

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

1. COMPANY INFORMATION

Sinopec Yizheng Chemical Fibre Company Limited (the “Company”) (formerly Yizheng Chemical Fibre Company Limited) 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”) (formerly Yizheng Joint Corporation of Chemical Fibre Industry). 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, the reorganisation of, inter alia, the shareholding of the Company was completed on 19 November 1997. Following the reorganisation, China Eastern United Petrochemical (Group) Company Limited (“CEUPEC”) became the largest shareholder of the Company, holding the 1,680,000,000 A shares (representing 42 percent of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“CITIC”) still holds the 18 percent of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation. The balance of the 40 percent 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 percent of the Company’s issued share capital, and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000. Following the reorganisation, CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“Sinopec”), in the PRC. From that date, the 1,680,000,000 A shares (representing 42 percent of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec. Therefore, with effect from 25 February 2000, Sinopec 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 are the manufacturing and sale of polyester chips and polyester staple fibre. Details of the Company’s principal subsidiaries are set out on pages 89 and 90.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the accounts, which conform with the “Accounting Standards for Business Enterprises”; “Accounting System for Companies Limited by Shares” and other relevant regulations issued by the MOF of the PRC.

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its principal subsidiaries made up to 31 December each year. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The accounts of subsidiaries are included in the consolidated accounts from the date that control effectively commences until the date that control effectively ceases.

All significant intercompany transactions and balances and any unrealised gains arising from intercompany transactions have been eliminated on consolidation.

The company’s costs of investments in equity-holding subsidiaries and its share of their net asset values on acquisition are eliminated on consolidation.

(b) Accounting year

From 1 January to 31 December.

(c) Basis of accounting

The Group’s accounts have been prepared on an accrual basis and under the historical cost convention.

(d) Translation of foreign currencies

The Group’s accounts are prepared in Renminbi.

Foreign currency transactions during the year are translated into Renminbi at the foreign exchange rates quoted by the People’s Bank of China and the cross rates approved by the State ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the foreign exchange rates quoted by the People’s Bank of China and the cross rates approved by the State ruling at the balance sheet date.

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



NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Long-term investments

- (i) Investments in subsidiaries in the Company's balance sheet are accounted for using the equity method. At the date of acquisition of subsidiaries, the difference between the company's costs of investments and its share of their net asset values is treated as an "equity-investment difference". The "equity-investment difference" is amortised on a straight-line basis over the benefit period as specified in the standards or the laws.
- (ii) Other equity investments are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

(f) Fixed assets, construction in progress, intangible assets and long-term deferred expenses

- (i) *Construction in progress and fixed assets*

Items of capital assets owned by the Group with a useful life of more than one year and individually valued at more than Rmb2,000 are classified as fixed assets.

Fixed assets are recorded at cost less accumulated depreciation (refer below). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of fixed assets. All other expenditure is charged to the income statement in the period in which it is incurred.

Gains and losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised as income or expense in the income statement on the date of retirement or disposal.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fixed assets, construction in progress, intangible assets and long-term deferred expenses (continued)

(i) Construction in progress and fixed assets (continued)

Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

(ii) Depreciation and amortisation

- Fixed assets

Depreciation is calculated to write off the costs of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	8 to 22 years
Motor vehicles and other fixed assets	5 to 20 years

Effective from 1 October 2000, the Company revised its estimate of the useful lives of certain plant, machinery and equipment from 20 years to between 12 and 14 years. These changes were made, after taking account of commercial and technological obsolescence as well as normal wear and tear, to better reflect the estimated periods during which such assets will remain in service. The change had the effect of increasing depreciation expense by approximately Rmb37 million and decreasing profit after taxation by approximately Rmb31 million for the period from 1 October to 31 December 2000. The change is expected to increase depreciation expense by approximately Rmb148 million and decrease profit after taxation by approximately Rmb126 million for each of the subsequent years until the assets are fully depreciated or disposed of.

- Construction in progress

No depreciation is provided in respect of construction in progress.



NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fixed assets, construction in progress, intangible assets and long-term deferred expenses (continued)

(ii) Depreciation and amortisation (continued)

- Intangible assets

The values of land use rights and patent rights are amortised on a straight-line basis over the benefit period as specified in the relevant contracts, standards or laws.

- Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over 5 years.

(g) Housing revolving fund

Pursuant to a notice “Cai Kuai Zi (1995) No. 14” issued by the MOF on 3 March 1995, the difference arising from the disposal of staff dormitories to the Company’s employees at preferential price is carried forward in a “Housing Revolving Fund” account.

(h) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriation proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

(i) Cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition

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

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

(k) Taxes

Major taxes applicable to the Group comprise income tax, value added tax and business tax.

(i) Income tax

Income tax is provided using the tax-effect accounting method. Income tax on the profit or loss for the year comprises current tax and deferred tax.

Current tax

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

With effect from 1 January 1994, PRC domestic enterprises are subject to a unified income tax rate of 33 percent on their assessable profits. However, pursuant to a directive (Guo Shui Han Fa [1994] No. 061) dated 23 February 1994 issued by the PRC State Tax Bureau, the rate of income tax payable by the Company has been reduced to 15 percent and this was still effective in 2000. The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15 percent to 33 percent. No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.



NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Taxes (continued)

(i) Income tax (continued)

Deferred tax

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

The tax value of losses expected to be available for utilization against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(ii) Value added tax

VAT is levied at the rate of 17 percent on the invoiced value of sales and is payable by the purchaser in addition to the invoiced value of sales. VAT paid by the purchaser on its purchases is recoverable out of VAT collected from its customers on its sales and the differences are treated as VAT payable. VAT is not dealt with in the income statement but the City Development Tax and the Education Surcharge, which are based on VAT paid, are dealt with in the income statement.

(iii) Business tax and surcharges

Major business tax and other surcharge applicable to the Company are set out below:

	Business tax	City development tax	Education surcharge
Tax rate and bases	3% or 5% on turnover	7% on business tax and net VAT payable	3% on business tax and net VAT payable

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(l) Provision for bad and doubtful debts**

Provision for bad and doubtful debts is provided based upon the evaluation of the recoverability of these debts at the balance sheet date.

(m) Repairs and maintenance expenses

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

(n) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Both research costs and development costs are recognised as expenses in the period in which they are incurred.

(o) Retirement benefits

Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred. Further information is set out in Note 32.

(p) Profit distribution

Profit distribution 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.



NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

3. CASH AT BANK AND IN HAND

	The Group			1999
	Original Currency '000	2000 Exchange Rate	Renminbi Equivalent Rmb'000	Renminbi Equivalent Rmb'000
<i>Cash in hand</i>				
Renminbi			241	266
Hong Kong Dollars			–	45
<i>Cash at bank</i>				
Renminbi			804,591	748,170
Hong Kong Dollars	1,478	1.0606	1,568	34,735
US Dollars	49,768	8.2781	411,984	24,010
Deutsche Mark	269	3.9400	1,060	3,512
<i>Cash at bank and in hand</i>			1,219,444	810,738
<i>Deposits with related companies</i>				
Renminbi			740,387	765,892
			1,959,831	1,576,630

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

3. CASH AT BANK AND IN HAND (continued)

	Original Currency '000	The Company		1999
		2000	2000	1999
		Exchange Rate	Renminbi Equivalent Rmb'000	Renminbi Equivalent Rmb'000
<i>Cash in hand</i>				
Renminbi			142	88
<i>Cash at bank</i>				
Renminbi			618,110	562,885
Hong Kong Dollars	134	1.0606	142	33,361
US Dollars	48,957	8.2781	405,271	14,629
<i>Cash at bank and in hand</i>			1,023,665	610,963
<i>Deposits with related companies</i>				
Renminbi			724,442	745,649
			1,748,107	1,356,612

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Details are set out in Note 28.

4. BILLS RECEIVABLE

At 31 December 2000, no bills receivable were discounted or pledged.

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

YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

5. TRADE AND OTHER RECEIVABLES

	The Group				The Company			
	2000		1999		2000		1999	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Trade receivables:								
Within one year	79,124	78	75,977	65	24,816	65	26,380	55
Between one and two years	4,206	4	9,906	9	3,109	8	6,082	12
Between two and three years	3,433	4	20,884	18	2,845	8	13,371	28
Over three years	14,511	14	9,719	8	7,196	19	2,287	5
	<u>101,274</u>	<u>100</u>	<u>116,486</u>	<u>100</u>	<u>37,966</u>	<u>100</u>	<u>48,120</u>	<u>100</u>
Other receivables:								
Within one year	103,072	33	88,640	19	218,647	15	268,634	16
Between one and two years	36,141	11	134,158	29	383,348	26	482,753	29
Between two and three years	6,096	2	171,839	38	35,550	3	201,058	12
Over three years	170,929	54	64,176	14	813,375	56	709,648	43
	<u>316,238</u>	<u>100</u>	<u>458,813</u>	<u>100</u>	<u>1,450,920</u>	<u>100</u>	<u>1,662,093</u>	<u>100</u>
Less: Provision for bad and doubtful debts:								
Trade receivables:								
Within one year	-		-		-		-	
Between one and two years	(1,638)		(4,657)		(1,554)		(3,067)	
Between two and three years	(3,433)		(20,884)		(2,845)		(13,371)	
Over three years	(14,511)		(9,719)		(7,196)		(2,287)	
	<u>(19,582)</u>		<u>(35,260)</u>		<u>(11,595)</u>		<u>(18,725)</u>	
Other receivables:								
Within one year	(6,423)		-		(3,343)		-	
Between one and two years	(300)		(10,234)		(300)		(10,234)	
Between two and three years	(6,096)		(24,947)		(6,096)		(24,947)	
Over three years	(95,098)		(49,048)		(74,789)		(30,900)	
	<u>(107,917)</u>		<u>(84,229)</u>		<u>(84,528)</u>		<u>(66,081)</u>	
Total provision for bad and doubtful debts	<u>(127,499)</u>		<u>(119,489)</u>		<u>(96,123)</u>		<u>(84,806)</u>	
Trade and other receivables, net	<u>290,013</u>		<u>455,810</u>		<u>1,392,763</u>		<u>1,625,407</u>	

5. TRADE AND OTHER RECEIVABLES (continued)

The Group's five largest trade receivables at 31 December 2000 are shown below:

Name of entity	Period of original debts	Particulars	Amount <i>Rmb'000</i>
Yangzhou Thermo Power Company Limited	2000	Not due for repayment	9,789
Shanghai Zijiang Enterprise Company Limited	2000	Not due for repayment	4,120
Yu Shan Enterprise Company Limited	2000	Not due for repayment	3,300
Yihua	2000	Not due for repayment	2,718
Xin Guang Lighting Company	2000	Not due for repayment	2,190

The Group's five largest other receivables at 31 December 2000 are shown below:

Name of entity	Period of original debts	Particulars	Amount <i>Rmb'000</i>
Yihua Engineering Company Limited	1997-1999	Other receivable	70,914
Yihua	1997-1999	Other receivable	44,023
Bank of Communications (Nanjing Branch)	2000	Interest receivable	12,168
Yihua Group Shanghai Eastern Company	1997-1999	Other receivable	10,000
Industrial and Commercial Bank of China	2000	Interest receivable	7,500

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

YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

6. ADVANCE PAYMENTS

The Group's five largest advance payments at 31 December 2000 are shown below:

Name of entity	Period of original debts	Particulars	Amount Rmb'000
Nanjing Xin Sheng Wei Customs – PRC	2000	Custom duty and taxes prepayments	50,573
Cosco Shanghai International Freight Co Ltd.	2000	Custom duty and taxes prepayments	6,119
Jiangsu Shi Yun Shanghai office	2000	Custom duty and taxes prepayments	1,048
Jiangsu Engineering facility Company	2000	Purchase deposits	718
Lian Yun Gang Dong Qiang Company	2000	Purchase deposits	600

There are no balances due from shareholders who hold 5% or more of the shares of the Company included above.

7. INVENTORIES

At cost	The Group		The Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Raw materials	627,230	473,097	503,016	395,263
Work in progress	87,998	79,503	83,803	76,138
Finished goods	240,345	260,424	138,409	151,610
Goods in transit	554	–	554	–
Spare parts and consumables	203,641	234,524	183,677	189,284
	1,159,768	1,047,548	909,459	812,295
<i>Less: Provision for diminution in value of inventories</i>				
Raw materials	(1,800)	(12,910)	–	(12,910)
Finished goods	(600)	(6,146)	–	(6,146)
Spare parts and consumables	(40,525)	(21,724)	(40,525)	(8,686)
	(42,925)	(40,780)	(40,525)	(27,742)
	1,116,843	1,006,768	868,934	784,553

8. DEFERRED EXPENSES

	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
At 1 January 2000	7,490	3,000
Additions	11,160	7,000
Amortisation	(10,999)	(7,000)
At 31 December 2000	7,651	3,000

9. LONG-TERM EQUITY INVESTMENTS

	Notes	The Group		The Company	
		2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Investments in subsidiaries:	(a)				
Share of net liabilities		-	-	(77,854)	(138,654)
Equity-investment difference	(b)	(35,427)	(38,470)	(35,427)	(38,470)
Other equity investment	(c)	62,500	62,500	62,500	62,500
		27,073	24,030	(50,781)	(114,624)

(a) Details of the principal subsidiaries of the Company are set out on pages 89 and 90.

(b) The difference between the company's 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 remaining period of amortisation is approximately 12 years.

(c) Other equity investment

At 31 December 2000, the other equity investment of the Group and the Company is as follows:

Investee	Date of Investment	Total Investment <i>Rmb'000</i>	Percentage Shareholdings %	Provision for diminution in value <i>Rmb'000</i>
Sinopec Finance	30 December 1999	62,500	3.3%	-

YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

10. FIXED ASSETS

	The Group			Total Rmb'000
	Buildings Rmb'000	Plant, Machinery and Equipment Rmb'000	Motor Vehicles and Other Fixed Assets Rmb'000	
Cost :				
At 1 January 2000	1,799,636	8,594,785	559,428	10,953,849
Additions	1,040	1,829	6,048	8,917
Transferred from construction in progress (Note 11)	6,622	392,696	9,870	409,188
Disposals	(1,461)	(68,135)	(31,679)	(101,275)
Reclassifications	39,970	(45,792)	5,822	-
At 31 December 2000	1,845,807	8,875,383	549,489	11,270,679
Accumulated depreciation:				
At 1 January 2000	354,972	2,877,363	217,289	3,449,624
Charge for the year	56,295	570,994	49,457	676,746
Written back on disposal	(265)	(21,664)	(3,280)	(25,209)
Reclassifications	1,514	(2,086)	572	-
At 31 December 2000	412,516	3,424,607	264,038	4,101,161
Net book value:				
At 31 December 2000	1,433,291	5,450,776	285,451	7,169,518
At 31 December 1999	1,444,664	5,717,422	342,139	7,504,225

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

10. FIXED ASSETS (continued)

	The Company			Total
	Buildings	Plant, Machinery and Equipment	Motor Vehicles and Other Fixed Assets	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cost :				
At 1 January 2000	1,585,987	7,795,082	533,054	9,914,123
Additions				
– Transfer from subsidiary	–	35,371	–	35,371
– Others	23	33	2,897	2,953
Transferred from construction in progress (Note 11)	6,304	392,252	9,870	408,426
Disposals	(297)	(8,455)	(29,648)	(38,400)
Reclassifications	39,433	(45,244)	5,811	–
At 31 December 2000	1,631,450	8,169,039	521,984	10,322,473
Accumulated depreciation:				
At 1 January 2000	329,643	2,677,783	207,011	3,214,437
Charge for the year	49,971	505,899	46,446	602,316
Written back on disposal	(74)	(4,914)	(2,162)	(7,150)
Reclassifications	1,514	(2,078)	564	–
At 31 December 2000	381,054	3,176,690	251,859	3,809,603
Net book value:				
At 31 December 2000	1,250,396	4,992,349	270,125	6,512,870
At 31 December 1999	1,256,344	5,117,299	326,043	6,699,686



YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

11. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at 31 December	78,379	96,647	76,080	96,136

Construction in progress comprises expenditure incurred on buildings, plant, machinery and equipment not yet commissioned.

The projects not yet commissioned at 31 December 2000 and their respective expected dates of completion are as follows:

Project	Year commenced	Expected date of completion	Balance at	Additions	Transferred out	Balance at	Source of fund
			1 January 2000			31 December 2000	
			Rmb'000	Rmb'000	Rmb'000	Rmb'000	
Phase 4 project	2000	2001	26,697	58,783	(78,203)	7,277	Bank loans/ surplus fund
Improvements to existing plants	2000	2001-2003	65,315	320,579	(325,641)	60,253	Bank loans/ surplus fund
Other construction projects	2000	2001	1,119	8,008	(3,582)	5,545	Bank loans/ surplus fund
Interest capitalised			3,005	1,000	(1,000)	3,005	
Total for the Company			96,136	388,370	(408,426)	76,080	
Miscellaneous projects of the subsidiary companies	2000	2001	511	2,550	(762)	2,299	Bank loans/ surplus fund
Total for the Group			96,647	390,920	(409,188)	78,379	

12. CONSTRUCTION MATERIALS

	The Group and The Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Equipment and accessories	79,986	21,726
Other construction materials	1,471	19,960
Balance at 31 December	81,457	41,686

13. INTANGIBLE ASSETS

	The Group		The Company	
	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>
Land use rights				
Cost at 1 January and 31 December	363,015	363,015	264,000	264,000
Amortisation:				
At 1 January	41,261	34,000	32,560	27,280
Charge for the year	7,261	7,261	5,280	5,280
At 31 December	48,522	41,261	37,840	32,560
Net balance at 31 December	314,493	321,754	226,160	231,440
Patent rights				
Cost :				
At 1 January	141,097	131,006	141,097	131,006
Additions	-	10,091	-	10,091
At 31 December	141,097	141,097	141,097	141,097
Amortisation:				
At 1 January	57,573	43,463	57,573	43,463
Charge for the year	14,110	14,110	14,110	14,110
At 31 December	71,683	57,573	71,683	57,573
Net balance at 31 December	69,414	83,524	69,414	83,524
Total net balance at 31 December	383,907	405,278	295,574	314,964



YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

13. INTANGIBLE ASSETS (continued)

The Company and its major subsidiaries were granted the rights, in 1993 and 1995 respectively, to use the land on which their buildings and plant are located, by the relevant PRC authorities for a period of 50 years. The remaining periods of amortisation are 42 years and 44 years respectively.

In addition, the Company acquired patent rights in 1995 and 1999. The costs of these patent rights are amortised over ten years. The remaining periods of amortisation are 6 years and 8 years respectively.

14. LONG-TERM DEFERRED EXPENSES

The Group and The Company	
<i>Rmb'000</i>	
At 1 January 2000	19,485
Amortisation	(6,271)
At 31 December 2000	13,214

15. TAXATION

(a) Income tax in the income statement represents:

	The Group		The Company	
	2000	1999	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Provision for PRC income tax for the year	139,391	129,211	135,154	119,293
Deferred taxation	-	7,161	-	7,161
	139,391	136,372	135,154	126,454

15. TAXATION (continued)

(b) Business tax and surcharges in the income statement represents:

	The Group		The Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Business tax and surcharges for the year	41,324	64,021	39,548	62,012

(c) Taxes payable in the balance sheets represent:

	The Group		The Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Provision for PRC income tax for the year	139,391	129,211	135,154	119,293
Provisional PRC income tax paid	(72,250)	(47,538)	(71,110)	(41,745)
	67,141	81,673	64,044	77,548
Balance of PRC income tax provision / (overpaid) relating to prior years	71,185	(6,363)	71,185	(6,363)
Income tax payable	138,326	75,310	135,229	71,185
Business tax payable/ (recoverable) and surcharges	380	175	226	(11)
VAT payable	137,870	271,144	126,322	262,005
Other taxes payable	15,742	27,741	13,446	25,037
Taxes payable	292,318	374,370	275,223	358,216

YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

15. TAXATION (continued)

(d) Deferred taxation

No deferred taxes have been provided for or recognised in the accounts as the effect of all temporary differences or unused tax losses available for set-off against future taxable income of subsidiaries is not considered material.

16. DIVIDEND PAYABLE

	The Group and The Company	
	2000 Rmb'000	1999 Rmb'000
Final dividend proposed of Rmb 9 cents per share (1999: Rmb11 cents per share)	360,000	440,000

17. SHORT-TERM AND LONG-TERM LOANS

(a) Bank loans of the Group and of the Company as at 31 December 2000 were repayable as follows:

	The Group		The Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Short-term bank loans	80,000	760,000	80,000	670,000
Current portion of long-term bank loans	350,000	599,556	350,000	599,556
	430,000	1,359,556	430,000	1,269,556
After 1 year but within 2 years	150,000	300,000	150,000	300,000
After 2 years but within 3 years	300,000	50,000	300,000	50,000
	450,000	350,000	450,000	350,000
	880,000	1,709,556	880,000	1,619,556

The above bank loans were unsecured.

The decrease in the Group's short-term loans was due to partial repayments of loans.

17. SHORT-TERM AND LONG-TERM LOANS (continued)

- (b) The interest rates and terms of repayment for long-term bank loans of the Group and of the Company are as follows:

Long-term bank loans

Lender	Period	Interest rate	Interest Type	The Group and The Company		2000 Rmb'000	1999 Rmb'000
				original currency '000	Exchange rate		
U.S. Dollar denominated loans:							
Bank of China	Payable annually through 2000	7.4375%	Floating	25,100	8.2801	-	207,831
Bank of China	Due in 2000	6.5625%	Floating	16,150	8.2801	-	133,725
						-	341,556
Renminbi denominated loans:							
State Development Bank	Payable annually through 2000	6.03%- 7.56%	Floating			-	26,000
Industrial and Commercial Bank of China	Due in 2000	5.94%- 6.21%	Floating			-	232,000
Industrial and Commercial Bank of China	Due in 2001	5.94%	Floating			300,000	300,000
Bank of China	Due in 2001	5.94%	Floating			50,000	-
Industrial and Commercial Bank of China	Due in 2002	5.94%	Floating			50,000	50,000
Bank of China	Due in 2002	5.94%	Floating			100,000	-
Industrial and Commercial Bank of China	Due in 2003	5.94%	Floating			250,000	-
Bank of China	Due in 2003	5.94%	Floating			50,000	-
						800,000	608,000
Long-term bank loans						800,000	949,556
Less: Current portion of long-term bank loans						350,000	599,556
Long-term portion of long-term bank loans						450,000	350,000

- (c) There were no guarantees given to banks in respect of short-term bank loans to the Group (1999: Nil).

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

18. TRADE PAYABLES, RECEIPTS IN ADVANCE, BILLS PAYABLE AND OTHER CREDITORS

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

19. ACCRUED EXPENSES

	The Group		The Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accrued repairs and maintenance expenses	15,000	–	15,000	–
Accrued interest	–	4,341	–	3,288
Accrued transportation charges	48	2,559	–	–
	15,048	6,900	15,000	3,288

20. SHARE CAPITAL

	2000	1999
	Rmb'000	Rmb'000
Registered, issued and paid up capital:		
2,400,000,000 Legal person "A" shares of Rmb 1 each	2,400,000	2,400,000
200,000,000 Social public "A" shares of Rmb 1 each	200,000	200,000
1,400,000,000 "H" shares of Rmb 1 each	1,400,000	1,400,000
	4,000,000	4,000,000

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

21. CAPITAL RESERVE

	The Group and The Company	
	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Share Premium	3,078,825	3,078,825

22. SURPLUS RESERVES

	The Group and The Company			
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 1999	271,247	135,624	546,941	953,812
Transferred from retained profits	68,008	47,606	47,606	163,220
At 31 December 1999	339,255	183,230	594,547	1,117,032
At 1 January 2000	339,255	183,230	594,547	1,117,032
Proposed transfer from retained profits	90,034	84,236	–	174,270
At 31 December 2000	429,289	267,466	594,547	1,291,302

Transfers from the retained 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.

YIZHENG IS MEANING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

23. COST OF SALES

	The Group		The Company	
	2000	1999	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cost of Sales	7,132,288	5,222,841	6,400,644	4,797,621

The increase in cost of sales was mainly due to the increase in sales volume during the year.

24. ADMINISTRATIVE EXPENSES

	The Group		The Company	
	2000	1999	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Administrative expenses	565,037	399,784	513,813	363,238

The increase in administrative expenses was mainly due to the increase in staff costs during the year.

25. FINANCIAL EXPENSES

	The Group		The Company	
	2000	1999	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest income	(51,468)	(60,756)	(61,944)	(77,997)
Interest expenses	103,160	185,934	98,944	176,872
Exchange loss, net	1,918	16,581	1,643	16,448
Others	3,280	2,596	2,422	1,848
	56,890	144,355	41,065	117,171

The decrease in financial expenses was mainly due to the decrease in interest expenses resulted from the repayment of bank loans during the year.

26. INVESTMENT INCOME

	The Group					
	Dividend from other equity investment	Amortisation of long-term equity- investment difference		2000 Total Rmb'000	1999 Total Rmb'000	
		Rmb'000	Rmb'000			Rmb'000
Long-term investments	1,139	3,043	4,182	3,043		

	The Company					
	Dividend from other equity investment	Profit on investments in Amortisation subsidiaries using the equity method		2000 Total Rmb'000	1999 Total Rmb'000	
		Rmb'000	Rmb'000			Rmb'000
Long-term investments	1,139	60,800	64,982	81,893		

27. NON-OPERATING EXPENSES

	The Group		The Company	
	2000 Rmb'000	1999 Rmb'000	2000 Rmb'000	1999 Rmb'000
Loss on disposal of fixed assets	75,770	184,647	31,250	158,996
Others	35,946	33,032	15,685	5,965
	111,716	217,679	46,935	164,961

The decrease in non-operating expenses was mainly due to the decrease in the loss on disposal of fixed assets during the year.

YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

28. RELATED PARTY TRANSACTIONS

(a) Related parties having the ability to exercise significant influence over the Group

Name of company	Registered address	Principal activities	Relationship with the company	Types of legal entity	Authorised representative
CPC	No. 6A Huixin East Street, Chaoyang District, Beijing, China	Exploration, development and production of crude oil and natural gas; transportation of crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; manufacture and marketing of a wide range of chemicals for industrial uses; and provision of certain social services, government functions and other ancillary and supporting services.	Ultimate parent company of Sinopec (the largest shareholder)	State-owned	Li Yi-zhong
Sinopec	No. 6A Huixin East Street, Chaoyang District, Beijing, China	Exploration, development and production of crude oil and natural gas; transportation of crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; manufacture and marketing of a wide range of chemicals for industrial uses.	Substantial shareholder	Joint-stock limited company	Li Yi-zhong
CITIC	6 Xinyuannan Road, Beijing, the PRC	Production, investment, technology, finance, trading, consultancy services, etc	Substantial shareholder	State-owned	Wang Jun
Yihua	Yizheng City Jiangsu Province, the PRC	Real estate business, finance, engineering and community services	Fellow subsidiary and former substantial shareholder	State-owned	Fu Xing-tang

28. RELATED PARTY TRANSACTIONS (continued)**(b) Related parties' registered capital and their movements**

Name of company	At the beginning	Increase	Decrease	At the end
	of the year			of the year
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
CPC	104,912,000	–	–	104,912,000
Sinopec	–	83,902,439	–	83,902,439
CITIC	3,000,000	–	–	3,000,000
Yihua	2,383,820	–	–	2,383,820

(c) Percentage shareholdings held by the related parties and their movements

Name of company	Number of shares held at		Increase in		Decrease in		Number of shares held	
	the beginning		number of		number of		at the end	
	of the year		number of		number of		of the year	
	'000	%	'000	%	'000	%	'000	%
CPC	–	–	–	–	–	–	–	–
Sinopec	–	–	1,680,000	42	–	–	1,680,000	42
CITIC	720,000	18	–	–	–	–	720,000	18
Yihua	1,680,000	42	–	–	1,680,000	42	–	–

(d) Related parties not having the ability to exercise significant influence over the Group**Name of company**

Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")

Sinopec Finance

CITIC Industrial Bank

Nanjing Chemical Industrial Group ("Nanhua")

Sinopec Maoming Petrochemical Corporation ("Sinopec Maoming")

The above companies are considered to be related parties of the Company as they are subject to the common significant influence of CPC, Sinopec or CITIC.


 YIZHENG IS WEAVING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

28. RELATED PARTY TRANSACTIONS (continued)

- (e) Transactions between the Group and the related parties during the year were as follows:

Sinopec Yangzi

	2000 Rmb'000	1999 Rmb'000
Purchases of raw materials	<u>2,478,374</u>	<u>1,813,302</u>

Yihua and its subsidiaries ("Yihua Group")

	2000 Rmb'000	1999 Rmb'000
Sales	1,079,045	825,528
Purchases	91,193	69,852
Miscellaneous service fee charges (see note below)	132,280	140,000
Miscellaneous service fee income (see note below)	29,190	31,592
Trademark licence fee (see note below)	10,000	10,000
Interest income from China Yizheng Chemical Fibre Group Finance Company	-	20,816
Payments to the engineering company of Yihua relating to the construction and maintenance work carried out on behalf of the Company	<u>53,305</u>	<u>17,298</u>

Note

The above service fee income and charges were in accordance with the terms of the agreement dated 8 February 1994 signed between the Company and Yihua.

Sinopec and its subsidiaries, excluding Sinopec Yangzi

	2000 Rmb'000	1999 Rmb'000
Purchases of equipment	3,142	-
Purchases of raw materials	124,526	78,180
Subsidy received in respect of technological research and development	<u>10,650</u>	<u>-</u>

28. RELATED PARTY TRANSACTIONS (continued)

- (e) **Transactions between the Group and the related parties during the year were as follows:** (continued)

CPC, Nanhua and Sinopec Maoming

	2000	1999
	Rmb'000	Rmb'000
Purchase of equipment	17,518	9,359
Purchase of raw materials	34,885	38,805
Insurance premium paid	21,485	11,521
Subsidy received in respect of technological research and development	-	7,150

Sinopec Finance

	2000	1999
	Rmb'000	Rmb'000
Interest income	15,415	1,295

CITIC Industrial Bank

	2000	1999
	Rmb'000	Rmb'000
Interest income	275	196

The Directors of the Company are of the opinion that the above transactions were entered into in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing these transactions.

- (f) At 31 December 2000, guarantees given to banks by CPC and Yihua in respect of bank loans to the Company amounted to Rmb350,000,000 (1999: Rmb500,000,000) and Rmb Nil (1999: Rmb26,000,000) respectively.

YIZHENG IS MEANING A GLOBAL NETWORK

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

28. RELATED PARTY TRANSACTIONS (continued)

(g) Deposits with Sinopec Finance

	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash at bank and in hand	686,895	741,074

(h) Deposits with CITIC Industrial Bank

	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash at bank and in hand	53,492	24,818

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

	2000	1999
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade receivables	2,830	12,716
Bills receivable	34,380	4,050
Other receivables	127,047	224,209
Trade payables	(5,154)	(3,542)
Receipts in advance	(26,359)	(12,845)
Other creditors	(355)	(8,800)
	132,389	215,788

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

28. RELATED PARTY TRANSACTIONS (continued)

(j) Details of amounts due from / (to) other related parties are as follows:

	2000	1999
	Rmb'000	Rmb'000
Other receivables	9,161	9,274
Advance payments	–	13,581
Trade payables	(80,093)	–
Other creditors	(27,231)	(7,150)
	(98,163)	15,705

29. CONTINGENT LIABILITIES

At 31 December 2000, contingent liabilities in respect of guarantees given to banks by the Company for bank loans to certain wholly owned subsidiaries totalled Rmb Nil (1999: Rmb90,000,000).

30. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2000 not provided for in the accounts were as follows:

	The Group		The Company	
	2000	1999	2000	1999
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Authorised and contracted for	510,493	110,065	510,493	110,065
Authorised but not contracted for	2,036,123	235,361	2,036,123	235,361
	2,546,616	345,426	2,546,616	345,426

31. DIRECTORS' AND SUPERVISORS' REMUNERATION

The remuneration of Directors and supervisors of the Company includes fees of Rmb48,000 (1999: Rmb24,000), salaries and other emoluments of Rmb600,000 (1999: Rmb759,000), discretionary bonuses of Rmb651,000 (1999: Rmb205,000) and retirement scheme contributions of Rmb256,000 (1999: Rmb 203,000) for the year ended 31 December 2000.

NOTES ON THE ACCOUNTS

(Prepared in accordance with PRC Accounting Rules and Regulations)

(Expressed in Thousand Renminbi Yuan)

32. RETIREMENT BENEFITS

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution pension plans organised by their respective Municipal Governments under which they are governed. Details of these schemes of the Company and its principal subsidiary, Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester"), are as follows:

Administrator	Beneficiary	Contribution rate	
		2000	1999
Yizheng Municipal Government Jiangsu Province	Employees of the Company	16%	16%
Foshan Municipal Government Guangdong Province	Employees of Foshan Polyester	19%	19%

All employees are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. 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 described above.

Other than the above, pursuant to the 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 a committee consisting of representatives from the employees and the management. 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 for 2000 was 9 percent (1999: 9 percent).

33. POST BALANCE SHEET EVENT

Pursuant to the document "Cai Qi [2000] No. 295" and "Cai Kui [2001] No. 5" issued by the MOF on 6 September 2000 and 7 January 2001 respectively, the debit balance remained in the "Housing Revolving Fund" account should be offset against the "Undistributed profits at the beginning of the year" in 2001. Accordingly, the Company needs to change its accounting policy regarding "Housing Revolving Fund" in 2001, and the Group's and the Company's net assets will therefore be reduced by Rmb110,000,000.