

Report of the PRC Auditors



To the Shareholders of Sinopec Yizheng Chemical Fibre Company Limited

We accepted the appointment and have audited the consolidated balance sheet and balance sheet of the Company at 31 December 2001, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement of the Company for the year then ended. These financial statements are the responsibility of the Company. Our responsibility is to express an audit opinion on these financial statements based on our audit. We have conducted our audit in accordance with the "Independent Auditing Standards for Chinese Certified Public Accountants" issued by the Ministry of Finance ("MOF") of the People's Republic of China ("PRC"). In the course of our audit, we considered the circumstances of the Company and its subsidiaries, and carried out such audit procedures, including an examination of the accounting records on a test basis, as we deemed necessary.

In our opinion, the above-mentioned financial statements comply with the relevant requirements of the "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises" issued by the MOF of the PRC and present fairly, in all material respects, the consolidated financial position and financial position of the Company at 31 December 2001, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended, and the accounting policies have been consistently applied.

KPMG Huazhen

*Certified Public Accountants
Registered in the PRC*

Luo Zheng

Jin Naiwen

29 March 2002

Unit 1608 Level 16
China World Tower 2
China World Trade Centre
No. 1, Jian Guo Men Wai Avenue
Beijing, The People's Republic of China
Post Code: 100004

Consolidated Balance Sheet

As at 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | | At 31 December 2001 | At 31 December 2000 Restated |
|--|------|-----------------------------------|---------------------------------------|
| | Note | Rmb'000 | Rmb'000 |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash at bank and in hand | 4 | 1,233,771 | 1,959,831 |
| Bills receivable | 5 | 355,590 | 167,441 |
| Trade receivables | 6 | 92,403 | 81,692 |
| Other receivables | 7 | 61,469 | 208,321 |
| Advance payments | 8 | 77,376 | 73,412 |
| Inventories | 9 | 998,164 | 1,116,843 |
| Total current assets | | 2,818,773 | 3,607,540 |
| LONG-TERM INVESTMENTS | | | |
| Long-term equity investments | 10 | 30,116 | 27,073 |
| FIXED ASSETS | | | |
| Fixed assets, at cost | 11 | 12,478,274 | 11,633,694 |
| Less: Accumulated depreciation | 11 | (4,940,547) | (4,149,683) |
| Net book value of fixed assets | 11 | 7,537,727 | 7,484,011 |
| Construction in progress | 12 | 323,673 | 78,379 |
| Construction materials | 13 | 427,475 | 81,457 |
| Total fixed assets | | 8,288,875 | 7,643,847 |
| INTANGIBLE ASSETS AND OTHER ASSETS | | | |
| Intangible assets | 14 | 55,304 | 69,414 |
| Long-term deferred expenses | | 8,426 | 13,214 |
| Total intangible assets and other assets | | 63,730 | 82,628 |
| TOTAL ASSETS | | 11,201,494 | 11,361,088 |

Consolidated Balance Sheet (Continued)

As at 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Note | At 31 December 2001 Rmb'000 | At 31 December 2000 Restated Rmb'000 |
|--|-------|--------------------------------------|--|
| LIABILITIES AND SHAREHOLDERS' FUNDS | | | |
| CURRENT LIABILITIES | | | |
| Short-term loans | 17(a) | 580,020 | 80,000 |
| Bills payable | 18 | 5,000 | 8,000 |
| Trade payables | 18 | 261,122 | 490,672 |
| Receipts in advance | 18 | 113,361 | 140,819 |
| Wages payable | | 155,611 | 130,860 |
| Staff welfare payable | | 67,373 | 61,541 |
| Dividend payable | | 80,000 | 360,000 |
| Taxes payable | 15(c) | 256,396 | 292,318 |
| Other payables | | 10,241 | 11,202 |
| Other creditors | 18 | 165,427 | 203,297 |
| Accrued expenses | 19 | 1,155 | 15,048 |
| Current portion of long-term loans | 17(a) | 150,000 | 350,000 |
| Total current liabilities | | 1,845,706 | 2,143,757 |
| LONG-TERM LIABILITIES | | | |
| Long-term loans | 17(a) | 500,000 | 450,000 |
| Total liabilities | | 2,345,706 | 2,593,757 |
| MINORITY INTERESTS | | | |
| | | 53,920 | 56,252 |
| SHAREHOLDERS' FUNDS | | | |
| Share capital | 20 | 4,000,000 | 4,000,000 |
| Capital reserve | 21 | 3,078,825 | 3,078,825 |
| Surplus reserves | | | |
| (Including: statutory public welfare fund of Rmb288,464,000 (2000: Rmb267,466,000)) | 22 | 1,334,237 | 1,291,302 |
| Undistributed profits | | 388,806 | 340,952 |
| Total shareholders' funds | | 8,801,868 | 8,711,079 |
| TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS | | 11,201,494 | 11,361,088 |

Approved by the Board of Directors on 29 March 2002.

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on the financial statements form part of these financial statements.

Balance Sheet

As at 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | | At 31 December 2001 | At 31 December 2000 Restated |
|---|-------|---------------------------|---------------------------------------|
| | Note | Rmb'000 | Rmb'000 |
| Assets | | | |
| Current Assets | | | |
| Cash at bank and in hand | 4 | 1,024,416 | 1,748,107 |
| Bills receivable | 5 | 328,870 | 143,211 |
| Trade receivables | 6 | 35,789 | 26,371 |
| Other receivables | 7 | 442,989 | 566,392 |
| Advance payments | 8 | 67,822 | 64,145 |
| Inventories | 9 | 791,240 | 868,934 |
| Total current assets | | 2,691,126 | 3,417,160 |
| Long-term Investments | | | |
| Long-term equity investments | 10 | (84,529) | (50,781) |
| Receivables due after one year | 10(d) | 800,000 | 800,000 |
| Total long-term investments | | 715,471 | 749,219 |
| Fixed Assets | | | |
| Fixed assets, at cost | 11 | 11,421,574 | 10,586,473 |
| Less: Accumulated depreciation | 11 | (4,575,785) | (3,847,443) |
| Net book value of fixed assets | 11 | 6,845,789 | 6,739,030 |
| Construction in progress | 12 | 280,553 | 76,080 |
| Construction materials | 13 | 427,475 | 81,457 |
| Total fixed assets | | 7,553,817 | 6,896,567 |
| Intangible Assets And Other Assets | | | |
| Intangible assets | 14 | 55,304 | 69,414 |
| Long-term deferred expenses | | 8,426 | 13,214 |
| Total intangible assets and other assets | | 63,730 | 82,628 |
| Total Assets | | 11,024,144 | 11,145,574 |

Balance Sheet (Continued)

As at 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Note | At 31 December 2001 Rmb'000 | At 31 December 2000 restated Rmb'000 |
|--|-------|--------------------------------------|--|
| Liabilities and Shareholders' funds | | | |
| Current Liabilities | | | |
| Short-term loans | 17(a) | 550,000 | 80,000 |
| Trade payables | 18 | 220,207 | 407,175 |
| Receipts in advance | 18 | 81,246 | 113,579 |
| Wages payable | | 145,969 | 118,063 |
| Staff welfare payable | | 58,039 | 52,533 |
| Dividend payable | | 80,000 | 360,000 |
| Taxes payable | 15(c) | 269,345 | 275,223 |
| Other payables | | 9,978 | 8,404 |
| Other creditors | 18 | 147,663 | 188,849 |
| Accrued expenses | 19 | 1,155 | 15,000 |
| Current portion of long-term loans | 17(a) | 150,000 | 350,000 |
| Total current liabilities | | 1,713,602 | 1,968,826 |
| Long-term Liabilities | | | |
| Long-term loans | 17(a) | 500,000 | 450,000 |
| Total liabilities | | 2,213,602 | 2,418,826 |
| Shareholders' funds | | | |
| Share capital | 20 | 4,000,000 | 4,000,000 |
| Capital reserve | 21 | 3,078,825 | 3,078,825 |
| Surplus reserves | | | |
| (Including: statutory public welfare fund of Rmb288,464,000 (2000: Rmb267,466,000)) | 22 | 1,334,237 | 1,291,302 |
| Undistributed profits | | 397,480 | 356,621 |
| Total shareholders' funds | | 8,810,542 | 8,726,748 |
| Total Liabilities and Shareholders' Funds | | 11,024,144 | 11,145,574 |

Approved by the Board of Directors on 29 March 2002.

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on the financial statements form part of these financial statements.

Consolidated Income Statement and Profit Appropriation Statement

For the year ended 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Note | For the year ended 31 December | |
|---|-------|-----------------------------------|-----------------------------|
| | | 2001 Rmb'000 | 2000 restated Rmb'000 |
| Income from principal operations | 23 | 7,808,658 | 9,014,472 |
| Less: Cost of sales | | 7,050,075 | 7,132,288 |
| Business tax and surcharges | 15(b) | 30,493 | 41,324 |
| Profit from principal operations | | 728,090 | 1,840,860 |
| Less: Loss from other operations | | 6,078 | 11,356 |
| Selling expenses | | 138,933 | 112,901 |
| Administrative expenses | 24 | 277,510 | 580,220 |
| Financial expenses | 25 | 28,824 | 56,890 |
| Operating profit | | 276,745 | 1,079,493 |
| Add: Investment income | 26 | 6,043 | 4,182 |
| Non-operating income | | 28,037 | 13,534 |
| Less: Non-operating expenses | 27 | 97,450 | 111,716 |
| Total profit | | 213,375 | 985,493 |
| Less: Income tax | 15(a) | 40,087 | 139,391 |
| Profit attributable to minority interests | | 2,499 | 5,874 |
| Net profit | | 170,789 | 840,228 |
| Add: Undistributed profits at the beginning of the year | 3 | 340,952 | 34,994 |
| Distributable profits | | 511,741 | 875,222 |
| Less: Transfer to statutory surplus reserve | 22 | 21,937 | 90,034 |
| Transfer to statutory public welfare fund | 22 | 20,998 | 84,236 |
| Distributable profits to shareholders | | 468,806 | 700,952 |
| Less: Dividends | 16 | 80,000 | 360,000 |
| Undistributed profits | | 388,806 | 340,952 |

The notes on the financial statements form part of these financial statements.

Income Statement and Profit Appropriation Statement

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For the year ended 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Note | For the year ended 31 December | |
|---|-------|-----------------------------------|-----------------------------|
| | | 2001 Rmb'000 | 2000 restated Rmb'000 |
| Income from principal operations | | 7,103,532 | 8,041,486 |
| Less: Cost of sales | | 6,424,846 | 6,400,644 |
| Business tax and surcharges | 15(b) | 29,667 | 39,548 |
| Profit from principal operations | | 649,019 | 1,601,294 |
| Less: Loss from other operations | | 8,501 | 6,327 |
| Selling expenses | | 114,558 | 75,516 |
| Administrative expenses | 24 | 250,961 | 526,596 |
| Financial expenses | 25 | 15,449 | 41,065 |
| Operating profit | | 259,550 | 951,790 |
| Add: Net investment (loss)/income | 26 | (30,748) | 64,982 |
| Non-operating income | | 15,359 | 10,495 |
| Less: Non-operating expenses | 27 | 43,092 | 46,935 |
| Total profit | | 201,069 | 980,332 |
| Less: Income tax | 15(a) | 37,275 | 135,154 |
| Net profit | | 163,794 | 845,178 |
| Add: Undistributed profits at the beginning of the year | 3 | 356,621 | 45,713 |
| Distributable profits | | 520,415 | 890,891 |
| Less: Transfer to statutory surplus reserve | 22 | 21,937 | 90,034 |
| Transfer to statutory public welfare fund | 22 | 20,998 | 84,236 |
| Distributable profits to shareholders | | 477,480 | 716,621 |
| Less: Dividends | 16 | 80,000 | 360,000 |
| Undistributed profits | | 397,480 | 356,621 |

The notes on the financial statements form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Notes to the consolidated cash flow statement | For the year ended 31 December | |
|---|---|--------------------------------|-----------------|
| | | 2001 Rmb'000 | 2000 Rmb'000 |
| 1. Cash flows from operating activities: | | | |
| Cash received from sale of goods | | 9,240,249 | 11,311,738 |
| Refund of taxes and levies | | 9,112 | 16,236 |
| Other cash received relating to operating activities | | 236,946 | 74,459 |
| Sub-total of cash inflows | | 9,486,307 | 11,402,433 |
| Cash paid for purchase of goods | | 7,075,361 | 7,470,115 |
| Cash paid to and on behalf of employees | | 636,410 | 556,297 |
| Amounts of VAT levied | | 319,916 | 511,757 |
| Income tax paid | | 30,235 | 76,375 |
| Taxes paid other than VAT and income tax | | 419,118 | 367,934 |
| Other cash paid relating to operating activities | | 262,923 | 307,422 |
| Sub-total of cash outflows | | 8,743,963 | 9,289,900 |
| Net cash flow from operating activities | (a) | 742,344 | 2,112,533 |
| 2. Cash flows from investing activities: | | | |
| Cash received from dividends or distribution of profits | | 3,000 | 1,139 |
| Net cash received from disposal of fixed assets | | 780 | 296 |
| Other cash received relating to investing activities | | 611,451 | 90,384 |
| Sub-total of cash inflows | | 615,231 | 91,819 |
| Cash paid for acquisition of fixed assets, construction in progress and other long-term assets | | 1,424,202 | 438,608 |
| Other cash paid relating to investing activities | | - | 191,034 |
| Sub-total of cash outflows | | 1,424,202 | 629,642 |
| Net cash flow from investing activities | | (808,971) | (537,823) |
| 3. Cash flows from financing activities: | | | |
| Proceeds from borrowings | | 3,204,820 | 6,871,000 |
| Proceeds from other financing activities | | - | 1,000 |
| Sub-total of cash inflows | | 3,204,820 | 6,872,000 |
| Dividend paid | | 360,000 | 440,000 |
| Repayment of borrowings | | 2,854,800 | 7,700,556 |
| Interest paid | | 74,399 | 107,602 |
| Other cash paid relating to financing activities | | 4,831 | 5,200 |
| Sub-total of cash outflows | | 3,294,030 | 8,253,358 |
| Net cash flow from financing activities | | (89,210) | (1,381,358) |
| Net (decrease)/increase in cash and cash equivalents | (b) | (155,837) | 193,352 |

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2001
 (Prepared in accordance with PRC Accounting Rules and Regulations)
 (Expressed in Thousand Renminbi Yuan)

Notes to the consolidated cash flow statement:

| | For the year ended 31 December | |
|---|-----------------------------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 |
| (a) Reconciliation of net profit to cash flows from operating activities | | |
| Net profit | 170,789 | 840,228 |
| Add: Provision for bad and doubtful debts or bad debts written off | (72,060) | (39,899) |
| Minority interests | 2,499 | 5,874 |
| Depreciation of fixed assets | 793,488 | 684,007 |
| Amortisation of intangible assets | 14,110 | 14,110 |
| Amortisation of long-term deferred expenses | 4,788 | 6,271 |
| Interest and investment income | (40,725) | (55,650) |
| Interest expenses | 59,224 | 103,160 |
| Loss on disposal of fixed assets | 1,236 | 75,770 |
| Decrease/(increase) in inventories | 118,679 | (110,075) |
| Decrease in operating receivables | 9,542 | 311,200 |
| (Decrease)/increase in operating payables | (319,226) | 277,537 |
| Net cash flows from operating activities | 742,344 | 2,112,533 |
| (b) Net (decrease)/increase in cash and cash equivalents | | |
| Cash at the end of the year | 270 | 241 |
| Less: Cash at the beginning of the year | (241) | (311) |
| Add: Cash equivalents at the end of the year | 444,907 | 600,773 |
| Less: Cash equivalents at the beginning of the year | (600,773) | (407,351) |
| Net (decrease)/increase in cash and cash equivalents | (155,837) | 193,352 |

Cash Flow Statement

For the year ended 31 December 2001
(Prepared in accordance with PRC Accounting Rules and Regulations)
(Expressed in Thousand Renminbi Yuan)

| | Notes to the cash flow statement | For the year ended 31 December | |
|---|--|-----------------------------------|-----------------|
| | | 2001 Rmb'000 | 2000 Rmb'000 |
| 1. Cash flows from operating activities: | | | |
| Cash received from sale of goods | | 8,359,692 | 9,702,283 |
| Refund of taxes and levies | | 9,112 | 16,236 |
| Other cash received relating to operating activities | | 195,267 | 90,601 |
| Sub-total of cash inflows | | 8,564,071 | 9,809,120 |
| Cash paid for goods | | 6,386,897 | 6,167,324 |
| Cash paid to and on behalf of employees | | 527,326 | 502,044 |
| Amounts of VAT levied | | 303,003 | 465,237 |
| Income tax paid | | 25,931 | 71,111 |
| Taxes paid other than VAT and income tax | | 379,978 | 362,393 |
| Other cash paid relating to operating activities | | 235,728 | 238,640 |
| Sub-total of cash outflows | | 7,858,863 | 7,806,749 |
| Net cash flow from operating activities | (a) | 705,208 | 2,002,371 |
| 2. Cash flows from investing activities: | | | |
| Cash received from dividends or distribution of profits | | 3,000 | 1,139 |
| Cash received from disposal of fixed assets | | 771 | - |
| Other cash received relating to investing activities | | 659,744 | 100,860 |
| Sub-total of cash inflows | | 663,515 | 101,999 |
| Cash paid for acquisition of fixed assets, construction in progress and other long-term assets | | 1,372,750 | 430,094 |
| Other cash paid relating to investing activities | | - | 214,287 |
| Sub-total of cash outflows | | 1,372,750 | 644,381 |
| Net cash flow from investing activities | | (709,235) | (542,382) |
| 3. Cash flows from financing activities: | | | |
| Proceeds from borrowings | | 3,166,000 | 6,871,000 |
| Sub-total of cash inflows | | 3,166,000 | 6,871,000 |
| Dividend paid | | 360,000 | 440,000 |
| Repayment of borrowings | | 2,846,000 | 7,610,556 |
| Interest paid | | 74,296 | 103,233 |
| Sub-total of cash outflows | | 3,280,296 | 8,153,789 |
| Net cash flow from financing activities | | (114,296) | (1,282,789) |
| Net (decrease)/increase in cash and cash equivalents | (b) | (118,323) | 177,200 |

Cash Flow Statement (Continued)

For the year ended 31 December 2001
 (Prepared in accordance with PRC Accounting Rules and Regulations)
 (Expressed in Thousand Renminbi Yuan)

Notes to the cash flow statement:

| | For the year ended 31 December | |
|---|---|----------------|
| | 2001 | 2000 |
| | Rmb'000 | Rmb'000 |
| | <hr/> | <hr/> |
| (a) Reconciliation of net profit to cash flows from operating activities | | |
| Net profit | 163,794 | 845,178 |
| Add: Provision for bad and doubtful debts or bad debts written off | (65,820) | (32,199) |
| Depreciation of fixed assets | 730,422 | 607,596 |
| Amortisation of intangible assets | 14,110 | 14,110 |
| Amortisation of long-term deferred expenses | 4,788 | 6,271 |
| Interest and investment income | (17,082) | (126,926) |
| Interest expenses | 59,121 | 98,944 |
| Loss on disposal of fixed assets | 637 | 31,250 |
| Decrease/(increase) in inventories | 77,694 | (84,381) |
| (Increase)/decrease in operating receivables | (16,077) | 325,291 |
| (Decrease)/increase in operating payables | (246,379) | 317,237 |
| | <hr/> | <hr/> |
| Net cash flows from operating activities | 705,208 | 2,002,371 |
| | <hr/> <hr/> | <hr/> <hr/> |
| (b) Net (decrease)/increase in cash and cash equivalents | | |
| Cash at the end of the year | 97 | 142 |
| Less: Cash at the beginning of the year | (142) | (88) |
| Add: Cash equivalents at the end of the year | 307,369 | 425,647 |
| Less: Cash equivalents at the beginning of the year | (425,647) | (248,501) |
| | <hr/> | <hr/> |
| Net (decrease)/increase in cash and cash equivalents | (118,323) | 177,200 |
| | <hr/> <hr/> | <hr/> <hr/> |

1. Company Information

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

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other governmental authorities of the PRC, 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 per cent of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“**CITIC**”) still holds the 18 per cent of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation. The balance of 40 per cent 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 per cent 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 per cent 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.

Notes on the Financial Statements

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

2. Significant Accounting Policies

The significant accounting policies adopted by the Company and its principal subsidiaries (the "Group") in the preparation of the financial statements conform with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance ("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 31 December 2001 and on the results of operations for the year then ended.

(a) Accounting year

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

(b) Basis of preparation

Unless specifically stated, the Group's accounts have been prepared on an accrual basis, and under the historical cost convention.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

(c) Basis of consolidation

The Group prepared the consolidated accounts according to Cai Kuai Zi [1995] No.11 "Temporary regulations on consolidated financial statement" issued by the MOF.

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

All intra-group transactions and balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated accounts.

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

2. Significant Accounting Policies (continued)

(d) Translation of foreign currencies

The Group's financial statements are prepared in Renminbi.

Transactions in foreign currencies are translated into Renminbi at the foreign exchange rates quoted by the People's Bank of China ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the foreign exchange rates quoted by the People's Bank of China ruling at that date.

Foreign currency exchange differences are dealt with in the income statement other than those eligible for capitalisation as construction in progress (refer to accounting policy m).

(e) Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments with low risk of fluctuation in value, which are readily convertible into known amounts of cash without notice. Cash and cash equivalents comprises cash balances and time deposits with an initial term of less than three months.

(f) Provision for bad debts

Bad debts expenses are accounted for based on allowance method under which bad debt expenses are estimated periodically. Trade receivables showing signs of uncollectibility are identified individually, and allowance is then made based on the probability of being uncollectible. In respect of trade receivables showing no sign of uncollectibility, allowance is made based on the ageing analysis and a reasonable portion as determined by the management with reference to their past experience. Allowances for other receivables are determined based on their specific natures and corresponding collectibility. Specific approval from the management is necessary for allowances made in respect of significant specific receivables.

Notes on the Financial Statements

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

2. Significant Accounting Policies *(continued)*

(g) Inventories

Inventories, other than spare parts and consumables, are stated 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 appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

(h) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation (refer below) and impairment losses (refer to accounting policy q). 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.

(ii) 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.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis, after taking into accounts the estimated residual value, over the estimated useful lives of items of fixed assets. The estimated useful lives are as follows:

| | |
|---------------------------------------|----------------|
| Land and buildings | 25 to 50 years |
| Plant, machinery and equipment | 8 to 22 years |
| Motor vehicles and other fixed assets | 5 to 20 years |

2. Significant Accounting Policies (continued)

(i) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (refer to accounting policy q). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds (refer to accounting policy m).

Capitalisation of these borrowing costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Intangible assets and long-term deferred expenses

(i) Intangible assets

Patent rights are stated at cost less accumulated amortisation and impairment losses (refer to accounting policy q). The cost of patent rights are amortised on a straight-line basis over the benefit period. The benefit period is the shorter of that as specified in the relevant contracts, standards or laws.

(ii) Long-term deferred expenses

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

(k) 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. Amortisation for the period is dealt with in income from investments.

(ii) Other equity investments are stated in the balance sheet using the cost method, and provision for impairment of long-term investments is provided for the foreseeable permanent impairment (refer to accounting policy q). Investment income is recognised when investee company declares cash dividend or distributes profit.

Notes on the Financial Statements

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

2. Significant Accounting Policies *(continued)*

(l) 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. 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.

(m) Financial expenses

Financial expenses comprise interest payable on borrowings, interest receivable on bank deposits, foreign exchange gains and losses, and other costs incurred in connection with borrowings.

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

All interest, foreign exchange difference and other costs incurred in connection with borrowings are expensed as incurred as part of net financial costs, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(n) Repairs and maintenance expenses

Repairs and maintenance expenses are expensed as incurred.

(o) 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 income statement as incurred.

(p) Retirement benefits

Contributions to defined contribution plans are recognised as an expense in the income statement as incurred. Further information is set out in Note 31.

2. Significant Accounting Policies (continued)

(q) Impairment

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy g) and deferred tax assets (refer to accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of the net selling price and the value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount which reduced the impairment loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

Notes on the Financial Statements

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

2. Significant Accounting Policies *(continued)*

(r) 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 and deferred tax. Income tax is recognised in the income statement.

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.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.

2. Significant Accounting Policies (continued)

(r) Taxes (continued)

(ii) Value added tax

VAT is levied at the rate of 17 per cent 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 Construction 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 construction 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 |

(s) Profit appropriation

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

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Notes on the Financial Statements

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

3. Change in Accounting Policy

Pursuant to the documents "Cai Qi [2000] No. 295" and Cai Kuai [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 above change in accounting policy had the following impact to 2001 and 2000:

| | The Group | | The Company | |
|---|------------------|-----------------|------------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 | 2001 Rmb'000 | 2000 Rmb'000 |
| Undistributed profits at the beginning of the year as previously reported | 450,952 | 144,994 | 466,621 | 155,713 |
| Housing revolving fund | (110,000) | (110,000) | (110,000) | (110,000) |
| Restated balance | 340,952 | 34,994 | 356,621 | 45,713 |

4. Cash at Bank and in Hand

| | The Group | | | At 31 December 2000 Renminbi equivalent Rmb'000 |
|--|------------------------------|---|-----------------------------------|--|
| | Original currency '000 | At 31 December 2001 Exchange rate | Renminbi equivalent Rmb'000 | |
| <i>Cash in hand</i> | | | | |
| Renminbi | | | 270 | 241 |
| <i>Cash at bank</i> | | | | |
| Renminbi | | | 438,566 | 804,591 |
| Hong Kong Dollars | 842 | 1.06 | 893 | 1,568 |
| US Dollars | 3,206 | 8.28 | 26,538 | 411,984 |
| Deutsche Mark | - | - | - | 1,060 |
| <i>Cash at bank and in hand</i> | | | 466,267 | 1,219,444 |
| <i>Deposits with related companies</i> | | | | |
| Renminbi | | | 767,504 | 740,387 |
| | | | 1,233,771 | 1,959,831 |

4. Cash at Bank and in Hand (continued)

| | The Company | | | At |
|--|--------------------|-----------------|-------------------|-------------|
| | At | | | 31 December |
| | 31 December | | | 2000 |
| | 2001 | | | Renminbi |
| | Original | Exchange | Renminbi | equivalent |
| | currency | rate | equivalent | Rmb'000 |
| | '000 | | Rmb'000 | |
| <i>Cash in hand</i> | | | | |
| Renminbi | | | 97 | 142 |
| <i>Cash at bank</i> | | | | |
| Renminbi | | | 280,076 | 618,110 |
| Hong Kong Dollars | 136 | 1.06 | 144 | 142 |
| US Dollars | 2,909 | 8.28 | 24,078 | 405,271 |
| <i>Cash at bank and in hand</i> | | | 304,395 | 1,023,665 |
| <i>Deposits with related companies</i> | | | | |
| Renminbi | | | 720,021 | 724,442 |
| | | | 1,024,416 | 1,748,107 |

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.

5. Bills Receivable

At 31 December 2001, 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.

Notes on the Financial Statements

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

6. Trade Receivables

| | The Group | | | | The Company | | | |
|---|---------------------------|------------|---------------------------|-----|---------------------------|------------|---------------------------|-----|
| | At 31 December 2001 | | At 31 December 2000 | | At 31 December 2001 | | At 31 December 2000 | |
| | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % |
| Trade receivables | | | | | | | | |
| Within one year | 87,006 | 80 | 79,124 | 78 | 31,817 | 71 | 24,816 | 65 |
| Between one to two years | 6,310 | 6 | 4,206 | 4 | 4,700 | 10 | 3,109 | 8 |
| Between two to three years | 2,624 | 2 | 3,433 | 4 | 2,589 | 6 | 2,845 | 8 |
| Over three years | 13,026 | 12 | 14,511 | 14 | 5,805 | 13 | 7,196 | 19 |
| | 108,966 | 100 | 101,274 | 100 | 44,911 | 100 | 37,966 | 100 |
| Less: Provision for bad and doubtful debts | | | | | | | | |
| Within one year | - | - | - | - | - | - | - | - |
| Between one to two years | (1,963) | 31 | (1,638) | 39 | (1,764) | 38 | (1,554) | 50 |
| Between two to three years | (1,574) | 60 | (3,433) | 100 | (1,553) | 60 | (2,845) | 100 |
| Over three years | (13,026) | 100 | (14,511) | 100 | (5,805) | 100 | (7,196) | 100 |
| | (16,563) | 15 | (19,582) | 19 | (9,122) | 20 | (11,595) | 31 |
| Trade receivables, net | 92,403 | | 81,692 | | 35,789 | | 26,371 | |

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

6. Trade Receivables (continued)

The Group's five largest trade receivables at 31 December 2001 are shown below:

| Name of entity | Period of original debts | Particulars | Amount | Percentage of trade receivables |
|--|--------------------------|----------------|---------|---------------------------------|
| | | | Rmb'000 | % |
| Yangzhou Thermo Power Company Limited | 2001 | Sales of goods | 11,202 | 12% |
| Hangzhou Wahaha Health Care Food Company Limited | 2001 | Sales of goods | 3,630 | 4% |
| Yu Shan Enterprise Company Limited | 2001 | Sales of goods | 2,817 | 3% |
| Dinghu Yongsheng Chemical Fibre Company | 2001 | Sales of goods | 1,483 | 2% |
| Xiaoshan Rongsheng Textile Company Limited | 2001 | Sales of goods | 1,221 | 1% |

7. Other Receivables

| | The Group | | | | The Company | | | |
|----------------------------|---------------------|------------|---------------------|------------|---------------------|------------|---------------------|------------|
| | At 31 December 2001 | | At 31 December 2000 | | At 31 December 2001 | | At 31 December 2000 | |
| | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % |
| Other receivables | | | | | | | | |
| Within one year | 45,846 | 47 | 103,072 | 33 | 65,889 | 14 | 218,647 | 34 |
| Between one to two years | 16,002 | 17 | 36,141 | 11 | 136,258 | 30 | 228,342 | 35 |
| Between two to three years | 336 | - | 6,096 | 2 | 194,143 | 42 | 6,096 | 1 |
| Over three years | 34,699 | 36 | 170,929 | 54 | 64,578 | 14 | 197,835 | 30 |
| | 96,883 | 100 | 316,238 | 100 | 460,868 | 100 | 650,920 | 100 |

Notes on the Financial Statements

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

7. Other Receivables *(continued)*

| | The Group | | | | The Company | | | |
|---|-----------------|-----------|------------------|-----------|-----------------|----------|-----------------|-----------|
| | At | | At | | At | | At | |
| | 31 December | | 31 December | | 31 December | | 31 December | |
| | 2001 | | 2000 | | 2001 | | 2000 | |
| | Provision | | Provision | | Provision | | Provision | |
| | rate | | rate | | rate | | rate | |
| | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % | Rmb'000 | % |
| Less: Provision for bad and doubtful debts | | | | | | | | |
| Within one year | - | - | (6,423) | 6 | - | - | (3,343) | 2 |
| Between one and two years | (2,868) | 18 | (300) | 1 | (2,868) | 2 | (300) | - |
| Between two and three years | (330) | 98 | (6,096) | 100 | (330) | - | (6,096) | 100 |
| Over three years | (32,216) | 93 | (95,098) | 56 | (14,681) | 23 | (74,789) | 38 |
| | <u>(35,414)</u> | <u>37</u> | <u>(107,917)</u> | <u>34</u> | <u>(17,879)</u> | <u>4</u> | <u>(84,528)</u> | <u>13</u> |
| Other receivables, net | <u>61,469</u> | | <u>208,321</u> | | <u>442,989</u> | | <u>566,392</u> | |

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

The Group's five largest other receivables at 31 December 2001 are shown below:

| Name of entity | Period of original debts | Particulars | Amount Rmb'000 | Percentage of trade receivables % |
|--|--------------------------|---------------------|-------------------|--------------------------------------|
| Bank of Communications, Nanjing Branch | 2001 | Interest receivable | 10,863 | 18% |
| Sinopec Finance | 2001 | Interest receivable | 4,257 | 7% |
| Guangzhou Hexingwang Logistic Company Limited | 2001 | Other receivable | 3,500 | 6% |
| Xinhua Life Insurance Company | 2001 | Other receivable | 3,400 | 6% |
| People's Insurance Company of China | 2001 | Other receivable | 2,700 | 4% |

8. Advance Payments

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

All advance payments will be due within a year.

9. Inventories

| | The Group | | The Company | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| At cost | | | | |
| Raw materials | 537,707 | 627,230 | 447,894 | 503,016 |
| Work in progress | 52,649 | 87,998 | 49,509 | 83,803 |
| Finished goods | 216,642 | 240,345 | 125,890 | 138,409 |
| Goods in transit | 323 | 554 | 323 | 554 |
| Spare parts and consumables | 234,986 | 203,641 | 209,367 | 183,677 |
| | 1,042,307 | 1,159,768 | 832,983 | 909,459 |
| Less: Provision for diminution in value of inventories | | | | |
| Raw materials | (1,800) | (1,800) | - | - |
| Finished goods | (12,600) | (600) | (12,000) | - |
| Spare parts and consumables | (29,743) | (40,525) | (29,743) | (40,525) |
| | (44,143) | (42,925) | (41,743) | (40,525) |
| | 998,164 | 1,116,843 | 791,240 | 868,934 |

Notes on the Financial Statements

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

9. Inventories (continued)

Analysis on provision for diminution in value of inventories is as follows:

| | The Group | | | The Company | |
|----------------------------|---------------|----------------|-----------------------------|----------------|-----------------------------|
| | Raw materials | Finished goods | Spare parts and consumables | Finished goods | Spare parts and consumables |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| At 1 January 2001 | 1,800 | 600 | 40,525 | - | 40,525 |
| Additions | - | 12,000 | - | 12,000 | - |
| Provisions written off | - | - | (10,782) | - | (10,782) |
| At 31 December 2001 | 1,800 | 12,600 | 29,743 | 12,000 | 29,743 |

10. Long-term Equity Investments

| | Equity-investment difference | The Group Other unlisted equity investment | Total |
|----------------------------|------------------------------|--|---------------|
| | Rmb'000 Note (b) | Rmb'000 Note (c) | Rmb'000 |
| At 1 January 2001 | (35,427) | 62,500 | 27,073 |
| Amortisation | 3,043 | - | 3,043 |
| At 31 December 2001 | (32,384) | 62,500 | 30,116 |

10. Long-term Equity Investments (continued)

| | The Company | | | Total <i>Rmb'000</i> |
|--|--|--|--|-------------------------|
| | Consolidated equity in subsidiaries <i>Rmb'000</i> <i>Note (a)</i> | Equity- investment difference <i>Rmb'000</i> <i>Note (b)</i> | Other unlisted equity investment <i>Rmb'000</i> <i>Note (c)</i> | |
| At 1 January 2001 | (77,854) | (35,427) | 62,500 | (50,781) |
| Share of profits less losses from investments accounted for under the equity method | (36,791) | – | – | (36,791) |
| Amortisation | – | 3,043 | – | 3,043 |
| At 31 December 2001 | (114,645) | (32,384) | 62,500 | (84,529) |

- (a) The following list contains only the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

| Name of company | Registered capital <i>in thousands</i> | Percentage of equity held | | Type of legal entity | Principal activity |
|--|--|---------------------------------|----------------------------|------------------------------|--|
| | | directly by the Company % | held by subsidiary % | | |
| Foshan Chemical Fibre Complex | Rmb32,933 | 100 | – | Wholly-owned legal person | Management and administration |
| Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester") | USD85,427 | 59 | 41 | Limited company | Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after- sales services |
| Yihua Kangqi Chemical Fibre Company Limited | Rmb60,000 | 95 | 5 | Limited company | Investment holding and trading |

All of the above principal subsidiaries are established and operated in the PRC.

Notes on the Financial Statements

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

10. Long-term Equity Investments *(continued)*

(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 11 years.

(c) Other equity investment

At 31 December 2001, 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 | <u>62,500</u> | 3.3% | <u>-</u> |

(d) The amount due from subsidiaries of Rmb800 million (2000: Rmb800 million) is expected to be recovered after more than one year.

11. Fixed Assets

| | The Group | | | Total <i>Rmb'000</i> |
|---|---|---|--|--------------------------|
| | Land and buildings <i>Rmb'000</i> | Plant, machinery and equipment <i>Rmb'000</i> | Motor vehicles and other fixed assets <i>Rmb'000</i> | |
| Cost: | | | | |
| At 1 January 2001 | 2,208,822 | 8,875,383 | 549,489 | 11,633,694 |
| Additions | 218,491 | 5,001 | 3,766 | 227,258 |
| Transfer from construction in progress (Note 12) | 75,209 | 518,814 | 27,939 | 621,962 |
| Disposals | - | (2,904) | (1,736) | (4,640) |
| Reclassifications | (2,389) | 3,672 | (1,283) | - |
| At 31 December 2001 | <u>2,500,133</u> | <u>9,399,966</u> | <u>578,175</u> | <u>12,478,274</u> |
| Accumulated depreciation: | | | | |
| At 1 January 2001 | 461,038 | 3,424,607 | 264,038 | 4,149,683 |
| Charge for the year | 73,555 | 668,940 | 50,993 | 793,488 |
| Written back on disposal | - | (1,533) | (1,091) | (2,624) |
| Reclassifications | (1,580) | 1,878 | (298) | - |
| At 31 December 2001 | <u>533,013</u> | <u>4,093,892</u> | <u>313,642</u> | <u>4,940,547</u> |
| Net book value: | | | | |
| At 31 December 2001 | <u>1,967,120</u> | <u>5,306,074</u> | <u>264,533</u> | <u>7,537,727</u> |
| At 31 December 2000 | 1,747,784 | 5,450,776 | 285,451 | 7,484,011 |

Notes on the Financial Statements

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

11. Fixed Assets (continued)

| | The Company | | | |
|---|-------------------------------|---|--|-------------------|
| | Land and buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
| | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> | <i>Rmb'000</i> |
| Cost: | | | | |
| At 1 January 2001 | 1,895,450 | 8,169,039 | 521,984 | 10,586,473 |
| Additions | 216,000 | 2,924 | 1,689 | 220,613 |
| Transfer from construction in progress (Note 12) | 75,209 | 514,828 | 27,939 | 617,976 |
| Disposals | - | (2,837) | (651) | (3,488) |
| Reclassifications | (2,333) | 3,616 | (1,283) | - |
| At 31 December 2001 | 2,184,326 | 8,687,570 | 549,678 | 11,421,574 |
| Accumulated depreciation: | | | | |
| At 1 January 2001 | 418,894 | 3,176,690 | 251,859 | 3,847,443 |
| Charge for the year | 65,198 | 617,843 | 47,381 | 730,422 |
| Written back on disposal | - | (1,475) | (605) | (2,080) |
| Reclassifications | (1,578) | 1,876 | (298) | - |
| At 31 December 2001 | 482,514 | 3,794,934 | 298,337 | 4,575,785 |
| Net book value: | | | | |
| At 31 December 2001 | 1,701,812 | 4,892,636 | 251,341 | 6,845,789 |
| At 31 December 2000 | 1,476,556 | 4,992,349 | 270,125 | 6,739,030 |

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

12. Construction in Progress

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

The projects not yet commissioned at 31 December 2001 and their respective expected dates of completion are as follows:

| Project | Year commenced | Expected date of completion | Budgeted amount <i>Rmb'000</i> | Balance At 1 January 2001 <i>Rmb'000</i> | Additions <i>Rmb'000</i> | Transferred out <i>Rmb'000</i> <i>(Note 11)</i> | Balance at 31 December 2001 <i>Rmb'000</i> | Source of fund | Percentage of completion | Interest capitalised for the year <i>Rmb'000</i> |
|--|----------------|-----------------------------|-----------------------------------|---|-----------------------------|---|---|-----------------------------|--------------------------|---|
| Phase 4 project | 2000 | 2003 | 2,055,035 | 7,277 | 198,430 | - | 205,707 | Bank loans/ surplus fund | 10% | 11,897 |
| Improvements to existing plants | 2001 | 2002 | 792,857 | 63,258 | 610,312 | (599,570) | 74,000 | Bank loans/ surplus fund | 9% | 1,783 |
| Other construction projects | 2001 | 2002 | 11,154 | 5,545 | 13,707 | (18,406) | 846 | Bank loans/ surplus fund | 8% | - |
| Total for the Company | | | | 76,080 | 822,449 | (617,976) | 280,553 | | | |
| Miscellaneous projects of the subsidiary | 2001 | 2002 | | 2,299 | 44,807 | (3,986) | 43,120 | Bank loans/ surplus fund | | |
| Total for the Group | | | | 78,379 | 867,256 | (621,962) | 323,673 | | | |

Notes on the Financial Statements

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

13. Construction Materials

| | The Group and The Company | |
|------------------------------|--|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Equipment and accessories | 424,740 | 79,986 |
| Other construction materials | 2,735 | 1,471 |
| | 427,475 | 81,457 |

14. Intangible Assets

| | The Group and The Company | |
|---------------------------------|--|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Cost of patent rights: | | |
| At 1 January and at 31 December | 141,097 | 141,097 |
| Amortisation: | | |
| At 1 January | 71,683 | 57,573 |
| Charge for the year | 14,110 | 14,110 |
| At 31 December | 85,793 | 71,683 |
| Net balance at 31 December | 55,304 | 69,414 |

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 5 years and 7 years respectively.

15. Taxation

(a) Income tax in the income statement

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, one of the subsidiaries is entitled to a tax holiday of tax-free period for the first two years and 50% reduction in income tax liability for the following three years for being a sino-foreign investment enterprise. No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.

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

| | The Group | | The Company | |
|------------------------------|---------------|---------|---------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| City construction tax | 18,878 | 26,097 | 18,878 | 25,165 |
| Education fee and surcharges | 10,789 | 14,383 | 10,789 | 14,383 |
| Others | 826 | 844 | - | - |
| | 30,493 | 41,324 | 29,667 | 39,548 |

Notes on the Financial Statements

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

15. Taxation (continued)

(c) Taxes payable in the balance sheets represent:

| | The Group | | The Company | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Provision for PRC income tax for the year | 40,087 | 139,391 | 37,275 | 135,154 |
| Provisional PRC income tax paid | (27,138) | (72,250) | (25,931) | (71,110) |
| | 12,949 | 67,141 | 11,344 | 64,044 |
| Balance of PRC income tax provision relating to prior years | 135,229 | 71,185 | 135,229 | 71,185 |
| Income tax payable | 148,178 | 138,326 | 146,573 | 135,229 |
| Business tax payable and surcharges | 143 | 380 | 143 | 226 |
| VAT payable | 93,899 | 137,870 | 110,719 | 126,322 |
| Other taxes payable | 14,176 | 15,742 | 11,910 | 13,446 |
| Taxes payable | 256,396 | 292,318 | 269,345 | 275,223 |

(d) Deferred taxation

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

16. Dividend

| | The Group and The Company For the year ended 31 December | |
|---|---|---------|
| | 2001 | 2000 |
| | Rmb'000 | Rmb'000 |
| Final dividend proposed of Rmb2 cents per share (2000: Rmb9 cents per share) | 80,000 | 360,000 |

17. Short-term and Long-term Loans

- (a) Bank loans of the Group and of the Company as at 31 December 2001 were repayable as follows:

| | The Group | | The Company | |
|--|--|--------------------------------------|--|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Short-term bank loans | 580,020 | 80,000 | 550,000 | 80,000 |
| Current portion of long-term bank loans | 150,000 | 350,000 | 150,000 | 350,000 |
| | 730,020 | 430,000 | 700,000 | 430,000 |
| After 1 year but within 2 years | 300,000 | 150,000 | 300,000 | 150,000 |
| After 2 years but within 3 years | 200,000 | 300,000 | 200,000 | 300,000 |
| | 500,000 | 450,000 | 500,000 | 450,000 |
| | 1,230,020 | 880,000 | 1,200,000 | 880,000 |

Notes on the Financial Statements

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

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 | |
|---|-------------|---------------|---------------|--------------------------------|--------------------------------|
| | | | | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Industrial and Commercial Bank of China | Due in 2001 | 5.94% | Floating | - | 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 | 100,000 |
| Industrial and Commercial Bank of China | Due in 2003 | 5.94% | Floating | 250,000 | 250,000 |
| Bank of China | Due in 2003 | 5.94% | Floating | 50,000 | 50,000 |
| Industrial and Commercial Bank of China | Due in 2004 | 5.94% | Fixed | 150,000 | - |
| Construction Bank | Due in 2004 | 5.35% | Floating | 50,000 | - |
| Long-term bank loans | | | | 650,000 | 800,000 |
| Less: Current portion of long-term bank loans | | | | 150,000 | 350,000 |
| Long-term portion of long-term bank loans | | | | 500,000 | 450,000 |

- (c) At 31 December 2001, CPC gave guarantees to banks in respect of long-term loans to the Company amounted to Rmb50,000,000 (2000: Rmb350,000,000). Short-term loans of the Group were unsecured and without guarantees.

18. Bills Payable, Trade Payables, Receipts in Advance and Other Creditors

There is no material payable aged over three years in trade payables, receipts in advance and other payables.

Bills payable primarily represented the bank accepted bills for material, goods and product purchasing. The repayment term is generally from three to six months.

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

The ageing analysis of trade payables, bills payable and receipts in advance is as follows:

| | The Group | | The Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 | 2001 Rmb'000 | 2000 Rmb'000 |
| Due within one month or on demand | 309,687 | 596,324 | 256,657 | 477,587 |
| Due after one month but within six months | 69,796 | 43,167 | 44,796 | 43,167 |
| | 379,483 | 639,491 | 301,453 | 520,754 |

19. Accrued Expenses

| | The Group | | The Company | |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Accrued repairs and maintenance expenses | - | 15,000 | - | 15,000 |
| Accrued interest | 1,155 | - | 1,155 | - |
| Accrued transportation charges | - | 48 | - | - |
| | 1,155 | 15,048 | 1,155 | 15,000 |

Notes on the Financial Statements

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

20. Share Capital

| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
|--|--|--------------------------------------|
| Registered, issued and paid up capital: | | |
| 2,400,000,000 Legal person "A" shares of Rmb1 each | 2,400,000 | 2,400,000 |
| 200,000,000 Social public "A" shares of Rmb1 each | 200,000 | 200,000 |
| 1,400,000,000 "H" shares of Rmb1 each | 1,400,000 | 1,400,000 |
| | 4,000,000 | 4,000,000 |

All the legal person "A", social public "A" and "H" shares rank pari passu in all material respects.

21. Capital Reserve

Capital reserve represents share premium.

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 2000 | 339,255 | 183,230 | 594,547 | 1,117,032 |
| Transfer from retained profits | 90,034 | 84,236 | - | 174,270 |
| At 31 December 2000 | 429,289 | 267,466 | 594,547 | 1,291,302 |
| At 1 January 2001 | 429,289 | 267,466 | 594,547 | 1,291,302 |
| Transfer from retained profits | 21,937 | 20,998 | - | 42,935 |
| At 31 December 2001 | 451,226 | 288,464 | 594,547 | 1,334,237 |

22. Surplus Reserves *(continued)*

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.

23. Income from Principal Operations

For the year ended 31 December 2001, revenue from sales to top five customers are Rmb1,839,702,000 which accounts for 24% of income from principal operations of the Group.

24. Administrative Expenses

The decrease in administrative expenses was mainly due to the tightened control on expenses during the year.

25. Financial Expenses

| | The Group | | The Company | |
|-------------------------------------|--------------------------------|----------|-----------------|----------|
| | For the year ended 31 December | | | |
| | 2001 | 2000 | 2001 | 2000 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Interest expenses incurred | 75,554 | 104,160 | 75,451 | 99,944 |
| Less: Capitalised interest expenses | (16,330) | (1,000) | (16,330) | (1,000) |
| Interest expenses | 59,224 | 103,160 | 59,121 | 98,944 |
| Interest income | (34,682) | (51,468) | (47,830) | (61,944) |
| Exchange (gain)/loss | (355) | 1,918 | (142) | 1,643 |
| Others | 4,637 | 3,280 | 4,300 | 2,422 |
| | 28,824 | 56,890 | 15,449 | 41,065 |

Notes on the Financial Statements

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

26. Investment Income

| | The Group | | The Company | |
|--|--------------------------------|--------------|-----------------|---------------|
| | For the year ended 31 December | | | |
| | 2001 | 2000 | 2001 | 2000 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| (Loss)/profit on investments in subsidiaries using the equity method | - | - | (36,791) | 60,800 |
| Amortisation of long-term equity investment difference | 3,043 | 3,043 | 3,043 | 3,043 |
| Dividend from other equity investment | 3,000 | 1,139 | 3,000 | 1,139 |
| | 6,043 | 4,182 | (30,748) | 64,982 |

27. Non-operating Expenses

| | The Group | | The Company | |
|----------------------------------|--------------------------------|----------------|---------------|---------------|
| | For the year ended 31 December | | | |
| | 2001 | 2000 | 2001 | 2000 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Loss on disposal of fixed assets | 1,236 | 75,770 | 637 | 31,250 |
| Employee reduction expenses | 87,800 | - | 34,150 | - |
| Others | 8,414 | 35,946 | 8,305 | 15,685 |
| | 97,450 | 111,716 | 43,092 | 46,935 |

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb87,800,000 (2000: Rmb Nil) during the year ended 31 December 2001 in respect of voluntary resignation of approximately 1,170 employees.

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, PRC | 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, PRC | 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 |

Notes on the Financial Statements

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

28. Related Party Transactions (continued)

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

Registered capital and their movements of the above related parties:

| Name of company | At the beginning of the year Rmb'000 | Increase during the year Rmb'000 | Decrease during the year Rmb'000 | At the end of the year Rmb'000 |
|-----------------|---|-------------------------------------|-------------------------------------|-----------------------------------|
| CPC | 104,912,000 | - | - | 104,912,000 |
| Sinopec | 83,902,439 | 2,800,000 | - | 86,702,439 |
| 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 the beginning of the year | | Increase in number of shares held | | Decrease in number of shares held | | Number of shares held at the end of the year | |
|-----------------|--|----|-----------------------------------|---|-----------------------------------|---|--|----|
| | '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

Sinopec Yangzi Petrochemical Company Limited ("Yangzi")

Sinopec Finance

CITIC Industrial Bank

Nanjing Chemical Industrial Group ("Nanhua")

Sinopec Maoming Petrochemical Corporation ("Maoming")

28. Related Party Transactions (continued)

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

Yangzi

| | For the year ended 31 December | |
|----------------------------|---|-----------|
| | 2001 | 2000 |
| | Rmb'000 | Rmb'000 |
| Purchases of raw materials | 2,028,719 | 2,478,374 |

Yihua and its subsidiaries ("Yihua Group")

| | For the year ended 31 December | |
|---|---|-----------|
| | 2001 | 2000 |
| | Rmb'000 | Rmb'000 |
| Sales | 1,070,203 | 1,079,045 |
| Purchases | 103,945 | 91,193 |
| Miscellaneous service fee charges (see note (i) below) | 118,360 | 132,280 |
| Miscellaneous service fee income (see note (i) below) | 27,597 | 29,190 |
| Trademark licence fee (see note (i) below) | 10,000 | 10,000 |
| Purchase of land and buildings (see note (ii) below) | 216,000 | – |
| Payments to the engineering company of Yihua relating to the construction and maintenance work carried out on behalf of the Company | 79,199 | 53,305 |

Notes:

- (i) 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.
- (ii) On 21 December 2001, the Company acquired land and buildings in the PRC from Yihua at a consideration of Rmb216,000,000. The acquisition was announced by way of a press announcement by the Company on 24 December 2001.

Notes on the Financial Statements

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

28. Related Party Transactions *(continued)*

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

Sinopec and its subsidiaries, excluding Yangzi

| | For the year ended 31 December | |
|--|-----------------------------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 |
| Purchases of equipment | - | 3,142 |
| Purchases of raw materials | 111,884 | 124,526 |
| Subsidy received in respect of technological research and development | 12,080 | 10,650 |

CPC, Nanhua and Maoming

| | For the year ended 31 December | |
|---------------------------|-----------------------------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 |
| Purchase of equipment | 6,659 | 17,518 |
| Purchase of raw materials | 24,161 | 34,885 |
| Insurance premium paid | 13,507 | 21,485 |

Sinopec Finance

| | For the year ended 31 December | |
|-----------------|-----------------------------------|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 |
| Interest income | 13,732 | 15,415 |

28. Related Party Transactions (continued)

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

CITIC Industrial Bank

| | For the year ended 31 December | |
|-----------------|---|-----------------|
| | 2001 Rmb'000 | 2000 Rmb'000 |
| Interest income | 374 | 275 |

The Directors of the Company are of the opinion that the above transactions with related parties 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 31 December 2001, CPC gave guarantees to banks in respect of bank loans to the Company amounted to Rmb50,000,000 (2000: Rmb350,000,000).

- (e) **Deposits with Sinopec Finance**

| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
|--|--|--------------------------------------|
| | Cash at bank and in hand | 715,728 |

- (f) **Deposits with CITIC Industrial Bank**

| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
|--|--|--------------------------------------|
| | Cash at bank and in hand | 51,776 |

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

28. Related Party Transactions *(continued)*

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

| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
|---------------------|--|--------------------------------------|
| Trade receivables | 7,139 | 2,830 |
| Bills receivable | 35,912 | 34,380 |
| Other receivables | 53 | 127,047 |
| Trade payables | (8,379) | (5,154) |
| Receipts in advance | (6,800) | (26,359) |
| Other creditors | (57,160) | (355) |
| | (29,235) | 132,389 |

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

| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
|-------------------|--|--------------------------------------|
| Other receivables | 8,257 | 9,161 |
| Trade payables | (38,795) | (80,093) |
| Other creditors | (36,690) | (27,231) |
| | (67,228) | (98,163) |

29. Contingent Liabilities

At 31 December 2001, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans to certain wholly owned subsidiaries totalled Rmb30,020,000 (2000: Nil).

30. Capital Commitments

At 31 December 2001, the Group and the Company had capital commitments as follows:

| | The Group | | The Company | |
|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 | At 31 December 2001 Rmb'000 | At 31 December 2000 Rmb'000 |
| Authorised and contracted for | 690,890 | 510,493 | 665,652 | 510,493 |
| Authorised but not contracted for | 1,416,623 | 2,036,123 | 1,393,669 | 2,036,123 |
| | 2,107,513 | 2,546,616 | 2,059,321 | 2,546,616 |

These capital commitments are for construction of PTA production plant and improvement to existing plants.

31. 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, Foshan Polyester, are as follows:

| Administrator | Beneficiary | Contribution rate | |
|---|-------------------------------|-------------------|-----------------|
| | | 2001 Rmb'000 | 2000 Rmb'000 |
| 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.

Notes on the Financial Statements

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

31. Retirement Benefits *(continued)*

Other than the above, pursuant to a document "Lao Bu Fa [1995] No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by 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 rate for 2001 was 9 per cent (2000: 9 per cent).

32. Post Balance Sheet Events

There was no material post balance sheet events for the Group after the balance sheet date at 31 December 2001.

33. Comparative Information

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