u>69,823</u>	<u>69,823</u>

During 2004, the Group and the Company did not make a full or substantial provision against any individually significant other receivables.

During 2004, the Group and the Company had no individually significant write-off or write-back of bad and doubtful debts which were fully or substantially provided for in the prior years.

Other receivables due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 28.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

7. Other receivables (Continued)

As at 31 December 2004, the amount and proportion of the Group's five largest other receivables over the total other receivables are as follows:

	2004		2003	
	Rmb'000	%	Rmb'000	%
Total of the five largest other receivables	22,715	34	21,589	37

8. Payments in advance

All payments in advance were aged within one year.

Balances due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 28.

9. Inventories

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Raw materials	957,823	522,109	887,372	449,121
Work in progress	128,745	65,666	123,282	59,802
Finished goods	321,047	180,645	262,658	136,385
Goods in transit	41,552	24,494	–	–
Spare parts and consumables	234,279	228,573	210,009	203,396
	1,683,446	1,021,487	1,483,321	848,704
Less: Provision for diminution in value of inventories				
Raw materials	4,270	–	4,270	–
Finished goods	8,322	9,122	6,722	6,722
Spare parts and consumables	44,290	21,650	44,290	21,650
	56,882	30,772	55,282	28,372
	1,626,564	990,715	1,428,039	820,332



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

9. Inventories (Continued)

Provision for diminution in value of inventories:

	The Group			The Company		
	Raw materials <i>Rmb'000</i>	Finished goods <i>Rmb'000</i>	Spare parts and consumables <i>Rmb'000</i>	Raw materials <i>Rmb'000</i>	Finished goods <i>Rmb'000</i>	Spare parts and consumables <i>Rmb'000</i>
As at 1 January 2004	–	9,122	21,650	–	6,722	21,650
Add: Provision made during the year	4,270	–	22,640	4,270	–	22,640
Less: Transfer out due to sales during the year	–	800	–	–	–	–
As at 31 December 2004	4,270	8,322	44,290	4,270	6,722	44,290

All the above inventories are purchased from others or self-manufactured.

During 2004, the Group and the Company recognised the cost of inventories as an expense, including cost of inventories sold, are Rmb 12,150,105,000 (2003: Rmb 9,276,229,000) and Rmb 11,375,393,000 (2003: Rmb 8,546,296,000) respectively.

10. Long-term investments

Long-term equity investments

	Equity-investment difference <i>Rmb'000</i> <i>Note (b)</i>	The Group Other unlisted equity investment <i>Rmb'000</i> <i>Note (c)</i>	Total <i>Rmb'000</i>
	As at 1 January and 31 December 2004	(29,341)	62,500

Long-term equity investments

	The Company			Total <i>Rmb'000</i>
	Investments in subsidiaries <i>Rmb'000</i> <i>Note (a)</i>	Equity-investment difference <i>Rmb'000</i> <i>Note (b)</i>	Other unlisted equity investment <i>Rmb'000</i> <i>Note (c)</i>	
As at 1 January 2004	245,640	(29,341)	62,500	278,799
Investment income accounted for under the equity method	7,676	–	–	7,676
As at 31 December 2004	253,316	(29,341)	62,500	286,475



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

10. Long-term investments (Continued)

- (a) The particulars of subsidiaries, all of which are companies established and operating in the PRC, which principally affected the results or assets of the Group as at 31 December 2004 are as follows:

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

- (b) The difference between the Company's initial cost of investments in subsidiaries, which were acquired in 1995, and its share of their net asset values was treated as an "equity-investment difference". The "equity-investment difference" is amortised on a straight-line basis over 15 years. The amortisation was currently suspended as those subsidiaries with accumulated losses had caused the carrying amounts of the relevant long-term equity investments to be reduced to zero. The remaining period of amortisation is approximately 9 years.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

10. Long-term investments (Continued)

- (c) Other unlisted equity investment

As at 31 December 2004, the Group's and the Company's other unlisted equity investment is as follows:

Name of investee	Investment period	Total investment <i>Rmb'000</i>	Percentage shareholdings %
Sinopec Finance	—	62,500	3.3

(d) Receivables due after 1 year

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Amount due from a subsidiary	800,000	800,000
Less: Provision for impairment	298,109	283,157
	<u>501,891</u>	<u>516,843</u>

The Company has advanced Rmb 800 million to a subsidiary to support its operating working capital on a going concern basis, which is not expected to be recovered within one year. The Company has made a provision for this amount based on the subsidiary's financial position.

- (e) As at 31 December 2004, the Group's and the Company's proportion of the equity investments to the net assets were 0.4% (2003: 0.4%) and 3.1% (2003: 3.1%) respectively.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

11. Fixed assets

	The Group			Total Rmb'000
	Land and buildings Rmb'000	Machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	
Cost or valuation:				
As at 1 January 2004	2,582,747	11,947,048	624,845	15,154,640
Additions	3,939	604	8,486	13,029
Transfer from construction in progress (Note 12)	18,953	557,191	11,801	587,945
Disposals	(16,908)	(184,594)	(46,186)	(247,688)
As at 31 December 2004	2,588,731	12,320,249	598,946	15,507,926
Accumulated depreciation:				
As at 1 January 2004	695,050	5,353,918	459,087	6,508,055
Charge for the year	87,373	743,299	79,594	910,266
Written back on disposal	(6,244)	(128,607)	(37,136)	(171,987)
As at 31 December 2004	776,179	5,968,610	501,545	7,246,334
Provision for impairment:				
Provision made during the year and as at 31 December 2004	453	65,530	745	66,728
Net book value:				
As at 31 December 2004	1,812,099	6,286,109	96,656	8,194,864
As at 31 December 2003	1,887,697	6,593,130	165,758	8,646,585



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

11. Fixed assets (Continued)

	The Company			Total Rmb'000
	Land and buildings Rmb'000	Machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	
Cost or valuation:				
As at 1 January 2004	2,267,784	11,150,791	580,469	13,999,044
Additions	–	–	277	277
Transfer from construction in progress (Note 12)	18,496	536,958	11,716	567,170
Disposals	(16,908)	(184,117)	(45,781)	(246,806)
As at 31 December 2004	2,269,372	11,503,632	546,681	14,319,685
Accumulated depreciation:				
As at 1 January 2004	627,191	4,960,870	433,177	6,021,238
Charge for the year	74,643	689,084	76,418	840,145
Written back on disposal	(6,244)	(128,130)	(36,778)	(171,152)
As at 31 December 2004	695,590	5,521,824	472,817	6,690,231
Provision for impairment:				
Provision made during the year and as at 31 December 2004	453	65,530	745	66,728
Net book value:				
As at 31 December 2004	1,573,329	5,916,278	73,119	7,562,726
As at 31 December 2003	1,640,593	6,189,921	147,292	7,977,806

All the Group's buildings are located in the PRC.

As at 31 December 2004, the original cost of fully depreciated fixed assets in use was Rmb 747,992,000 (2003: Rmb 221,086,000).

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

The Group obtained land use rights through purchase and contribution from its shareholder.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

12. Construction in progress

As at 31 December 2004, the Group's and the Company's major construction in progress is as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance as at 1 January 2004 <i>Rmb'000</i>	Additions for the year <i>Rmb'000</i>	Transfer to fixed assets for the year <i>Rmb'000</i> <i>(Note 11)</i>	Balance as at 31 December 2004 <i>Rmb'000</i>	Source of fund	Percentage of completion	Interest capitalised during the year <i>Rmb'000</i>
Specialised polyester chip project with a daily capacity of 450 tonnes	147,000	97,121	42,879	(140,000)	–	Own fund	100%	–
Specialised polyester chip project with an annual capacity of 160,000 tonnes	143,400	–	60,136	–	60,136	Own fund	42%	–
Bottle-grade chip project with an annual capacity of 200,000 tonnes	340,000	15,177	295,789	(310,966)	–	Bank loans/ own fund	100%	3,342
Improvements and expansion of existing plants	214,164	151,087	152,739	(114,141)	189,685	Own fund	72%	–
Other construction projects	3,775	2,534	2,064	(2,063)	2,535	Own fund	67%	–
Total for the Company		265,919	553,607	(567,170)	252,356			
Miscellaneous projects of the subsidiaries		4,561	17,821	(20,775)	1,607	Own fund	–	–
Total for the Group		<u>270,480</u>	<u>571,428</u>	<u>(587,945)</u>	<u>253,963</u>			
Including:								
Borrowing costs capitalised		<u>1,761</u>	<u>3,342</u>	<u>(5,103)</u>	<u>–</u>			

The capitalisation rate used to determine the borrowing costs to be capitalised was 4.9% (2003: 4.9%).



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

13. Construction materials

	The Group and the Company	
	2004 Rmb'000	2003 Rmb'000
Equipment and accessories	11,230	15,007
Other construction materials	—	9,476
	<u>11,230</u>	<u>24,483</u>

14. Intangible assets

	The Group and the Company		
	Technology right Rmb'000	Patent right Rmb'000	Total Rmb'000
Cost:			
As at 1 January 2004 and as at 31 December 2004	280,000	141,097	421,097
Accumulated amortisation:			
As at 1 January 2004	7,000	110,970	117,970
Charge for the year	28,000	14,110	42,110
As at 31 December 2004	<u>35,000</u>	<u>125,080</u>	<u>160,080</u>
Net book value:			
As at 31 December 2004	<u>245,000</u>	<u>16,017</u>	<u>261,017</u>
As at 1 January 2004	273,000	30,127	303,127

The Company acquired patent rights from third parties in 1995, 1996 and 1999 respectively, which costs are amortised over ten years.

In 2003, the Company acquired technology licences to operate the 450,000-tonne PTA plant from third parties, which cost is amortised over ten years.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

15. Long-term deferred expenses

	The Group and the Company	
	2004 Rmb'000	2003 Rmb'000
Cost:		
As at 1 January and as at 31 December	31,560	31,560
Accumulated amortisation:		
As at 1 January	31,256	28,199
Charge for the year	84	3,057
As at 31 December	31,340	31,256
Net book value:		
As at 31 December	220	304
As at 1 January 2004	304	3,361

The amortisation period of long-term deferred expenses is ten years.

16. Short-term and long-term loans

(a) Short-term bank loans

The Group's and the Company's weighted average interest rates per annum on short-term bank loans were 3.6% (2003: 4.3%) and 3.9% (2003: 4.5%) respectively as at 31 December 2004. Except for short-term loans totalling USD 17,116,000 (approximately Rmb 141,726,000), the other short-term bank loans are denominated in Renminbi. Except for the short-term bank loans disclosed in Notes 4 & 29, the Group's other short-term bank loans are credit loans, unsecured and not guaranteed. As at 31 December 2004, the Group and the Company had no significant overdue short-term bank loans (2003: Rmb nil).

Short-term bank loans from shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 28.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

16. Short-term and long-term loans (Continued)

(b) Long-term bank loans

Lender	Period	Interest rate	Interest type	The Group and the Company	
				2004 Rmb'000	2003 Rmb'000
Industrial and Commercial Bank of China	Due in 2004	4.94%	Fixed	–	100,000
Industrial and Commercial Bank of China	Due in 2005	4.94%	Fixed	200,000	200,000
Bank of China	Due in 2005	4.94%	Fixed	–	50,000
Industrial and Commercial Bank of China	Due in 2006	4.94%	Fixed	90,000	90,000
China Construction Bank	Due in 2007	4.94%	Fixed	100,000	–
Total long-term bank loans				390,000	440,000
Less: Long-term bank loans (current portion)				200,000	100,000
Long-term bank loans (long-term portion)				190,000	340,000

The above long-term bank loans are denominated in Renminbi.

The repayment terms of the long-term bank loans are as follows:

	The Group and the Company	
	2004 Rmb'000	2003 Rmb'000
Due within 1 year	200,000	100,000
Due between 1 – 2 years	90,000	250,000
Due between 2 – 3 years	100,000	90,000
	390,000	440,000

As at 31 December 2004, the Group's and the Company's long-term bank loans are credit loans, unsecured and not guaranteed.

As at 31 December 2004, there were no long-term loans from shareholders who hold 5% or more of the voting shares of the Company.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

17. Bills payable, accounts payable, receipts in advance and other creditors

Bills payable are mainly issued for the Group's purchase of raw materials, goods or products which repayment terms generally range from three to six months:

	The Group				The Company			
	2004		2003		2004		2003	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Bills payable								
Bank acceptance bills	3,462	100	-	-	-	-	-	-
Customer acceptance bills	-	-	420,239	100	-	-	400,000	100
Total	3,462	100	420,239	100	-	-	400,000	100

Bills payable were aged within one year.

As at 31 December 2004, no individually significant balance, aged over three years, was included in the Group's and the Company's accounts payable and other creditors.

As at 31 December 2004, no individually significant balance, aged over one year, was included in the Group's and the Company's receipts in advance.

In the accounts of bills payable, accounts payable, receipts in advance and other creditors, balances due to shareholders who hold 5% or more of the voting shares of the Company are disclosed in Note 28.

18. Other payables

	Charge rate	The Group		The Company	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Education surcharge	note 3(a)	24,268	19,888	24,268	19,888
Others		530	81	83	81
		24,798	19,969	24,351	19,969

19. Accrued expenses

Accrued expenses represent interest accrual.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

20. Share capital

	The Group and the Company	
	2004 Rmb'000	2003 Rmb'000
Registered, issued and paid up capital:		
2,400,000,000 "Legal person A" shares of Rmb 1.00 each	2,400,000	2,400,000
200,000,000 "Social public A" shares of Rmb 1.00 each	200,000	200,000
1,400,000,000 "H" shares of Rmb 1.00 each	1,400,000	1,400,000
	4,000,000	4,000,000

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

21. Capital reserve

	The Group and the Company			As at 31 December 2004 Rmb'000
	As at 1 January 2004 Rmb'000	Addition during the year Rmb'000	Transfer during the year Rmb'000	
Share premium	3,078,825	–	–	3,078,825
Other capital reserve	3,927	11,086	–	15,013
Total	3,082,752	11,086	–	3,093,838

Addition to capital reserve for the year represents the purchase of fixed assets financed by the immediate holding company's refund of Social Protection Insurance Fund.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

22. Surplus reserves

	The Group and the Company			Total
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
As at 1 January 2003	465,113	301,153	594,547	1,360,813
Transfer from distributable profits	24,649	23,974	–	48,623
As at 31 December 2003	<u>489,762</u>	<u>325,127</u>	<u>594,547</u>	<u>1,409,436</u>
As at 1 January 2004	489,762	325,127	594,547	1,409,436
Transfer from distributable profits (Note 23(a))	23,284	23,284	–	46,568
As at 31 December 2004	<u>513,046</u>	<u>348,411</u>	<u>594,547</u>	<u>1,456,004</u>

Transfers from the distributable profits to the above surplus reserves were made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

23. Profit appropriation

(a) Appropriation to various surplus reverses

In accordance with the Board of Directors' resolution on 29 March 2005, the Company made appropriations to the following surplus reserves for 2004:

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

(b) Final dividend proposed to shareholders after the balance sheet date

The Board of Directors proposed the appropriation of a cash dividend to shareholders totalling Rmb 100,000,000 (2003: Rmb 100,000,000) on 29 March 2005. The proposal is still subject to shareholders' approval at the Annual General Meeting. The cash dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

24. Sales and cost of sales from principal activities

The Group and the Company are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials. The Group's and the Company's sales and cost of sales from principal activities represent income earned and cost incurred in relation to sale of chemical fibre and chemical fibre raw materials.

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

During 2004, revenue from sales to the top five customers was Rmb 1,322,000,000 (2003: Rmb 1,845,000,000), which accounted for 10% (2003: 18%) of the total sales from principal activities of the Group.

25. Financial expenses

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Interest expenses incurred	89,189	105,886	83,445	103,641
Less: Borrowing costs capitalised	3,342	18,794	3,342	18,794
Net interest expenses	85,847	87,092	80,103	84,847
Interest income	(11,497)	(17,006)	(16,228)	(21,981)
Net exchange gains	(3,126)	(1,429)	(3,524)	(1,717)
Other financial expenses	4,065	3,203	3,870	3,072
Total	<u>75,289</u>	<u>71,860</u>	<u>64,221</u>	<u>64,221</u>

26. Investment income/(losses)

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Accounted for under the equity method (Note 10)	–	–	7,676	13,503
Provision for impairment for receivable due after 1 year (Note 10(d))	–	–	(14,952)	(8,947)
Amortisation of equity investment difference (Note 10(b))	–	2,158	–	–
Dividend from other equity investment	3,000	3,500	3,000	3,500
Total	<u>3,000</u>	<u>5,658</u>	<u>(4,276)</u>	<u>8,056</u>



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

27. Non-operating expenses

	The Group		The Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Losses on disposal of fixed assets	68,445	6	68,445	1
Employee reduction expenses	21,694	54,786	21,694	40,812
Provision for impairment of fixed assets	66,728	–	66,728	–
Donations	3,860	600	3,860	600
Others	21,495	7,316	19,473	6,558
	182,222	62,708	180,200	47,971

In accordance with the Group's employee reduction plan, the Group incurred Rmb 21,694,000 (2003: Rmb 54,786,000) on the relocation and voluntary resignation of 343 (2003: 912) employees for the year ended 31 December 2004.

28. Related parties and related transactions

(a) Related party with controlling relationship

Name of company:	China Petroleum & Chemical Corporation
Registered address:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal activities:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Relationship with the Company:	The immediate holding company
Types of legal entity:	Joint stock limited company
Legal representative:	Chen Tong Hai
Registered capital:	Rmb 86.7 billion

The above mentioned related party, having the ability to control the Group, has registered share capital of Rmb 86,702,439,000. There was no change during the year.

The equity interest held by the related party having the ability to control the Group is as follows:

	Number of shares	Percentage
As at 31 December 2003 and 2004	<u>1,680,000,000</u>	<u>42%</u>



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

28. Related parties and related transactions (Continued)

(b) Relationships between the Company and related parties without controlling relationships

Name of company	Relationship with the Company
CPC	Ultimate holding company
CITIC	Shareholder
Yihua	With a common ultimate holding company
Sinopec Yangzi Petrochemical Company Limited (“ Yangzi ”)	With a common immediate holding company
Sinopec Finance	With a common ultimate holding company
CITIC Industrial Bank	Subsidiary of CITIC
Nanjing Chemical Industrial Group Limited (“ Nanhua ”)	With a common ultimate holding company
Sinopec Maoming Refining & Chemical Company Limited (“ Maoming ”)	With a common immediate holding company
Sinopec Zhenhai Refining & Chemical Company Limited (“ Zhenhai ”)	With a common immediate holding company

(c) Significant transactions between the Group and the related parties are summarised as follows:

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

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



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

28. Related parties and related transactions (Continued)

(c) Significant transactions between the Group and the related parties are summarised as follows:
(Continued)

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

The Directors of the Company are of the opinion that the above transactions were carried out in the normal course of business and on normal commercial term.

(d) Deposits with and loan from Sinopec Finance

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Cash at bank	21,825	754,217
Short-term loan	20,000	–
	<u>20,000</u>	<u>–</u>



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

28. Related parties and related transactions (Continued)

(e) Deposits with and loan from CITIC Industrial Bank

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Cash at bank	30,059	50,815
Short-term loan	<u>8,000</u>	<u>–</u>

(f) Details of amounts due from/(to) CPC and its subsidiaries (excluding Yihua Group and Sinopec Finance) are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Payments in advance	6,694	30,736
Other receivables	1,312	930
Accounts payable	(50,024)	(55,924)
Other creditors	(2,042)	(25,812)
Bills payable	–	(400,000)
	<u>(44,060)</u>	<u>(450,070)</u>

(g) Details of amounts due from/(to) Yihua Group are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Accounts receivable	5,119	9,675
Bills receivable	–	38,035
Other receivables	–	466
Accounts payable	(11,832)	–
Receipts in advance	(2,316)	(14,631)
Other creditors	(442)	(36,549)
	<u>(9,471)</u>	<u>(3,004)</u>

29. Contingent liabilities

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



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

30. Capital commitments

Capital commitments relate primarily to construction of building, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding as at 31 December 2004 as follows:

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

31. Retirement benefits

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution retirement schemes organised by their respective municipal governments under which they are governed. Details of these schemes of the Company and its principal subsidiary, Foshan Polyester, are as follows:

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

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

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

The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees as described above.



Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

32. 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 non-recurring items are summarised as follows:

	The Group	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Non-recurring items for the year		
Net losses/(gains) on disposal of fixed assets	67,633	(472)
Employee reduction expenses	21,694	54,786
Donations	3,860	600
Non-operating income (excluding gains on disposal of fixed assets)	(5,229)	(6,067)
Other non-operating expenses	21,495	7,322
Stock provision written back	(800)	(35,854)
	108,653	20,315
Less: Tax effect on the above items	(16,298)	(3,047)
Total	92,355	17,268

	The Company	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Non-recurring items for the year		
Net losses/(gains) on disposal of fixed assets	67,659	(472)
Employee reduction expenses	21,694	40,812
Donations	3,860	600
Non-operating income (excluding gains on disposal of fixed assets)	(4,387)	(4,748)
Other non-operating expenses	19,473	6,559
Stock provision written back	–	(34,054)
	108,299	8,697
Less: Tax effect on the above items	(16,245)	(1,305)
Total	92,054	7,392

33. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation to facilitate comparison.

