

## 6. DISCLOSURE OF SIGNIFICANT EVENTS

1. In accordance with the Articles of Association of the Company, the Board has resolved not to pay any interim dividend for the year ending 31 December 2001. No transfers were made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from profit attributable to shareholders for the six months ended 30 June 2001.
2. As approved by the 2000 Annual General Meeting of the Company ("AGM 2000") held on 5 June 2001, the Company paid on 30 July 2001 a final cash dividend of Rmb0.09 per share for the year ended 31 December 2000. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 16 July 2001, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed at the AGM 2000, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 6 June 2001.
3. For the report period, the Company was not engaged in any material litigation or arbitration.
4. Significant connected transactions between the Group and the related parties during the six months ended 30 June 2001 were as follows:
  - A. The following are the significant connected transactions relating to sales and purchase of goods and provision of services: during the six months ended 30 June 2001, raw materials purchased by the Company from China Petrochemical Corporation ("CPC") and its subsidiaries amounted to Rmb13,223,000 and accounted for 0.5 per cent of the total of this type; raw materials purchased by the Company from Sinopec and its subsidiaries [excluding Sinopec Yangzi Petrochemical Company Limited ("Yangzi")] amounted to Rmb57,548,000 and accounted for 2.1 per cent of the total of this type; raw materials purchased from Yangzi amounted to Rmb1,168,720,000 and accounted for 42.4 per cent of the total of this type; goods purchased from Sinopec Group Yihua Corporation ("Yihua") and its subsidiaries ("Yihua Group") amounted to Rmb60,304,000, and accounted for 2.2 per cent of the total of this type; goods sold to Yihua Group amounted to Rmb586,683,000, and accounted for 15.0 per cent of the total of this type; miscellaneous service charges paid to Yihua by the Company amounted to Rmb60,695,000 and accounted for 100 per cent of the total of this type; and payments to the engineering company of Yihua relating to construction, repair and maintenance work by the Company amounted to Rmb46,190,000 and accounted for 100 percent of the total of this type. There were no other significant connected transactions of the same kind during the report period. The Company is of the opinion that purchasing of goods from the related parties above ensures the Group a steady and secured supply of raw materials, and that selling goods to the Yihua Group ensures the Company certain sales channels and turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated on a market price basis and settled on a cash on delivery basis. The miscellaneous service charges paid to Yihua and the payments to the engineering company of Yihua relating to construction, repair and maintenance work are settled strictly in compliance with the contracts dated 8 February 1994 between the Company and Yihua. The above transactions have no adverse effect upon the profit of the Group.
  - B. During the report period, there were no connected transactions relating to asset or equity transfers in the Company.

- C. The following are the significant connected transactions relating to amounts due from/(to) related parties: At 30 June 2001, the amounts due from Yihua Group amounted to Rmb209,043,000, and mainly represented bills receivables and other receivables; amounts due to other related parties amounted to Rmb174,491,000, and mainly represented the trade payables to Yangzi. These connected transactions have no adverse effect on the Company.
- D. Other significant connected transactions: At 30 June 2001, the Company's deposits placed with Sinopec Finance Company Limited ("Sinopec Finance") at market interest rates, amounted to Rmb669,210,000.

The Board believed 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, and fully complied with the waivers granted by the HKSE to the Company.

Details of the Company's connected transactions during the report period are set out in note 16 to the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.

5. According to proposals in "Accelerating Standardised Operation of Companies Listed Overseas and Deepening Their Reforms" jointly issued by State Economy and Trade Commission and CSRC, the Company has been completely independent in areas of the personnel, assets and financial management from Sinopec, the holding shareholder of the Company. The details are as follows:

In terms of personnel, the Company has independently conducted affairs of human resources and wages policies. The Company's general manager, vice general managers and other senior management receive remunerations from the Company, and do not hold posts in Sinopec.

In terms of assets, the Company independently owns its own production units and ancillary production lines, purchases raw materials and sells products independently, owns its own industrial property rights, know-how and other non-patented technologies. Yihua has granted the right to the Company to use the "BST" trademark to produce and sell the Company's products for 10 years at an annual fee of Rmb10,000,000 under a trademark licensing agreement dated 8 February 1994.

In terms of finance, the Company's finance department, accounting and financial management systems are independent. Its accounts at commercial banks are also independent.

6. The Company did not rent or contract any asset from or with any company. Furthermore, no company rented or contracted any asset from or with the Company during the report period.
7. KPMG Peat Marwick Huazhen and KPMG were re-appointed as domestic and international auditors, respectively, of the Company for the year 2001, as approved at the AGM 2000.
8. At 30 June 2001, the Company did not have any designated deposits with any financial institutions or had any difficulties in collecting deposits upon maturity. The Company had no trusted management matters during the report period.

9. According to the agreements dated 8 February 1994 between the Company and Yihua on 8 February 1994, Yihua is responsible for the provision of housing services to the staff and employees of the Company. As the PRC government promotes its housing plan to encourage home buyers, Yihua has disposed of staff quarters to its staff and to the staff of the Company. As a result, there was a loss of Rmb160 million at 31 December 1997. Based on the number of beneficiaries of Yihua and the Company, the Company was liable for Rmb110 million. Other than the above, the Group has not been liable for any other loss incurred thereafter since 31 December 1997.

Pursuant to the documents "Cai Qi [2000] No.295" and "Cai Kui [2001] No.5" issued by the MOF at 6 September 2000 and 7 January 2001, the debit balance remained in the "Housing Revolving Fund" account in the accounts prepared in accordance with the PRC accounting rules and regulations should be offset against the "Undistributed profits at the beginning of the year" in 2001. Accordingly, the Company has changed its accounting policy regarding "Housing Revolving Fund" in 2001, and the Group's and the Company's net assets decreased by Rmb110,000,000. Details of which are set out in note 2 to the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.

Save as disclosed above, the Group currently has no other employees housing plan.

10. For the six months ended 30 June 2001, the Company implemented the "fewer employees, higher efficiency" programme. Up to 30 June 2001, the Company had reduced about 300-400 employees through voluntarily resignation plan. It is estimated that the Company has to pay approximately Rmb32 million under the plan. The Company has reflected this expense in the income statement included in interim financial report.
11. According to a document (Guo Shui Han Fa [1994]61) issued by the State Administration of Taxation of the PRC on 23 February 1994, the preferential income tax rate applicable to the Company is 15 per cent. The Company has not received any notice from the tax authorities to change this rate.
12. If the PRC joins WTO, export trade barriers of the PRC textile products will be lowered. For the PRC textile industry there will be many new opportunities, and this will stimulate demand for high quality polyester products. Meanwhile, the PRC polyester market will be more open by cutting tariffs, increasing import quotas and eliminating investment limitation. The supply of polyester products will continue to grow. It is therefore believed that the PRC polyester market, operating under the framework of WTO, should achieve its demand/supply equilibrium in a larger international framework. The price will not, therefore, fluctuate significantly as before. The import duties levied on polyester raw materials such as PTA, MEG and PX will be reduced significantly.
13. The Company did not make any guarantees or mortgages during the report period.
14. Approved by the Extraordinary General Meeting held on 18 October 2000, the Company's Chinese and English names were changed to 中國石化儀征化纖股份有限公司 and Sinopec Yizheng Chemical Fibre Company Limited, respectively.

The relevant PRC authorities approved the change and issued new business license to the Company on 27 February 2001, details of which was disclosed by means of press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post dated 13 March 2001.

There was no change in the stock name of the Company during the report period.

15. The interim financial report of the Company was unaudited.

16. The fifteenth meeting of the third term of the Board held on 20 June 2001 appointed Mr. Xu Zheng-ning as General Manager. Due to Mr. Ma Yu-ping's personal reason, the Board resolved that Mr. Ma Yu-ping ceased to act as General Manager of the Company and accepted the resignation of Mr. Ma Yu-ping as director of the Company. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and the South China Morning Post on 21 June 2001.
17. Mr. Tom C.Y. Wu was appointed as the Company Secretary of the Company by the third term Board at the twelveth meeting held on 16 January 2001. Mr. David J. Y. Shao ceased to act as the Company Secretary of the Company after having been allocated other responsibilities. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 17 January 2001.
18. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in Article 62 of Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and Article 17 of "Disclosure of Information by Public Listing Companies (the Trial Implementation Rule)" during the report period.