

7. INTERIM FINANCIAL REPORT (UNAUDITED)

A. Interim financial report prepared in accordance with IAS 34 *Interim Financial Reporting*

Independent review report to the Board of Directors of Sinopec Yizheng Chemical Fibre Company Limited

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 21 to 30.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

KPMG

Certified Public Accountants
Hong Kong, China

24 August 2001

**Consolidated income statement
for the six months ended 30 June 2001 (unaudited)**

	Note	Six months ended 30 June	
		2001 Rmb'000	2000 <i>restated</i> Rmb'000
Turnover	2	3,910,340	4,346,542
Cost of sales		(3,470,991)	(3,469,102)
Gross profit		439,349	877,440
Selling expenses		(56,242)	(53,921)
Administrative expenses		(217,471)	(261,542)
Other operating income		3,825	6,592
Other operating expenses		(6,063)	(20,614)
Loss on disposal of property, plant and equipment		(1,149)	(60,882)
Profit from operations		162,249	487,073
Net financing costs		(11,825)	(33,259)
Profit from ordinary activities before taxation	3	150,424	453,814
Income tax expense	4	(26,972)	(72,623)
Profit from ordinary activities after taxation		123,452	381,191
Minority interests		(2,266)	(3,666)
Profit attributable to shareholders		121,186	377,525
Interim dividend	5	—	—
Basic earnings per share (in Rmb)	6(i)	0.030	0.094

The notes on pages 25 to 30 form part of this interim financial report.

Consolidated balance sheet at 30 June 2001 (unaudited)

	Note	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i> <i>(audited)</i>
Non-current assets			
Property, plant and equipment		7,156,095	7,525,352
Construction in progress	7	878,032	159,836
Unlisted investment, at cost		62,500	62,500
		<u>8,096,627</u>	<u>7,747,688</u>
Current assets			
Inventories		1,184,842	1,116,843
Trade and other receivables	8	737,873	544,080
Deposits with banks and other financial institutions		845,943	1,358,817
Cash and cash equivalents	9	688,276	601,014
		<u>3,456,934</u>	<u>3,620,754</u>
Current liabilities			
Trade and other payables	10	1,191,830	1,215,431
Bank loans		660,000	430,000
Income tax payable		144,344	138,326
Dividend payable	5	360,000	-
		<u>2,356,174</u>	<u>1,783,757</u>
Net current assets		<u>1,100,760</u>	<u>1,836,997</u>
Total assets less current liabilities		9,197,387	9,584,685
Non-current liabilities			
Bank loans		300,000	450,000
Minority interests		<u>57,768</u>	<u>56,252</u>
Net assets		<u>8,839,619</u>	<u>9,078,433</u>
Shareholders' funds			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves		1,291,302	1,291,302
Retained profits		1,029,484	1,268,298
		<u>8,839,619</u>	<u>9,078,433</u>

The notes on pages 25 to 30 form part of this interim financial report.

**Consolidated statement of changes in equity
for the six months ended 30 June 2001 (unaudited)**

	Share capital	Share premium	Reserves	Retained profits (restated)	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January 2000	4,000,000	2,518,833	1,117,032	1,042,340	8,678,205
Net profit for the period	-	-	-	377,525	377,525
Dividends (note 5)	-	-	-	(440,000)	(440,000)
At 30 June 2000	4,000,000	2,518,833	1,117,032	979,865	8,615,730
At 1 January 2001	4,000,000	2,518,833	1,291,302	1,268,298	9,078,433
Net profit for the period	-	-	-	121,186	121,186
Dividends (note 5)	-	-	-	(360,000)	(360,000)
At 30 June 2001	4,000,000	2,518,833	1,291,302	1,029,484	8,839,619

The notes on pages 25 to 30 form part of this interim financial report.

**Condensed consolidated cash flow statement
for the six months ended 30 June 2001 (unaudited)**

	Six months ended 30 June	
	2001	2000
	Rmb'000	<i>Rmb'000</i>
Cash flows from operating activities	244,426	1,053,240
Cash flows from investing activities	(236,414)	57,223
Cash flows from financing activities	79,250	(704,556)
Net increase in cash and cash equivalents	87,262	405,907
Cash and cash equivalents at 1 January	601,014	407,662
Cash and cash equivalents at 30 June	688,276	813,569

The notes on pages 25 to 30 form part of this interim financial report.

Notes on the unaudited interim financial report

1. Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the HKSE, including compliance with IAS 34 *Interim Financial Reporting* adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company’s annual accounts for that financial year but is derived from those accounts. The annual accounts for the year ended 31 December 2000 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 13 April 2001.

The accounting policies have been consistently applied by the Group and, except for the adoption of IAS 39 *Financial Instruments: Recognition and Measurement* which is effective for accounts covering periods beginning on or after 1 January 2001, are consistent with those adopted in the 2000 annual accounts.

IAS 39 establishes principles for recognising, measuring and disclosing information about financial assets and financial liabilities. IAS 39 defines several categories of financial assets and liabilities. It requires an entity to measure at fair value assets and liabilities qualified as trading or available-for-sale, and to recognise changes in fair value in the income statement for trading assets and liabilities and shareholders’ funds for available-for-sale assets.

In addition, IAS 39 requires an entity to recognise all derivative instruments on the balance sheet at fair value. The Group considers the adoption of IAS 39 did not have a material impact on its financial position or results of operations.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

The Company also prepares an interim financial report which complies with the PRC Accounting Rules and Regulations. Significant differences between the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IAS are summarised in Section C.

2. Turnover

The Group's principal activities are the production and sales of polyester chips and fibre. All of the group's operations are conducted in the PRC.

Turnover represents the sales value of goods supplied to customers, net of value added tax, as follows:

	Six months ended 30 June	
	2001	2000
	Rmb'000	<i>Rmb'000</i>
Revenue from sales of goods	<u>3,910,340</u>	<u>4,346,542</u>

3. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001	2000
	Rmb'000	<i>Rmb'000</i>
Interest and other borrowings costs	34,510	60,460
Amount capitalised as construction in progress	(5,000)	(1,000)
Net interest expenses	29,510	59,460
Interest income	(20,515)	(28,416)
Cost of inventories	3,470,991	3,469,102
Depreciation	407,200	313,046

4. Income tax expense

With effect from 1 January 1994, PRC domestic enterprises are subject to a unified income tax rate of 33 per cent 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 per cent and this is still effective for 2001.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15 per cent to 33 per cent, and some subsidiaries have been granted a tax holiday for not more than 5 years.

5. Dividends

A final dividend of Rmb9 cents per share totalling Rmb360,000,000 in respect of the financial year 2000 was approved during the period (Financial year 1999: Rmb11 cents per share totalling Rmb440,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

6. Earnings per share

(i) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb121,186,000 (2000 *restated*): Rmb377,525,000) and 4,000,000,000 shares (2000: 4,000,000,000 shares) in issue during the period.

(ii) Diluted

There were no dilutive potential shares in existence during the period from 1 January 2000 to 30 June 2001.

7. Construction in progress

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Phase 4 project	207,612	7,277
Improvements in existing plants	308,942	60,253
Construction materials	338,728	81,457
Others	22,750	10,849
	<u>878,032</u>	<u>159,836</u>

8. Trade and other receivables

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Trade receivables	84,335	78,862
Bills receivable	222,619	133,061
Amounts due from fellow subsidiaries – trade	102,804	37,210
	409,758	249,133
Amounts due from parent companies and fellow subsidiaries – non-trade	131,826	136,208
Other receivables, deposits and prepayments	196,289	158,739
	<u>737,873</u>	<u>544,080</u>

8. Trade and other receivables (*Continued*)

The ageing analysis of trade and bills receivables is as follows:

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Within one year	403,147	246,743
Between one and two years	6,611	2,390
	<u>409,758</u>	<u>249,133</u>

Sales are generally on a cash basis. Subject to negotiation, credit is only available for major customers with well-established trading records.

9. Cash and cash equivalents

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Cash in hand	164	241
Balances with banks and other financial institutions with initial terms of less than three months	688,112	600,773
Cash and cash equivalents	<u>688,276</u>	<u>601,014</u>

10. Trade and other payables

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Trade payables	457,316	519,885
Bills payable	31,600	8,000
Amounts due to fellow subsidiaries – trade	150,880	111,606
	639,796	639,491
Amounts due to parent companies and fellow subsidiaries – non-trade	49,198	27,586
Other payables and accrued expenses	502,836	548,354
	<u>1,191,830</u>	<u>1,215,431</u>

10. Trade and other payables (*Continued*)

The ageing analysis of trade and bills payables is as follows:

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Due within 1 month or on demand	619,177	596,324
Due after 1 month but within 6 months	20,619	43,167
	<u>639,796</u>	<u>639,491</u>

11. Reserves

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.

12. Related party transactions

Details of the related party transactions are presented in Section B note 16. The financial data presented are the same as those prepared under IAS.

13. Capital commitments

At 30 June 2001, the Group had the following capital commitments:

	At 30 June 2001 Rmb'000	At 31 December 2000 Rmb'000 (audited)
Authorised and contracted for	700,525	510,493
Authorised but not contracted for	1,855,034	2,036,123
	<u>2,555,559</u>	<u>2,546,616</u>

14. Comparative figures

Certain comparative figures as at 1 January 2000 and for the six months ended 30 June 2000 have been adjusted as a result of changes in accounting policy for proposed dividend in order to comply with IAS 10 *Events After the Balance Sheet Date (revised 1999)*, and also for deferred asset in order to comply with IAS 38 *Intangible Assets* in 2000. The changes are summarised as below:

	<i>Rmb'000</i>
Retained profits (consolidated) brought forward at 1 January 2000 as previously reported	695,840
Impact of adopting IAS 10 (revised)	440,000
Impact of adopting IAS 38	(93,500)
Restated balance	<u>1,042,340</u>
Profit attributable to shareholders (consolidated) for the six months ended 30 June 2000 as previously reported	374,775
Impact of adopting IAS 38	2,750
Restated balance	<u>377,525</u>

Certain other comparative figures have been reclassified to conform with the current period's presentation.

B. Interim financial report prepared in accordance with the PRC Accounting Rules and Regulations

Balance sheets (unaudited)

	Note	The Group		The Company	
		At 30 June 2001 Rmb'000	At 31 December 2000 restited Rmb'000	At 30 June 2001 Rmb'000	At 31 December 2000 restited Rmb'000
Assets					
Current assets					
Cash at bank and in hand		1,534,219	1,959,831	1,309,057	1,748,107
Bills receivable		315,996	167,441	291,147	143,211
Trade receivables	3	93,762	81,692	36,997	26,371
Other receivables	4	218,533	208,321	1,367,292	1,366,392
Advance payments		82,274	65,761	42,147	61,145
Inventories	5	1,184,842	1,116,843	984,441	868,934
Deferred expenses	6	16,552	7,651	7,302	3,000
Total current assets		3,446,178	3,607,540	4,038,383	4,217,160
Long-term investments					
Long-term equity investments	7	28,595	27,073	(39,112)	(50,781)
Fixed assets					
Fixed assets, at cost		11,306,077	11,270,679	10,355,379	10,322,473
Less: Accumulated depreciation		(4,496,656)	(4,101,161)	(4,175,018)	(3,809,603)
Net book value of fixed assets		6,809,421	7,169,518	6,180,361	6,512,870
Construction in progress	8	539,304	78,379	531,257	76,080
Construction materials		338,728	81,457	338,728	81,457
Total fixed assets		7,687,453	7,329,354	7,050,346	6,670,407
Intangible assets and other assets					
Intangible assets		373,225	383,907	285,879	295,574
Long-term deferred expenses	9	10,756	13,214	10,756	13,214
Total intangible assets and other assets		383,981	397,121	296,635	308,788
Total assets		11,546,207	11,361,088	11,346,252	11,145,574

Balance sheets (unaudited) (Continued)

	The Group		The Company	
	At	At	At	At
	30 June 2001	31 December 2000 <i>restated</i>	30 June 2001	31 December 2000 <i>restated</i>
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Liabilities and shareholders' funds				
Current liabilities				
Short-term loans	230,000	80,000	230,000	80,000
Bills payable	31,600	8,000	-	-
Trade payables	488,995	490,672	441,361	407,175
Receipts in advance	119,201	140,819	85,029	113,579
Wages payable	126,094	130,860	117,036	118,063
Staff welfare payable	64,467	61,541	54,692	52,533
Dividend payable	360,000	360,000	360,000	360,000
Taxes payable	274,446	292,318	278,194	275,223
Other payables	14,972	11,202	12,377	8,404
Other creditors	131,273	198,386	120,838	188,849
Accrued expenses	79,780	15,048	75,782	15,000
Current portion of long-term loans	430,000	350,000	430,000	350,000
Total current liabilities	2,350,828	2,138,846	2,205,309	1,968,826
Long-term liabilities				
Long-term loans	300,000	450,000	300,000	450,000
Long-term payable	5,346	4,911	-	-
Total long-term liabilities	305,346	454,911	300,000	450,000
Total liabilities	2,656,174	2,593,757	2,505,309	2,418,826
Minority interests	57,768	56,252	-	-
Shareholders' funds				
Share capital	4,000,000	4,000,000	4,000,000	4,000,000
Capital reserve	3,078,825	3,078,825	3,078,825	3,078,825
Surplus reserves				
(Including: statutory public welfare fund of Rmb267,466,000 (2000: Rmb267,466,000))	1,291,302	1,291,302	1,291,302	1,291,302
Undistributed profits	462,138	340,952	470,816	356,621
Total shareholders' funds	8,832,265	8,711,079	8,840,943	8,726,748
Total liabilities and shareholders' funds	11,546,207	11,361,088	11,346,252	11,145,574

Income statements and profit appropriation statements (unaudited)

	Note	The Group		The Company	
		For the six months ended 30 June			
		2001	2000	2001	2000
		Rmb'000	restated Rmb'000	Rmb'000	restated Rmb'000
Income from principal operations		3,910,340	4,346,542	3,560,963	3,891,046
Less: Cost of sales		3,457,223	3,435,926	3,164,100	3,111,391
Business tax and surcharges		15,290	21,915	14,628	20,965
Profit from principal operations		437,827	888,701	382,235	758,690
Less: Loss from other operations		5,663	6,512	7,683	3,025
Selling expenses		56,242	53,921	44,072	38,499
Administrative expenses		217,471	274,325	199,805	254,044
Financial expenses	10	11,825	33,259	3,913	24,493
Operating profit		146,626	520,684	126,762	438,629
Add: Investment income	11	4,522	1,522	14,669	40,315
Non-operating income		825	6,592	596	4,924
Less: Non-operating expenses	12	1,549	74,984	1,255	34,364
Total profit		150,424	453,814	140,772	449,504
Less: Income tax	13	26,972	72,623	26,577	71,944
Profit attributable to minority interests		2,266	3,666	-	-
Net profit		121,186	377,525	114,195	377,560
Add: Undistributed profits at the beginning of the period		340,952	34,994	356,621	45,713
Distributable profits		462,138	412,519	470,816	423,273
Less: Transfer to statutory surplus reserve	14	-	-	-	-
Transfer to statutory public welfare fund	14	-	-	-	-
Distributable profits to shareholders		462,138	412,519	470,816	423,273
Less: Transfer to discretionary surplus reserve	14	-	-	-	-
Dividends	15	-	-	-	-
Undistributed profits		462,138	412,519	470,816	423,273

Cash flow statements (unaudited)

	<i>Note</i>	The Group For the six months ended 30 June 2001 Rmb'000	The Company For the six months ended 30 June 2001 Rmb'000
(i) Cash Flows from Operating Activities:			
Cash received from sale of goods		4,629,765	4,034,541
Refund of taxes and levies		4,480	4,480
Other cash received relating to operating activities		9,332	15,787
		<u>4,643,577</u>	<u>4,054,808</u>
Sub-total of cash inflows		4,643,577	4,054,808
Cash paid for goods		(3,667,600)	(3,161,624)
Cash paid to and on behalf of employees		(300,890)	(269,947)
Amounts of VAT levied		(133,653)	(122,660)
Income tax paid		(20,954)	(19,454)
Taxes paid other than VAT and income tax		(164,093)	(162,765)
Other cash paid relating to operating activities		(91,547)	(75,647)
		<u>(4,378,737)</u>	<u>(3,812,097)</u>
Sub-total of cash outflows		(4,378,737)	(3,812,097)
Net cash flow from operating activities	<i>(a)</i>	<u>264,840</u>	<u>242,711</u>
(ii) Cash Flows from Investing Activities:			
Cash received from dividends or distribution of profits		3,000	3,000
Net cash received from disposal of fixed assets		663	553
Other cash received relating to investing activities		525,416	557,081
		<u>529,079</u>	<u>560,634</u>
Sub-total of cash inflows		529,079	560,634
Cash paid for acquisition of fixed assets, construction in progress, intangible assets and other long-term assets		(752,951)	(743,792)
		<u>(752,951)</u>	<u>(743,792)</u>
Sub-total of cash outflows		(752,951)	(743,792)
Net cash flow from investing activities		<u>(223,872)</u>	<u>(183,158)</u>

Cash flow statements (unaudited) (Continued)

	Note	The Group For the six months ended 30 June 2001 Rmb'000	The Company For the six months ended 30 June 2001 Rmb'000
(iii) Cash Flows from Financing Activities			
Proceeds from borrowings		1,446,000	1,446,000
Sub-total of cash inflows		<u>1,446,000</u>	<u>1,446,000</u>
Repayment of borrowings		(1,366,000)	(1,366,000)
Interest paid		(32,956)	(32,626)
Other cash paid relating to financing activities		(750)	-
Sub-total of cash outflows		<u>(1,399,706)</u>	<u>(1,398,626)</u>
Net cash flow from financing activities		<u>46,294</u>	<u>47,374</u>
Net increase in cash and cash equivalents	(b)	<u>87,262</u>	<u>106,927</u>

Notes

(a) Reconciliation of Net Profit to Cash Flows from Operating Activities

	The Group For the six months ended 30 June 2001 Rmb'000	The Company For the six months ended 30 June 2001 Rmb'000
Net profit	121,186	114,195
Add: Provision for bad and doubtful debts or bad debts written off	(2,080)	-
Minority interest	2,266	-
Depreciation of fixed assets	398,040	367,444
Amortisation of intangible assets	10,682	9,695
Amortisation of long-term deferred expenses	2,458	2,458
Interest and investment income	(25,037)	(42,474)
Interest expenses	29,510	29,180
Loss on disposal of fixed assets	1,149	855
Increase in inventories	(67,999)	(115,507)
Increase in operating receivables	(172,488)	(128,065)
(Decrease)/increase in operating payables	(32,847)	4,930
Net cash flows from operating activities	<u>264,840</u>	<u>242,711</u>
(b) Net Increase in Cash and Cash Equivalents		
Cash at the end of the period	164	50
Less: Cash at the beginning of the period	(241)	(142)
Add: Cash equivalents at the end of the period	688,112	532,666
Less: Cash equivalents at the beginning of the period	(600,773)	(425,647)
Net increase in cash and cash equivalents	<u>87,262</u>	<u>106,927</u>

Notes on the unaudited interim financial report

1. Significant accounting policies

The significant accounting policies adopted in the preparation of the interim financial report conform with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the MOF of the PRC which became effective from 1 January 2001 and other relevant regulations.

The adoption of Accounting Regulations for Business Enterprises has no material impact on the financial position of the Group and the Company as at 30 June 2000 and on the results of operations for the six months then ended.

2. Change in accounting policy

Pursuant to the documents "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 had been offset against the "Undistributed profits at the beginning of the year" in 2001.

The change in accounting policy had the following impact to 2001 and 2000:

	The Group		The Company	
	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>
Undistributed profits at the beginning of the period as previously reported	450,952	144,994	466,621	155,713
Housing revolving fund	(110,000)	(110,000)	(110,000)	(110,000)
Restated balance	<u>340,952</u>	<u>34,994</u>	<u>356,621</u>	<u>45,713</u>

3. Trade receivables

	The Group				The Company			
	At		At		At		At	
	30 June 2001 Rmb'000	%	31 December 2000 Rmb'000	%	30 June 2001 Rmb'000	%	31 December 2000 Rmb'000	%
Trade receivables								
Within one year	87,267	77	79,124	78	29,948	62	24,816	65
Between one and two years	8,118	7	4,206	4	8,034	17	3,109	8
Between two and three years	3,293	3	3,433	4	3,131	6	2,845	8
Over three years	14,425	13	14,511	14	7,237	15	7,196	19
	<u>113,103</u>	<u>100</u>	<u>101,274</u>	<u>100</u>	<u>48,350</u>	<u>100</u>	<u>37,966</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Within one year	(553)		-		-		-	
Between one and two years	(1,070)		(1,638)		(985)		(1,554)	
Between two and three years	(3,293)		(3,433)		(3,131)		(2,845)	
Over three years	(14,425)		(14,511)		(7,237)		(7,196)	
	<u>(19,341)</u>		<u>(19,582)</u>		<u>(11,353)</u>		<u>(11,595)</u>	
Trade receivables, net	<u>93,762</u>		<u>81,692</u>		<u>36,997</u>		<u>26,371</u>	

The five largest trade receivables of the Group at 30 June 2001 are shown below:

Name of entity	Period of original debts	Particulars	Amount Rmb'000
Yangzhou Thermo Power Company Limited	2001	Sales of goods	11,757
Yihua	2001	Sales of goods	8,914
Hangzhou Wahaha Healthy Food Company Limited	2001	Sales of goods	4,000
Limeida Chemical Textile Enterprise Group	2001	Sales of goods	1,203
Xinguang Lighting and Electric Appliance Company Limited	2001	Sales of goods	1,095

Balances due from shareholders who hold 5% or more of the shares of the Company are disclosed in Note 16.

4. Other receivables

	The Group				The Company			
	At		At		At		At	
	30 June 2001 Rmb'000	%	31 December 2000 Rmb'000	%	30 June 2001 Rmb'000	%	31 December 2000 Rmb'000	%
Other receivables								
Within one year	106,171	33	103,072	33	209,024	14	218,647	15
Between one and two years	76,683	24	36,141	11	423,974	29	383,348	26
Between two and three years	28,935	9	6,096	2	62,387	4	35,550	3
Over three years	109,807	34	170,929	54	756,435	53	813,375	56
	<u>321,596</u>	<u>100</u>	<u>316,238</u>	<u>100</u>	<u>1,451,820</u>	<u>100</u>	<u>1,450,920</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Within one year	(2,781)		(6,423)		(2,781)		(3,343)	
Between one and two years	(174)		(300)		(174)		(300)	
Between two and three years	(404)		(6,096)		(404)		(6,096)	
Over three years	(99,704)		(95,098)		(81,169)		(74,789)	
	<u>(103,063)</u>		<u>(107,917)</u>		<u>(84,528)</u>		<u>(84,528)</u>	
Other receivables, net	<u>218,533</u>		<u>208,321</u>		<u>1,367,292</u>		<u>1,366,392</u>	

The five largest other receivables of the Group at 30 June 2001 are shown below:

Name of entity	Period of original debts	Particulars	Amount Rmb'000
Yihua Engineering Company Limited	1997-1999	Other receivable	70,914
Yihua	1997-1999	Other receivable	36,303
Bank of Communications, Nanjing Branch	2001	Interest receivable	12,243
Industrial and Commercial Bank of China, Yizheng Branch	2001	Interest receivable	8,775
Sinopec Finance	2001	Interest receivable	8,127

Balances due from shareholders who hold 5% or more of the shares of the Company are disclosed in Note 16.

5. Inventories

	The Group		The Company	
	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>
At cost				
Raw materials	645,868	627,230	567,774	503,016
Work in progress	52,576	87,998	51,158	83,803
Finished goods	306,663	240,345	204,139	138,409
Goods in transit	1,748	554	1,748	554
Spare parts and consumables	210,130	203,641	189,365	183,677
	<u>1,216,985</u>	<u>1,159,768</u>	<u>1,014,184</u>	<u>909,459</u>
<i>Less: Provision for diminution in value of inventories</i>				
Raw materials	(1,800)	(1,800)	-	-
Finished goods	(600)	(600)	-	-
Spare parts and consumables	(29,743)	(40,525)	(29,743)	(40,525)
	<u>(32,143)</u>	<u>(42,925)</u>	<u>(29,743)</u>	<u>(40,525)</u>
	<u>1,184,842</u>	<u>1,116,843</u>	<u>984,441</u>	<u>868,934</u>

6. Deferred expenses

	The Group <i>Rmb'000</i>	The Company <i>Rmb'000</i>
At 1 January 2001	7,651	3,000
Additions	22,905	17,222
Amortisation	(14,004)	(12,920)
At 30 June 2001	<u>16,552</u>	<u>7,302</u>

7. Long-term equity investments

	Note	The Group		The Company	
		At	At	At	At
		30 June 2001 Rmb'000	31 December 2000 Rmb'000	30 June 2001 Rmb'000	31 December 2000 Rmb'000
Investments in subsidiaries:					
Share of net liabilities		-	-	(67,707)	(77,854)
Equity-investment difference (a)		(33,905)	(35,427)	(33,905)	(35,427)
Other equity investment (b)		62,500	62,500	62,500	62,500
		28,595	27,073	(39,112)	(50,781)

(a) The difference between the company's cost of investments in subsidiaries, which were acquired in 1995, and its share of their net assets 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 11 years.

(b) Other equity investment

At 30 June 2001, the other equity investment of the Group and the Company is as follows:

Investee	Date of Investment	Total investment Rmb'000	Percentage shareholdings %	Provision for diminution in value Rmb'000
Sinopec Finance	30 December 1999	62,500	3.3%	-

8. Construction in progress

	The Group		The Company	
	At	At	At	At
	30 June 2001 Rmb'000	31 December 2000 Rmb'000	30 June 2001 Rmb'000	31 December 2000 Rmb'000
Construction in progress	539,304	78,379	531,257	76,080

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

8. Construction in progress (*Continued*)

The projects not yet commissioned at 30 June 2001 and their respective expected dates of completion are as follows:

Project	Year commenced	Expected date of completion	Balance at 1 January 2001 Rmb'000	Additions Rmb'000	Transferred out Rmb'000	Balance at 30 June 2001 Rmb'000	Source of fund
Phase 4 project	2000	2003	7,277	200,335	–	207,612	Bank loans/ Surplus fund
Improvements to existing plants	2000	2001	60,253	281,339	(32,650)	308,942	Bank loans/ Surplus fund
Other construction projects	2000	2001	5,545	4,436	(2,783)	7,198	Bank loans/ Surplus fund
Interest capitalised			3,005	5,000	(500)	7,505	
Total for the Company			76,080	491,110	(35,933)	531,257	
Miscellaneous projects of the subsidiary companies	2000	2001	2,299	6,502	(754)	8,047	Bank loans/ Surplus fund
Total for the Group			<u>78,379</u>	<u>497,612</u>	<u>(36,687)</u>	<u>539,304</u>	

9. Long-term deferred expenses

	The Group and the Company Rmb'000
Cost:	
At 1 January 2001	13,214
Amortisation	(2,458)
At 30 June 2001	<u>10,756</u>

10. Financial expenses

	The Group		The Company	
	For the six months ended 30 June			
	2001	2000	2001	2000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest income	(20,515)	(28,416)	(27,805)	(34,192)
Interest expenses	29,510	59,460	29,180	57,017
Exchange (gain)/loss, net	(123)	1,299	(240)	1,191
Others	2,953	916	2,778	477
	<u>11,825</u>	<u>33,259</u>	<u>3,913</u>	<u>24,493</u>

11. Investment income

The Group	Dividend from other equity investment	Amortisation of long-term equity investment difference	For the six months ended 30 June	
			2001	2000
			Total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Long-term investments	<u>3,000</u>	<u>1,522</u>	<u>4,522</u>	<u>1,522</u>

The Company	Dividend from other equity investment	Income from investments in subsidiaries using the equity method	Amortisation of long term equity investment difference	For the six months ended 30 June	
				2001	2000
				Total	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
Long-term investments	<u>3,000</u>	<u>10,147</u>	<u>1,522</u>	<u>14,669</u>	<u>40,315</u>

12. Non-operating expenses

	The Group		The Company	
	For the six months ended 30 June			
	2001	2000	2001	2000
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loss on disposal of fixed assets	1,149	60,882	855	27,000
Others	400	14,102	400	7,364
	<u>1,549</u>	<u>74,984</u>	<u>1,255</u>	<u>34,364</u>

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

13. Income tax

With effect from 1 January 1994, PRC domestic enterprises are subject to a unified income tax rate of 33 per cent 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 per cent and this is still effective for 2001.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15 per cent to 33 per cent, and some subsidiaries have been granted a tax holiday for not more than 5 years.

14. Reserves

No transfers were made to the surplus reserves from net profit for the six months ended 30 June 2001.

15. Dividends

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2001 (2000: Nil).

16. 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	Processing crude oil into refined products and petrochemical products, petrochemical products business include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.	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; marketing crude oil, natural gas and refined petroleum products; and 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, PRC	Production, investment, technology, finance, trading, consultancy services, etc	Substantial shareholder	State-owned	Wang Jun

16. Related party transactions (*Continued*)

Registered capital and their movements of the above related parties

Name of company	At 1 January	Increase	Decrease	At 30 June
	2001			2001
	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

Percentage shareholdings held by the above related parties and their movements

Name of company	Number of shares held at 1 January		Increase in number of shares held		Decrease in number of shares held		Number of shares held at 30 June	
	2001		'000		'000		2001	
	'000	%	'000	%	'000	%	'000	%
CPC	-	-	-	-	-	-	-	-
Sinopec	1,680,000	42	-	-	-	-	1,680,000	42
CITIC	720,000	18	-	-	-	-	720,000	18

- (b) Related parties subject to common significant influence of CPC, Sinopec or CITIC.

Name of companies

Yihua

Yangzi

Sinopec Finance

CITIC Industrial Bank

Nanjing Chemical Industrial Group ("Nanhua")

Sinopec Maoming Petrochemical Corporation ("Maoming")

- (c) Significant transactions between the Group and the related parties during the period were as follows:

Yangzi

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Purchases of raw materials	1,168,720	1,096,961

16. Related party transactions (Continued)

Yihua Group

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Sales	586,683	477,947
Purchases	60,304	54,363
Miscellaneous service charges (see note below)	60,695	60,000
Miscellaneous service fee income (see note below)	14,660	16,070
Trademark licence fee (see note below)	5,000	5,000
Payments to the engineering company of Yihua relating to construction and repair and maintenance work carried out on behalf of the Company	46,190	14,343

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 Yangzi

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Purchases of equipment	–	3,142
Purchases of raw materials	57,548	53,452
Subsidy received in respect of technological research and development	10,349	–

CPC, Nanhua and Maoming

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Purchase of equipment	5,585	5,066
Purchase of raw materials	13,223	17,147
Insurance premium paid	4,534	15,462

16. Related party transactions (Continued)

Sinopec Finance

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Interest income	<u>7,224</u>	<u>8,241</u>

CITIC Industrial Bank

	For the six months ended 30 June	
	2001	2000
	Rmb'000	Rmb'000
Interest income	<u>268</u>	<u>127</u>

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.

- (d) At 30 June 2001, guarantees given to banks by CPC in respect of bank loans to the Company amounted to Rmb330,000,000 (At 31 December 2000: Rmb350,000,000).
- (e) Deposits with Sinopec Finance

	At	At
	30 June	31 December
	2001	2000
	Rmb'000	Rmb'000
Cash at bank and in hand	<u>669,210</u>	<u>686,895</u>

- (f) Deposits with CITIC Industrial Bank

	At	At
	30 June	31 December
	2001	2000
	Rmb'000	Rmb'000
Cash at bank and in hand	<u>49,345</u>	<u>53,492</u>

16. Related party transactions (Continued)

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

	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>
Trade receivables	9,427	2,830
Bills receivable	93,377	34,380
Other receivables	119,699	127,047
Trade payables	(3,771)	(5,154)
Receipts in advance	(9,689)	(26,359)
Other creditors	-	(355)
	<u>209,043</u>	<u>132,389</u>

(h) Details of amounts due from/(to) Sinopec and other fellow subsidiaries, excluding Yihua Group, are as follows:

	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>
Other receivables	12,127	9,161
Trade creditors	(137,420)	(80,093)
Other creditors	(49,198)	(27,231)
	<u>(174,491)</u>	<u>(98,163)</u>

17. Capital commitments

Capital commitments outstanding at 30 June 2001 not provided for in the accounts were as follows:

	The Group		The Company	
	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>Rmb'000</i>
Authorised and contracted for	700,525	510,493	700,525	510,493
Authorised but not contracted for	1,855,034	2,036,123	1,855,034	2,036,123
	<u>2,555,559</u>	<u>2,546,616</u>	<u>2,555,559</u>	<u>2,546,616</u>

18. Comparative figures

Certain comparative figures have been adjusted as a result of the change in accounting policy for "Housing Revolving Fund" in order to comply with the documents "Cai Qi [2000] No. 295" and "Cai Kui [2001] No. 5" issued by the MOF on 6 September 2000 and 7 January 2001 respectively, details of which are set out in note 2.

C. Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IAS:

Other than the differences in the classification of certain financial statement assertions and the accounting treatment of the items described below, there are no material differences between the Group's interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IAS. The major differences are:

- (i) Under the PRC Accounting Rules and Regulations, dividends are recognised as a liability in the period to which they relate. Under IAS, dividends are recognised in the period in which they are declared or approved.
- (ii) Under IAS, the negative goodwill was used to reduce proportionately the fair values of the non-monetary assets acquired. Under the PRC Accounting Rules and Regulations, negative goodwill was carried forward in an "Equity-investment difference" account and no amortisation was allowed until 1 January 1998. The difference represents the reduced accumulated depreciation in the IAS accounts before 1 January 1998.

Reconciliation of the Group's shareholders' funds in the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IAS are summarised below:

	The Group	
	At 30 June 2001 <i>Rmb'000</i>	At 31 December 2000 <i>restated Rmb'000</i>
Shareholders' funds under PRC Accounting Rules and Regulations	8,832,265	8,711,079
Differences:		
Dividends (i)	-	360,000
Negative goodwill (ii)	7,354	7,354
Shareholders' funds under IAS	<u>8,839,619</u>	<u>9,078,433</u>

Profit attributable to shareholders for the six months ended 30 June 2001 and 2000 under IAS are the same as those prepared under the PRC Accounting Rules and Regulations.