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Important Note: The Board of Directors of Sinopec Yizheng Chemical Fibre Company Limited and each director believe that there are no material omissions from, or misrepresentations or misleading statements contained in this interim report and collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report. The interim financial reports contained therein are unaudited.

The Board of Directors (“the Board”) of Sinopec Yizheng Chemical Fibre Company Limited (“the Company”) hereby presents the interim result of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2002. The interim financial reports are unaudited.

1. COMPANY PROFILE

1. Legal name: Sinopec Yizheng Chemical Fibre Company Limited
中國石化儀征化纖股份有限公司
Abbreviation: SYCF
儀征化纖
2. Legal representative: Mr. Fu Xing-tang
3. Registered and office address: Yizheng City, Jiangsu Province
the People’s Republic of China (“PRC”)
 - Postal code: 211900
 - Telephone: 86-514-3232235
 - Fax: 86-514-3233880
 - Internet website: <http://www.ycfc.com>
 - E-mail address: cs0@ycfc.com
4. Company Secretary: Mr. Tom C.Y. Wu
Assistant Company Secretary: Ms. Shi Min
Contact: Company Secretary Office
Sinopec Yizheng Chemical Fibre Company Limited
Yizheng City, Jiangsu Province, PRC
 - Telephone: 86-514-3231888
 - Fax: 86-514-3235880
 - E-mail address: cs0@ycfc.com
5. Newspapers disclosing information: China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times, South China Morning Post (English)
 - Internet website designated by the China Securities Regulatory Commission (“CSRC”) to publish the interim report: <http://www.sse.com.cn>
 - Place where the interim report is available for inspection: Company Secretary Office
Sinopec Yizheng Chemical Fibre Company Limited

6. Places of listing, names and codes of the stock:

H share

- The Stock Exchange of Hong Kong Limited ("HKSE")
- Stock name: Yizheng Chemical
- Stock code: 1033

A share

- Shanghai Stock Exchange
- Stock name: Yizheng Chemical
- Stock code: 600871

2. FINANCIAL SUMMARY**Principal financial data and financial indicators of the Group:**

Extracted from the interim financial report prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting
(Consolidated and unaudited)

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Turnover	3,687,456	3,910,340
Profit from ordinary activities before taxation	69,771	150,424
Income tax expense	9,076	26,972
Profit attributable to shareholders	56,284	121,186
Basic earnings per share	Rmb0.014	Rmb0.030

Extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations

(Consolidated and unaudited)

	For the six months ended 30 June	
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Net profit	54,040	121,186
Net profit before non-operating loss	54,040	121,186
Earnings per share (weighted average and fully diluted)	Rmb0.014	Rmb0.030
Return on net assets (fully diluted)	0.61%	1.37%
Return on net assets (weighted average)	0.61%	1.38%
Return on net assets before non-operating loss (weighted average)	0.61%	1.38%
Net cash inflow from operating activities per share	Rmb0.186	Rmb0.066
	At	At
	30 June	31 December
	2002	2001
	Rmb'000	<i>Rmb'000</i>
Shareholders' funds (excluding minority interests)	8,855,908	8,801,868
Net assets per share	Rmb2.214	Rmb2.200
Adjusted net assets per share	Rmb2.212	Rmb2.198

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

A. Changes in share capital

During the report period, there was no change in the total number of shares or the shareholding structure of the Company.

B. Shareholdings of major shareholders

- At 30 June 2002, there were 96,418 shareholders in the Company, including 94,739 shareholders holding domestic circulating A shares, 2 shareholders holding legal person A shares and 1,677 shareholders holding H shares.
- At 30 June 2002, the shareholdings of the top ten major shareholders of the Company were as follows:

Name of shareholders	Classification	Number of shares held (‘000 shares)	Percentage to total share capital (%)	Increase/ (decrease) of number of shares during the report period* (‘000 shares)
China Petroleum & Chemical Corporation (“Sinopec”)	Legal person share, A share	1,680,000	42.00	0
HKSCC (Nominees) Limited	Circulating H share	1,346,167	33.65	5,067
China International Trust and Investment Corporation (“CITIC”)**	State-owned legal person share, A share	720,000	18.00	0
Kaiyuan Fund	Circulating A share	2,796	0.070	–
Changcheng Security	Circulating A share	2,454	0.061	–
HSBC Nominees (Hong Kong) Limited A/C BR-13	Circulating H share	1,800	0.045	–
Buohai Security	Circulating A share	1,757	0.044	–

Name of shareholders	Classification	Number of shares held ('000 shares)	Percentage to total share capital (%)	Increase/ (decrease) of number of shares during the report period* ('000 shares)
Xinghe fund	Circulating A share	1,416	0.035	–
HSBC Nominees (Hong Kong) Limited A/C BR-12	Circulating H share	1,200	0.030	–
HSBC Nominees (Hong Kong) Limited A/C BR-16	Circulating H share	1,200	0.030	–

* Increase/(decrease) in number of shares during the report period represents the increase/(decrease) in number of shares held by shareholders whose shares accounted for more than 5 per cent of the Company's shares.

** Shares held on behalf of the State.

The Company is not aware of any existence of associated relationship among the top ten major shareholders.

- The shares held separately by Sinopec and CITIC have not been pledged, frozen or held in trust during the report period.
- During the report period, there was no change in the controlling shareholder or the controlling company.

C. Purchase, sale or redemption of the Company's listed securities

During the report period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

A. Changes in Directors, Supervisors and Senior Management

Mr. Guan Diao-sheng was approved as a member of the third term of the Board of the Company at the 2001 Annual General Meeting of the Company ("2001 AGM") held on 28 June 2002.

B. Directors', Supervisors' and Senior Management's interests in Shares

Details of A shares of the Company held by the Directors, Supervisors of the third term and Senior Management as at 30 June 2002, which are subject to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") of Hong Kong, and under the PRC laws and regulations, are set out below:

(A) Directors

Name	Number of A shares held for personal interests
Fu Xing-tang	0
Sun Zhi-hong	0
Qian Heng-ge	2,000
Xu Zheng-ning	2,600
Guan Diao-sheng	0
Xiao Wei-zhen	0
Yao Han-chong	0
Wang Wen-jie	0
Long Xing-ping	0
Ye Zong-shan	0
Zhao Shu-ming*	0
Chu Su-hua*	0

* Independent Director

(B) Supervisors

Name	Number of A shares held for personal interests
Huang Gui-geng	2,300
Zhou Wen-fei	0
Chen Jian	0
Li Feng-ming**	0
Huang Zhi-wei**	0

** Independent Supervisor

(C) Senior Management

Name	Number of A shares held for personal interests
Ling Ai-bao	2,600
Shen Xi-jun	0
Li Ren-yan	0
Zhou Xin-hua	0
Tom C. Y. Wu	0

There was no change in the number of the Company's shares held by the Directors, Supervisors of the third term and Senior Management during the report period.

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, whether beneficial or non-beneficial, in the issued share capital of the Company, or other associated corporations (within the meaning of the SDI Ordinance) during the report period.

C. Directors', Supervisors' and Senior Management's rights to acquire shares and debentures

At no time during the report period was the Company, any of its parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors, Supervisors or Senior Management of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

5. BUSINESS REVIEW AND PROSPECTS

The following financial data, where applicable, are extracted from the Group's unaudited interim financial report prepared in accordance with IAS 34 Interim Financial Reporting.

Interim results

For the six months ended 30 June 2002, the Group reported a consolidated turnover of Rmb3,687,456,000, which represented a decrease of 5.7 per cent as compared with that of Rmb3,910,340,000 for the corresponding period of last year. Consolidated profit attributable to shareholders decreased by 53.6 per cent to Rmb56,284,000 as compared with that of Rmb121,186,000 for the corresponding period of last year, and basic earnings per share decreased by 53.6 per cent to Rmb0.014 as compared with that of Rmb0.030 for the corresponding period of last year.

The Board has resolved not to pay any interim dividend for the year ending 31 December 2002 (interim dividend for 2001: Nil).

Market review

In the first half of 2002, the global economic has being recovered. Driven by the growth investment and export volume, the PRC achieved a GDP growth of 7.8 per cent. In the textile sector, there was an increase in the growth of export volume, production, sales volume and profit.

In the first half of 2002, domestic polyester production capacity increased by approximately 800,000 tonnes. The growth of the domestic polyester production capacity has significantly declined. Total domestic supply of polyester fibre reached 4,260,000 tonnes, representing an increase of 21.7 per cent as compared with that of the corresponding period of last year. Meanwhile, total domestic consumption of polyester fibre reached 3,968,000 tonnes, representing an increase of 25.7 per cent as compared with the corresponding period of last year.

In the first half of 2002, the prices of domestic polyester products and raw materials changed rapidly. In January and February 2002, the prices of domestic polyester products continued to decline and hit record low. However, from early March 2002 onwards, the prices rebounded strongly owing to the substantial increases in upstream polyester raw material prices. In June 2002, the prices of polyester products decreased again because of the reduced demand, which resulted in lowered prices of upstream polyester raw materials. In the first half of 2002, the prices of principal raw materials of polyester in Asia, such as purified terephthalic acid ("PTA"), mono-ethylene glycol ("MEG") and paraxylene ("PX"), recorded a noticeable rise due to the increase in crude oil prices and resurgence of the petrochemical industry which was greater than the rise in the prices of polyester products. The average prices of polyester products and raw materials were lower as compared with the corresponding period of last year. The margin of polyester products was tightly squeezed. Consequently, competition between domestic polyester product manufacturers was further intensified.

Business review

In the first half of 2002, in view of the sharp fluctuations of the prices of polyester products, the Group took the existing advantages of economy of scale of production and put great efforts in monitoring the market demand. The Group further enhanced coordination among supply, production, sales and R&D, aiming to improve quality and lower costs and expenses. As a result, the Group achieved a consolidated profit attributable to shareholders of Rmb56,284,000.

Production and marketing

In the first half of 2002, the Group made a right decision to postpone the overhaul for Polyester Plant No.1 and strengthened management in Chemical Plant. The Group's production and sales volume of polyester products and PTA production volume reached record high. The Group maintained safe and stable operations at a high utilisation rate. The Group's total production of polyester products was 707,162 tonnes, representing an increase of 15.6 per cent as compared with that of 611,831 tonnes for the corresponding period of last year. The capacity utilisation rate reached 101.2 per cent. The Company's total production of PTA increased by 26.7 per cent as compared with that of the corresponding period of last year. Due to the price rebound of polyester

products since early March 2002, the Group adjusted its pricing strategy. As a result, the Group's total sales of polyester products reached 562,880 tonnes, representing an increase of 7.6 per cent as compared with that of 522,948 tonnes for the corresponding period of last year. Excluding the in-house consumption volume, the ratio of sales to production reached 97.4 per cent. At the same time, efforts were made to enhance the competitiveness of the Group's bottle-grade chips segment and filament segment, and explore differential products market. Appropriate adjustments were made to the products with low profit margin in order to maximise profit. A breakthrough was achieved in export, and a total of 12,450 tonnes of products were exported.

Product and technological development

In the first half of 2002, the Group enhanced its product and technological development, and further improved its product mix. 18 types of new fibre product were developed, of which 14 types had been put into production. With the operation of the multi-functional fibre project with an annual capacity of 7,500 tonnes, the Group further developed its ability to develop staple fibre products. Tighter management was imposed to the Group's R&D teams, and all R&D projects were carried out on schedule. In the first half of 2002, the differentiation rate of polyester fibre of the Company reached 39.3 per cent, 3.5 per cent more than that of last year. The differentiation rate of polyester chips of the Company reached 54.1 per cent, 16.5 per cent more than that of last year.

Cost control

In the first half of 2002, the Group succeeded in reducing costs and expenses. The Group closely monitored the market condition to purchase more raw materials at a lower price to reduce the costs of raw materials. Monthly budgets were imposed on the entire operating process and measures were taken to improve the accountability system. The Group conducts cost and economic analysis to ensure the adoption of appropriate coping strategies, with a view to minimise cost. Hence, it further lowered the unit manufacturing cost. In the first half of 2002, the Group also reduced its materials and energy consumption. The unit comprehensive energy consumption decreased by 7.9 per cent as compared with the corresponding period of last year. The consumption of the main raw materials was also further reduced. At the same time, the product quality indicators showed a steady improvement. In the first half of 2002, the Group's administrative expenses and financial expenses decreased by 6.3 per cent and 19.1 per cent respectively. The Group's selling expenses increased by 40.8 per cent, mainly due to the increased sales volume and transportation costs.

Internal reforms

In the first half of 2002, the Group continued to implement internal reforms. The Group restructured its headquarter to further enhance efficiency. Reforms on remuneration system were also carried out. Those positions such as scientific research, software development, product development, marketing and sales were paid according to a special remuneration system, so as to increase their loyalty to the Group. The Group also pursued a policy to obtain constructive opinions from its employees. Regarding the Enterprise Resources Planning ("ERP") project, the preparation for the training course for its end-user is in-progress now.

Capital expenditure

In the first half of 2002, the Group's total capital expenditure paid amounted to Rmb603,479,000. The infrastructure projects and major R&D projects were carried out on schedule. The Solid-state-polymerisation ("SSP") project with an annual capacity of 100,000 tonnes commenced production in February 2002, and our customers responded to the products positively. The Draw-twisted Yarn ("DTY") project with an annual capacity of 50,000 tonnes, the multi-functional fibre project with an annual capacity of 7,500 tonnes and the DTY project of Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester") with an annual capacity of 5,000 tonnes commenced production in March. The weaving and dyeing project was completed in May 2002. The PTA project with an annual capacity of 450,000 tonnes was progressed on schedule. The Group also started the staple fibre project with an annual capacity of 90,000 tonnes at the end of July 2002. In the meantime, the feasibility study of the differential polyester chip equipment with a daily capacity of 450 tonnes was about to be approved by the relevant authorities of the State.

Prospects

In the second half of 2002, the global economic growth will improve slowly. Crude oil price is expected to remain within US\$25/barrel to US\$27/barrel and the petrochemical sector is experiencing a cyclic resurgence. The PRC Government will continue to regulate domestic market, and stimulate its domestic demands and exports actively so as to promote steady economic growth. After the PRC's entry into World Trade Organisation, the export volume of textile sector is expected to grow steadily. Meanwhile, the domestic demand continues to increase. Steady economic growth and the development of downstream sectors will enhance the demand of high quality and differential polyester products.

In the second half of 2002, the PRC Government will continue to put great efforts in anti-dumping on polyester products, and revise the market entry criteria for polyester products, such as quality, sanitation, epidemic prevention and environment protection so as to further regulate the domestic market standard. Meanwhile, competition between domestic polyester manufacturers will be very keen in product categories, quality and cost given the current demand and supply situation.

Since mid-July 2002, the prices of polyester products rebounded again. Prices of polyester products are expected to remain stable and increase in the second half of 2002. The overall operating environment for polyester producers will be better than the corresponding period of last year. At the same time, prices of major polyester raw materials such as PTA, MEG and PX are expected to remain stable.

In the second half of 2002, the Group will continue to maintain stabilized operation and take active measures to fully utilise the production capacity, increase the ratio of sales to production, adjust product portfolio, improve quality and further reduce costs and expenses so as to maximise its profit.

The following will be set as priorities in the second half of 2002:

1. Stabilise operation, increase output, accelerate structural adjustment and improve profitability

The Group will further promote safety production management, highlight the importance of safety rules, tighten control of production procedure and maintenance. The Group will take great efforts on the operation of PTA production lines and Polyester Plant No. 1 after the overhaul. In addition, the Group will optimise its operation and profit in four ways. Firstly, the Group will enhance quality management and quality control. This will be achieved by promoting flow chart management, the 6 σ management and total quality control over the production process. Secondly, production will be market oriented and the Group will try to optimise product mix. The Group's planned production volume of differential polyester fibre is 100,200 tonnes, the projected production volume of differential polyester chips is 141,000 tonnes, Thirdly, the Group will maximise the profitability of its new production capacities to increase the ratio of return on capital employed and the profit of Foshan Polyester. Fourthly, the Group will continue to optimise the efficiency of the utilities based on minimum usage level. In the second half of 2002, the Group's planned production volume of polyester products is 711,600 tonnes, an increase of 11.8% as compared with that of last year. Of the planned production volume of polyester products, the planned in-house consumption volume is 149,300 tonnes.

2. Maximise profits by seeking balance between production and sales

The Group will put great efforts in market exploration and closely follow the market trends, so as to achieve a balance between production and sales and sell at the optimal prices. The Group will try to improve its customer services by providing a 4-in-1 package of sales, services, logistics and quality control. The Group will also promote more technological service to its customers. The Group will coordinate with the government to conduct the anti-dumping investigation and promote the hygiene standards for polyester chips used in drinking industry to stabilise the market and prices. At the same time, the Group will try to increase exports. In the second half of 2002, the Group's planned sales volume of polyester products is 572,100 tonnes, which represents a slight decrease as compared with that of last year. The ratio of sales to production will reach 102 per cent.

3. Cost reduction and efficiency enhancement

The Group will further reduce its costs and expenses, the planned amount of costs and expenses reduction is Rmb66,380,000. The Group's cost control will be implemented on a large scale involving every employee. The Group will control over the timing and frequency of purchase of raw materials so as to purchase at the optimal price. The management of procurement plans will be enhanced. The consumption and stock reserve indicators will be revised and optimised so as to improve the relevance and accuracy of purchases made. More efforts will be put on the inventory optimisation so as to shorten the lead-time of the cash flow. Tighter HRM policies will be adopted with a view to further reduce labor costs. Effort will be made to improve equipment inspection & repair management so as to reduce relevant expenses. Improved supervisions will be carried out over investments, budget and cost control plans in order to minimise the cost.

4. Technological advancement and corporate competitiveness

The Group will put greater efforts on new product development. Measures will be taken to assess the new product categories, quality and profitability to meet the customers' needs. The Group will enhance the coordination of the production of the three R&D projects, namely, the multi-functional staple fibre project with an annual capacity of 7,500 tonnes, the weaving and dyeing project and the sea island filament yarn project with an annual capacity of 750 tonnes. Contribution of new equipments will be brought into full play.

5. Closely monitoring of construction projects

The construction of polyester project with a daily capacity of 450 tonnes mainly for film-grade and superb bright polyester chips production will commence in September 2002. The Group will continue to have great controls over the constructions of the PTA project with an annual capacity of 450,000 tonnes and its ancillary construction, the staple fibre project with an annual capacity of 90,000 tonnes, the sea island filament yarn project with an annual capacity of 750 tonnes and the filament project of Foshan Polyester with an annual capacity of 5,000 tonnes. These projects will increase the profit for the Group in the near future.

6. Remuneration system reform, and increase efficiency

The Group will further improve its stimulating mechanisms so as to encourage the technicians to be more enthusiastic, innovative and creative. The Group will reform its remuneration system in accordance with the labor market. The Group will continue to cultivate a corporate culture that promotes "Competition, Dedication and Honesty". The Group will speed up its restructuring process, simplify the organisation structure, downsize the management team, and lower the administrative expenses. The ERP system will be implemented by the end of October 2002 which is expected to reduce operating costs and improve the Company's efficiency.

6. MANAGEMENT DISCUSSION AND ANALYSIS

The following financial data, where applicable and unless otherwise specify, are extracted from the Group's unaudited interim financial report prepared in accordance with IAS 34 Interim Financial Reporting. These data should be read in conjunction with the unaudited interim financial report and notes therein.

1. Business Environment

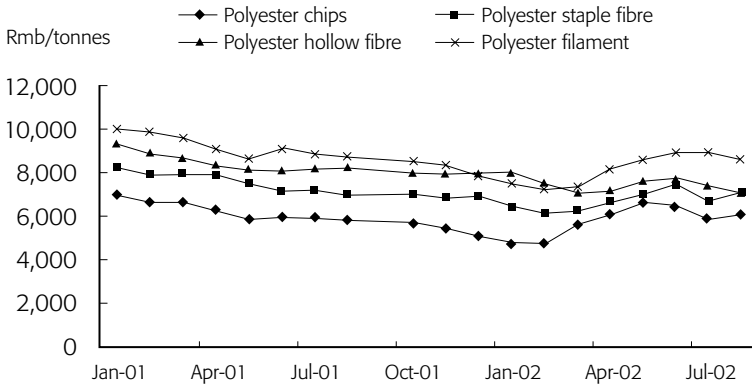
In the first half of 2002, domestic polyester production capacity increased by approximately 800,000 tonnes. The growth of the domestic polyester production capacity has significantly declined. The total supply of polyester fiber reached 4,260,000 tonnes, increased by 21.7 per cent as compared with that for the corresponding period of last year, while total consumption of polyester fiber reached 3,968,000 tonnes, increased by 25.7 per cent as compared with that for the corresponding period of last year. With the substantial rise in the prices of upstream raw materials in the first half of 2002, the domestic prices of polyester products fluctuated sharply. As the average prices of polyester products and their raw materials were lower than those of the corresponding period of last year, and the rise in polyester products prices lagged behind the rise in polyester raw materials prices, profit margin of domestic polyester product manufacturers were generally deteriorated.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Total polyester fibre		
	1H2002 '000 tonnes	1H2001 '000 tonnes	+/-(%)	1H2002 '000 tonnes	1H2001 '000 tonnes	+/-(%)	1H2002 '000 tonnes	1H2001 '000 tonnes	+/-(%)
Production	2,202.8	1,755.2	25.50	1,363.0	1,075.7	26.71	3,565.8	2,830.9	25.96
Import	142.4	136.0	4.71	295.4	265.2	11.39	437.8	401.2	9.12
Export	14.2	10.3	37.86	25.6	3.2	700.00	39.8	13.5	194.81
Net import	128.2	125.7	1.99	269.8	262.0	2.98	398.0	387.7	2.66
Inventories at the beginning of the period									
	187	176.6	5.89	69	90.3	-23.59	256.0	266.9	-4.08
Inventories at the end of the period	163.3	177.4	-7.95	88.9	152.3	-41.63	252.2	329.7	-23.51
Total supply	2,532.2	2,067.8	22.46	1,727.4	1,431.2	20.70	4,259.6	3,499.0	21.74
Total consumption	2,354.7	1,880.1	25.24	1,612.9	1,275.7	26.43	3,967.6	3,155.8	25.72

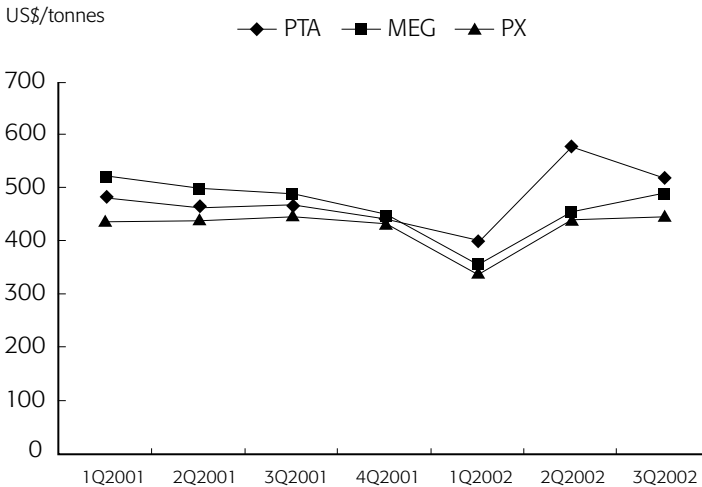
Source: Chemical Fibre Association of China and the Company's estimates

Product Prices Quoted By the Company (Excluding Value Added Tax (VAT))



In the first half of 2002, prices of polyester raw materials in Asia, such as PTA, MEG and PX, increased substantially because of the rise in crude oil price.

Raw Material Contract Price Offered by the International Suppliers

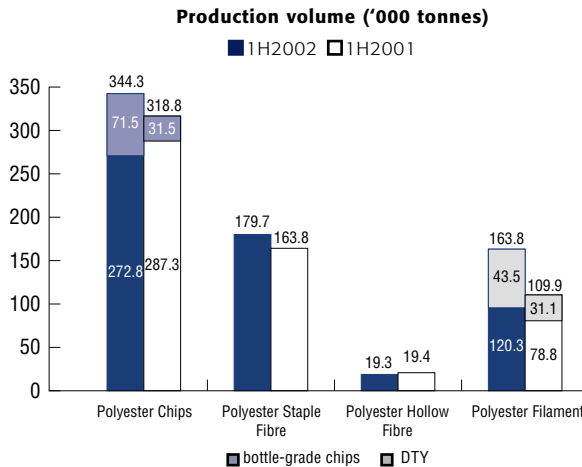


2. Results of Operations

In the first half of 2002, the Group's profit attributable to shareholders amounted to Rmb56 million, representing a decrease of 53.6 per cent as compared with the corresponding period of last year, Foshan Polyester and Foshan Chemical Fibre Complex Group sustained a loss of Rmb300,000 while Yihua Kangqi Chemical Fibre Company Limited and its subsidiaries recorded a profit of Rmb9,639,000.

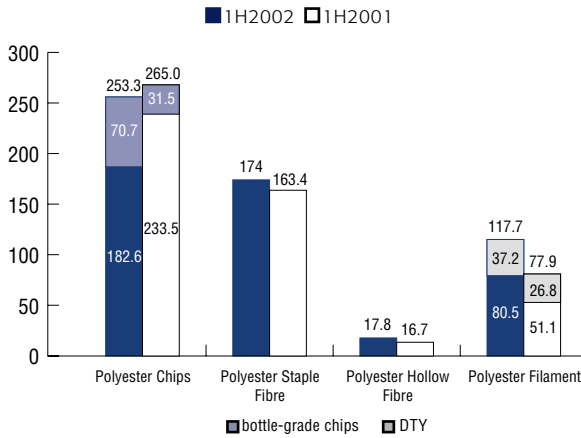
(1) Turnover

In the first half of 2002, the Group postponed the overhaul of Polyester Plant No. 1 and operated at full capacity to increased output. The Group's total production volume of polyester products was 707,162 tonnes, representing an increase of 15.6 per cent as compared with 611,831 tonnes for the corresponding period of last year. The Group's capacity utilization rate reached 101.2 per cent, as compared with that of 101.1 per cent for the corresponding period of last year.



In the first half of 2002, the Group adjusted its pricing strategy based on the market demand. The Group put great efforts in developing the differential products market. The Group's total sales volume of the polyester products amounted to 562,880 tonnes, representing an increase of 7.6 per cent as compared with the 522,948 tonnes for the corresponding period of last year. In addition, the sales prices of the Group's products are still higher than the prices in the domestic market during the period, due to the recognised high quality and excellent sales services.

Sales volume ('000 tonnes)



Average Prices for Products (Rmb/tonne, excluding VAT)

	For the six months ended 30 June		
	2002	2001	Change (%)
Polyester products			
Chips	5,760	6,410	(10.1)
Staple fibre	6,471	7,742	(16.4)
Hollow fibre	7,329	8,978	(18.4)
Filament	7,757	9,534	(18.6)
Weighted average price	6,447	7,373	(12.6)

	For the six months ended 30 June			
	2002		2001	
	Turnover Rmb million	Percentage of turnover %	Turnover Rmb million	Percentage of turnover %
Polyester products				
Chips	1,459	39.6	1,697	43.4
Staple fibre	1,126	30.5	1,265	32.4
Hollow fibre	130	3.5	150	3.8
Filament	913	24.8	741	19.0
Others	59	1.6	57	1.4
Total	3,687	100.0	3,910	100.0

In the first half of 2002, the Group's turnover amounted to Rmb3,687 million, representing a decrease of 5.7 per cent as compared with that of Rmb3,910 million for the corresponding period of last year. The decrease was mainly due to the sharp decrease of 12.6 per cent in product prices although the Group's sales volume increased by 7.6 per cent as compared with the corresponding period of last year.

The Group continued to hold a leading position in domestic market share during the report period.

(2) Cost of sales

In the first half of 2002, the Group's cost of sales amounted to Rmb3,321 million or 90.1 per cent of turnover, representing a slight decrease as compared with that of Rmb3,471 million for the corresponding period of last year. Total costs of raw materials decreased to Rmb2,572 million in the first half of 2002, which accounted for 77.4 per cent of cost of sales, representing a decrease of 6.7 per cent as compared with that of Rmb2,758 million for the corresponding period of last year. The decrease was mainly due to the increase in production volume and the decrease in the prices of raw materials. In the first half of 2002, the weighted average price of polyester raw materials decreased by 14.4 per cent, of which, the average purchase costs of PTA, MEG and PX decreased by 7 per cent, 22 per cent and 20 per cent respectively as compared with the corresponding period of last year. As the volume of raw materials purchased by the Group increased substantially, the costs of raw materials were substantially less than that for the corresponding period of last year.

Since the decrease in turnover was higher than the decrease in the cost of sales in the first half of 2002, the Group's gross profit decreased by Rmb73 million to Rmb366 million. The Group's gross margin was 9.9 per cent, representing a decrease of 1.3 per cent compared with the corresponding period of last year.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		
	2002 Rmb'000	2001 Rmb'000	Change (%)
Selling expenses	79,161	56,242	40.8
Administrative expenses	203,708	217,471	(6.3)
Financial expenses	9,569	11,825	(19.1)
Total	<u>292,438</u>	<u>285,538</u>	2.4

In the first half of 2002, selling expenses increased by Rmb23 million, mainly due to the increase in sales volume and transportation costs. Administrative expenses decreased by Rmb14 million, mainly because there was no employee reduction expenses in this period as compared with the corresponding period of last year. Financial expenses decreased by Rmb2 million, mainly due to rational uses of financial sources. The overall increase in selling, administrative and financial expenses was 2.4 per cent.

(4) Profit from operations, profit from ordinary activities before taxation and profit attributable to shareholders

	For the six months ended 30 June		
	2002 Rmb'000	2001 Rmb'000	Change (%)
Profit from operations	79,340	162,249	(51.1)
Profit from ordinary activities before taxation	69,771	150,424	(53.6)
Income tax expenses	9,076	26,972	(66.4)
Profit attributable to shareholders	56,284	121,186	(53.6)
Earnings per share (in Rmb)	0.014	0.030	(53.6)

In the first half of 2002, despite the Group's enhanced efforts in uplifting production volume and sales volume and exercising better control over costs and expenses, the profit margin of domestic polyester products was tightly squeezed due to the decrease in the polyester product prices as compared with the corresponding period of last year, which brought about the decrease in the Group's profit from ordinary activities before taxation of 53.6 per cent to Rmb70 million, and the decrease in profit attributable to shareholders of 53.6 per cent to Rmb56 million as compared with the corresponding period of last year. The Group's operating margin and net margin were 2.2 per cent and 1.6 per cent respectively.

(5) Changes in the financial statements of the Group (extracted from the interim financial report prepared in accordance with PRC Accounting Rules and Regulations)

Item	At	At	Change (%)	Reason for Change
	30 June 2002 Rmb'000	31 December 2001 Rmb'000		
Total assets	11,502,105	11,201,494	3	No major change
Shareholders' funds	8,855,908	8,801,868	1	Transfer from net profit
Trade receivables	169,535	92,403	83	Trade receivables in transit increased caused by the increase in sales and exports at the period end
Construction in progress	511,057	323,673	58	Increase in expenses incurred in relation to PTA project with an annual capacity of 450,000 tonnes
Bills payable	267,000	5,000	5,240	Purchase of raw materials according to the production schedule at the period end
Trade payables	372,626	261,122	43	Purchase of raw materials according to the production schedule at the period end
Other creditors	239,185	165,427	45	Increase in payable of major overhauls
	For the six months ended 30 June			
Item	2002 Rmb'000	2001 Rmb'000	Change (%)	Reason for Change
Income from principal operation	3,687,456	3,910,340	-6	Reduction in product price operations
Profit from principal operation	382,824	437,827	-13	Decreased margin caused by reduction in product price
Operating profit	63,264	146,626	-57	Decreased margin caused by reduction in product price

Item	For the six months ended 30 June			Reason for Change
	2002 Rmb'000	2001 Rmb'000	Change (%)	
Total profit	67,131	150,424	-55	Decreased margin caused by reduction in product price
Net profit	54,040	121,186	-55	Decreased margin caused by reduction in product price
Selling expenses	79,161	56,242	41	Increase in transportation cost as a result of the adoption of CIF terms and increase in sales volume
Net (decrease)/increase in cash and cash equivalents	(45,994)	87,262	-	Repayment of bank loans

(6) Principal products (Extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

The Group's principal products, which contributed above 10 per cent of the Group's income from principal operations and profit from principal operations, are polyester products. In the first half of 2002, turnover for the Group's polyester products amounted to Rmb3,628,000,000, costs of sales amounted to Rmb3,288,000,000, gross margin was 9.4 per cent.

(7) Operations of the new projects completed in the first half of 2002

The SSP project with an annual capacity of 100,000 tonnes, the DTY project with an annual capacity of 50,000 tonnes, the multi-functional fibre project with an annual capacity of 7,500 tonnes, the weaving and dyeing project and the DTY project of Foshan Polyester with an annual capacity of 5,000 tonnes were put into operations in the first half of 2002 and realised benefits.

(8) Changes in principal business

During the report period, there was no change in the Group's principal business.

(9) Others

During the report period, there was no other operation that would produce major impact on the Group's net profit.

3. Liquidity

As at 30 June 2002, the Group's cash and cash equivalents amounted to Rmb399 million, representing a decrease of Rmb46 million as compared with that of Rmb445 million as at 31 December 2001.

In the first half of 2002, the Group's net cash inflow from operating activities was Rmb711 million, as compared with that of Rmb244 million for the corresponding period of last year. The increase was mainly because the Company adopted a favorable payment method to its creditors during the report period. As at 30 June 2002, the Group's stocks increased by Rmb81 million, which was mainly caused by the change of its sales pace. Trade and other receivables increased by Rmb72 million, which was mainly due to the increase in bills receivable in transit.

In the first half of 2002, the Group's net cash outflow from investing activities was Rmb602 million, as compared with net cash outflow of Rmb236 million for the corresponding period of last year. The change was mainly due to the capital expenditure paid amounted to Rmb603 million during the report period.

In the first half of 2002, the Group's net cash outflow from financing activities was Rmb155 million, as compared with net cash inflow of Rmb79 million for the corresponding period of last year. The change was mainly due to the repayment of bank loans.

As at 30 June 2002, the Group's bank loans amounted to Rmb1,076 million, as compared with that of Rmb1,230 million as at 31 December 2001. The decrease was mainly due to the repayment of short-term bank loans.

In the first half of 2002, the Group's profits attributable to shareholders amounted to Rmb56 million and a final dividend for the year ended 31 December 2001 approved by the Board amounted to Rmb80 million. As such, the Group's shareholders' funds (excluding minority interests) decreased by Rmb24 million to Rmb8,678 million. The Group's total liabilities (excluding minority interests) increased by Rmb324 million to Rmb2,589 million. The increase was mainly due to the increase in trade and other payables of Rmb411 million. Of which, long-term liabilities amounted to Rmb500 million. As a result, the Group's total assets increased by Rmb303 million to Rmb11,324 million, of which property, plant and equipment amounted to Rmb7,165 million. At 30 June 2002, total liabilities to total assets ratio was 22.9 per cent, as compared with that of 20.6 per cent as at 31 December 2001.

4. Capital Expenditure

In the first half of 2002, the Company's capital expenditure paid amounted to Rmb603 million while the amount of capital expenditure for the second half of 2002 is expected to be approximately Rmb1,292 million. Such capital expenditure mainly includes: Rmb812 million as expenditure for the PTA project with an annual capacity of 450,000 tonnes, Rmb80 million as expenditure for the staple fibre project with an annual capacity of 90,000 tonnes and Rmb10 million as expenditure for the differential polyester chip project with a daily capacity of 450 tonnes. The anticipated capital expenditure will be funded by cash generated from operations and bank credit facilities available to the Group.

7. DISCLOSURE OF SIGNIFICANT EVENTS

1. The Company has operated strictly in compliance with the requirements in the Company Law, Security Law of PRC and other relevant laws and regulations.

For the first half of 2002, the Company studied the "Code of Corporate Governance for Listed Companies in PRC" issued by the CSRC. In accordance with the "Notice regarding Listed Companies to Commence a Review on the Establishment of Modern Corporate System" of the State Economic and Trade Commission ("SETC") and CSRC, the Company conducted an overall review on its operation of modern corporate system, submitted "the report about the review on its own for the establishment of modern corporate system" on time, and the Board considered and passed the report for a resolution.

According to the requirements of "Code of Corporate Governance for Listed Companies in PRC", "Guidelines for the Articles of Association of the Listed Company", "Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies", "Essential Terms for the Articles of Association of the Overseas Listing of Chinese Enterprises", "Guidelines by CSRC and the SETC for Further Improving Regulated Operations and Deepening Reform of the Overseas Listed Chinese Enterprises", and other relevant laws and regulations, as well as the standards of the review on the operation of modern corporate system, the Company will make continuous efforts in the daily operation to revise and refine the Articles of Association of the Company, the Rules and Procedure of the Shareholders' Meeting, the Rules and Procedure of the Board, the Rules and Procedure of the Supervisory Committee, the Working Rules for the General Manager, and the System for Disclosure of Information, and further define the principles for the Shareholders' Meeting to grant authorization to the Board, the Board to grant authorization to the Senior Management and the content of such authorization. These will be reviewed at the Extraordinary General Meeting, which will be held in the fourth quarter of 2002 when the third term of the Board expires. The Company will improve its corporate governance and enhance the construction level of various internal control systems.

2. As approved by 2001 AGM held on 28 June 2002, the Company paid a final cash dividend of Rmb 0.02 per share for the year ended 31 December 2001 on 29 July 2002. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 17 July 2002, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed at the 2001 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.
3. For the report period, the Company was not engaged in any material litigation or arbitration.

4. As confirmed and approved by the 23rd meeting of the third term of the Board held on 9 August 2002, the Company entered into 6 connected transactions relating to the construction, design and the construction of auxiliary facilities in relations to a PTA project with an annual capacity of 450,000 tonnes with 5 companies, which are all directly or indirectly wholly-owned subsidiaries of China Petrochemical Corporation ("CPC"), the ultimate controlling company of the Company. The aggregate total consideration of the transactions is Rmb199,340,396. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 12 August 2002. During the six months ended 30 June 2002, payments to this 5 companies, the related parties, by the Company amounted to Rmb36,291,000 and accounted for 100 per cent of the total of this type of transactions.

Other significant connected transactions between the Group and the related parties during the six months ended 30 June 2002 were as follows:

- (A) The followings are the significant connected transactions relating to sales and purchase of goods and provision of services: For the six months ended 30 June 2002, raw materials purchased by the Company from CPC and its subsidiaries amounted to Rmb19,715,000 and accounted for 0.8 per cent of the total of this type; raw materials purchased by the Company from Sinopec and its subsidiaries (excluding Sinopec Yangzi Petrochemical Company Limited ("Yangzi")) amounted to Rmb74,953,000 and accounted for 3.2 per cent of the total of this type; raw materials purchased from Yangzi amounted to Rmb1,081,430,000 and accounted for 45.8 per cent of the total of this type; goods purchased from Yihua Group Corporation ("Yihua") and its subsidiaries ("Yihua Group") amounted to Rmb50,079,000, and accounted for 2.1 per cent of the total of this type; goods sold to Yihua Group amounted to Rmb421,791,000, and accounted for 11.4 per cent of the total of this type; miscellaneous service charges paid to Yihua by the Company amounted to Rmb51,280,000 and accounted for 100 per cent of the total of this type; and payments to the engineering company of Yihua relating to construction, repair and maintenance work by the Company amounted to Rmb43,256,000 and accounted for 100 per cent of the total of this type. The Company is of the opinion that purchasing of goods from the related parties above ensures the Group a steady and secured supply of raw materials, and that selling goods to Yihua ensures the Company certain sales channels and turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated on a market price basis and settled on a cash on delivery basis. The miscellaneous service charges paid to Yihua and the payments to the engineering company of Yihua relating to construction, repair and maintenance work are settled strictly in compliance with the contracts dated 8 February 1994 between the Company and Yihua. The above transactions have no adverse effect upon the profit of the Group.

- (B) During the report period, there were no connected transactions relating to asset or equity transfers in the Company.
- (C) Significant connected transactions relating to amounts due from/(to) related parties: As at 30 June 2002, the amounts due from Yihua Group amounted to Rmb79,711,000, and mainly represented trade and bills receivables; amounts due to other related parties amounted to Rmb424,250,000, and mainly represented the trade and bills payables to Yangzi. These connected transactions have no material impact on the Company.
- (D) Other significant connected transactions: As at 30 June 2002, the Company's deposits placed with Sinopec Finance Company Limited at market interest rates, amounted to Rmb 665,497,000.

The Board believed that the above transactions were entered into in the ordinary course of business and in normal commercial terms or in accordance with the terms of the agreements governing these transactions. The above applicable connected transactions are fully complied with the waivers granted by the HKSE to the Company.

Details of the Company's connected transactions during the report period are set out in note 24 of the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.

- 5. The Company did not hold in trust, rent or contract any asset from or with any company. Furthermore, no company held in trust, rented or contracted any asset from or with the Company during the report period.
- 6. As at 30 June 2002, the Company provided guarantee for Foshan Polyester for bank loans amounting to Rmb111,455,000. (As at 31 December 2001: Rmb30,020,000). The guarantee was approved at the seventeenth meeting of the third term of the Board held on 5 September 2001. Except for the above, the Company did not make any guarantee or pledge during the report period.
- 7. For the six months ended 30 June 2002, the Company did not have any designated deposits with any financial institutions or had any difficulties in collecting deposits upon maturity. The Company had no trusted management matters during the report period.
- 8. According to the document (Guo Shui Han Fa [1994]No.61) issued by the State Administration of Taxation of the PRC on 23 February 1994, the preferential income tax rate applicable to the Company is 15 per cent. The preferential income tax rate is still applicable for the period ended 30 June 2002. The Company has not received any notice from the tax authorities to change this rate.

9. The 24th meeting of the third term of the Board held on 19 August 2002 resolved to invest and construct a differential polyester chip project with a daily capacity of 450 tonnes, which will be mainly used for film-grade chip and superb bright chip production. The total investment of this project amounted to Rmb165,050,000. Construction of the project will commence in September 2002 and is completed in September 2003.
10. KPMG Huazhen and KPMG were re-appointed as domestic and international auditors respectively of the Company for the year 2002, as approved at the 2001 AGM, and the Board was authorised to fix their remuneration.
11. The 2001 AGM held on 28 June 2002 resolved a personnel change of Directors of the Company. Details of which were disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.
12. The changes in accounting policy regarding housing revolving fund of the Company were confirmed at the 2001 AGM. Details of which was disclosed through press announcement in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 1 July 2002.
13. The Company signed a general commercial agreement with MB Barter & Trading SA of Switzerland on 18 January 2002. MB Barter & Trading SA is the first international agent of the Group for the exportation of its bottle-grade polyester chips.
14. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not undertake anything, which needed to be disclosed.
15. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in Article 62 of Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and Article 17 of "Disclosure of Information by Public Listing Companies (the Trial Implementation Rule)" during the report period.

8. 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 27 to 35.

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 2002.

KPMG

Certified Public Accountants
Hong Kong, China

19 August 2002

Consolidated Income Statement
For the six months ended 30 June 2002 (unaudited)

	Note	Six months ended	
		30 June	
		2002	2001
		Rmb'000	<i>Rmb'000</i>
Turnover	3	3,687,456	3,910,340
Cost of sales		<u>(3,321,110)</u>	<u>(3,470,991)</u>
Gross profit		366,346	439,349
Selling expenses		(79,161)	(56,242)
Administrative expenses		(203,708)	(217,471)
Other operating income		8,415	3,825
Other operating expenses		<u>(12,552)</u>	<u>(7,212)</u>
Profit from operations		79,340	162,249
Net financing costs		<u>(9,569)</u>	<u>(11,825)</u>
Profit from ordinary activities before taxation	4	69,771	150,424
Income tax expense	5	<u>(9,076)</u>	<u>(26,972)</u>
Profit from ordinary activities after taxation		60,695	123,452
Minority interests		<u>(4,411)</u>	<u>(2,266)</u>
Profit attributable to shareholders		<u>56,284</u>	<u>121,186</u>
Basic earnings per share (in Rmb)	7(i)	<u>0.014</u>	<u>0.030</u>

The notes on pages 31 to 35 form part of this interim financial report.

Consolidated Balance Sheet at 30 June 2002 (unaudited)

		At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Non-current assets			
Property, plant and equipment		7,165,295	7,129,371
Construction in progress		900,178	751,148
Lease prepayments		215,446	217,750
Unlisted investment		62,500	62,500
Deferred tax assets		32,736	33,132
		8,376,155	8,193,901
Current assets			
Inventories		1,079,088	998,164
Trade and other receivables	8	667,584	595,264
Deposits with banks and other financial institutions		801,945	788,594
Cash and cash equivalents	9	399,183	445,177
		2,947,800	2,827,199
Current liabilities			
Trade and other payables	10	1,298,987	887,508
Bank loans		576,455	730,020
Income tax payable		134,024	148,178
Dividend payable	6	80,000	-
		2,089,466	1,765,706
Net current assets		858,334	1,061,493
Total assets less current liabilities		9,234,489	9,255,394
Non-current liabilities			
Bank loans		500,000	500,000
Minority interests		56,731	53,920
Net assets		8,677,758	8,701,474
Shareholders' funds			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves	11	1,109,837	1,109,837
Retained profits		1,049,088	1,072,804
		8,677,758	8,701,474

Approved and authorised for issue by the Board of Directors on 19 August 2002

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on pages 31 to 35 form part of this interim financial report.

**Condensed Consolidated Cash Flow Statement
For the six months ended 30 June 2002 (unaudited)**

	Six months ended 30 June	
	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Cash flows from operating activities	711,317	244,426
Cash flows from investing activities	(602,146)	(236,414)
Cash flows from financing activities	(155,165)	79,250
Net (decrease)/increase in cash and cash equivalents	(45,994)	87,262
Cash and cash equivalents at 1 January	445,177	601,014
Cash and cash equivalents at 30 June	399,183	688,276

The notes on pages 31 to 35 form part of this interim financial report.

**Consolidated Statement of Changes in Equity
For the six months ended 30 June 2002 (unaudited)**

	Share capital	Share premium	Reserves	Retained profits	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
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
Dividend (<i>note 6</i>)	–	–	–	(360,000)	(360,000)
	<u>4,000,000</u>	<u>2,518,833</u>	<u>1,291,302</u>	<u>1,029,484</u>	<u>8,839,619</u>
At 30 June 2001	<u>4,000,000</u>	<u>2,518,833</u>	<u>1,291,302</u>	<u>1,029,484</u>	<u>8,839,619</u>
At 1 January 2002, as previously reported	4,000,000	2,518,833	1,334,237	1,036,152	8,889,222
Adjustment to land use rights (<i>note 11</i>)	–	–	(224,400)	36,652	(187,748)
	<u>4,000,000</u>	<u>2,518,833</u>	<u>1,109,837</u>	<u>1,072,804</u>	<u>8,701,474</u>
At 1 January 2002, as reclassified	4,000,000	2,518,833	1,109,837	1,072,804	8,701,474
Net profit for the period	–	–	–	56,284	56,284
Dividend (<i>note 6</i>)	–	–	–	(80,000)	(80,000)
	<u>4,000,000</u>	<u>2,518,833</u>	<u>1,109,837</u>	<u>1,049,088</u>	<u>8,677,758</u>
At 30 June 2002	4,000,000	2,518,833	1,109,837	1,049,088	8,677,758

The notes on pages 31 to 35 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 26.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 *Interim Financial Reporting* adopted by the International Accounting Standards Board (“IASB”).

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s annual financial statements for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31 December 2001 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2002.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2001 annual financial statements except that as described in Note 11 that land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the shareholder’s equity as of 1 January 2002.

The 2001 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the IASB. IFRS includes International Accounting Standards (“IAS”) and interpretations issued and approved by the IASB.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in the Group’s financial position and performance since the 2001 annual financial statements.

The Company also prepares an interim financial report which complies with the People’s Republic of China (“PRC”) Accounting Rules and Regulations. A reconciliation of the Group’s results and the shareholders’ funds prepared under IFRS and PRC Accounting Rules and Regulations is presented in Section C.

2. Segment reporting

The Group’s profits are almost entirely attributable to the production and sale of polyester chips and polyester fibre in the PRC. Accordingly, no segmental analysis is provided.

3. Turnover

Turnover represents the sales value of goods supplied to customers, net of value added tax.

4. Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Interest and other borrowing costs	32,870	34,510
Less: Amount capitalised as construction in progress	(13,557)	(5,000)
	<hr/>	<hr/>
Net interest expense	19,313	29,510
Interest income	(12,354)	(20,515)
Cost of inventories	3,321,110	3,470,991
Depreciation	431,962	403,570
	<hr/> <hr/>	<hr/> <hr/>

5. Income tax expense

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Provision for PRC income tax for the period	8,680	26,972
Deferred tax	396	-
	<hr/>	<hr/>
	9,076	26,972
	<hr/> <hr/>	<hr/> <hr/>

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. Since no further notice has been received from the PRC State Tax Bureau, this tax rate is still effective for 2002.

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. No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.

6. Dividend

A final dividend of Rmb2 cents per share totalling Rmb80,000,000 in respect of the financial year 2001 was approved during the period (Financial year 2000: Rmb9 cents per share totalling Rmb360,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

7. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of Rmb56,284,000 (2001: Rmb121,186,000) and 4,000,000,000 shares (2001: 4,000,000,000 shares) in issue during the period.

(ii) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the period from 1 January 2001 to 30 June 2002.

8. Trade and other receivables

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Trade receivables	166,475	85,264
Bills receivable	293,885	319,678
Amount due from a fellow subsidiary – trade	77,158	43,051
	537,518	447,993
Amounts due from parent company and fellow subsidiaries – non-trade	7,411	8,310
Other receivables, deposits and prepayments	122,655	138,961
	667,584	595,264

The Company requests customers to pay cash or bills in full prior to delivery of goods. Subject to negotiation, credit for one to three months is only available for major customers with well-established trading records.

The ageing analysis of trade receivables, bills receivable and amount due from a fellow subsidiary – trade is as follows:

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Within one year	528,719	442,596
Between one and two years	5,309	4,347
Between two and three years	3,490	1,050
	537,518	447,993

The amounts due from parent company and fellow subsidiaries – non-trade are unsecured, interest free and have no fixed repayment terms.

9. Cash and cash equivalents

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Cash in hand	204	270
Balances with banks and other financial institutions with an initial term of less than three months	398,979	444,907
Cash and cash equivalents	399,183	445,177

10. Trade and other payables

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Trade payables	318,907	320,509
Bills payable	17,000	5,000
Amounts due to fellow subsidiaries – trade	394,521	53,974
	730,428	379,483
Amounts due to parent company and fellow subsidiary – non-trade	100,344	93,850
Other payables and accrued expenses	468,215	414,175
	1,298,987	887,508

The ageing analysis of trade payables, bills payable and amounts due to fellow subsidiaries – trade is as follows:

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Due within one month or on demand	435,762	309,687
Due after one month but within six months	294,666	69,796
	730,428	379,483

The amounts due to parent company and fellow subsidiary – non-trade are unsecured, non-interest bearing and have no fixed terms of repayment.

11. Reserves

Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As such, certain comparative figures have been reclassified to conform with the current period's presentation.

Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.

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 2002 (2001: Nil).

12. Related party transactions

Details of the related party transactions are set out in note 24 in the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations. The financial data presented are the same as those prepared under IFRS.

13. Contingent liabilities

At 30 June 2002, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans to certain wholly owned subsidiaries totalled Rmb111,455,000 (At 31 December 2001: Rmb30,020,000).

14. Capital commitments

At 30 June 2002, the Group had capital commitments as follows:

	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Authorised and contracted for	987,892	690,890
Authorised but not contracted for	756,433	1,416,623
	<u>1,744,325</u>	<u>2,107,513</u>

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

Balance Sheets (unaudited)

	Note	The Group		The Company	
		At	At	At	At
		30 June 2002 Rmb'000	31 December 2001 Rmb'000 (audited)	30 June 2002 Rmb'000	31 December 2001 Rmb'000 (audited)
Assets					
Current Assets					
Cash at bank and in hand	3	1,201,128	1,233,771	976,463	1,024,416
Bills receivable	4	367,983	355,590	353,143	328,870
Trade receivables	5	169,535	92,403	101,390	35,789
Other receivables	6	55,653	61,469	312,790	442,989
Advance payments	7	68,393	77,376	55,451	67,822
Inventories	8	1,079,088	998,164	861,522	791,240
Total current assets		<u>2,941,780</u>	<u>2,818,773</u>	<u>2,660,759</u>	<u>2,691,126</u>
Long-term Investments					
Long-term equity investments	9	31,638	30,116	(73,668)	(84,529)
Receivables due after one year	9(d)	-	-	800,000	800,000
Total long-term investments		<u>31,638</u>	<u>30,116</u>	<u>726,332</u>	<u>715,471</u>
Fixed Assets					
Fixed assets, at cost	10	12,944,218	12,478,274	11,887,068	11,421,574
Less: Accumulated depreciation	10	(5,369,978)	(4,940,547)	(4,975,638)	(4,575,785)
Net book value of fixed assets	10	7,574,240	7,537,727	6,911,430	6,845,789
Construction in progress	11	511,057	323,673	442,484	280,553
Construction materials	12	389,121	427,475	389,121	427,475
Total fixed assets		<u>8,474,418</u>	<u>8,288,875</u>	<u>7,743,035</u>	<u>7,553,817</u>
Intangible Assets and Other Assets					
Intangible assets	13	48,249	55,304	48,249	55,304
Long-term deferred expenses		6,020	8,426	6,020	8,426
Total intangible assets and other assets		<u>54,269</u>	<u>63,730</u>	<u>54,269</u>	<u>63,730</u>
Total Assets		<u>11,502,105</u>	<u>11,201,494</u>	<u>11,184,395</u>	<u>11,024,144</u>

Balance Sheets (unaudited) (Continued)

	Note	The Group		The Company	
		At	At	At	At
		30 June 2002 Rmb'000	31 December 2001 Rmb'000 (audited)	30 June 2002 Rmb'000	31 December 2001 Rmb'000 (audited)
Liabilities and Shareholders' funds					
Current Liabilities					
Short-term loans	15(a)	576,455	580,020	465,000	550,000
Bills payable	16	267,000	5,000	250,000	-
Trade payables	16	372,626	261,122	309,882	220,207
Receipts in advance	16	90,802	113,361	60,401	81,246
Wages payable		124,522	155,611	113,945	145,969
Staff welfare payable		75,277	67,373	65,795	58,039
Dividend payable		80,000	80,000	80,000	80,000
Taxes payable	14(c)	252,092	256,396	244,977	269,345
Other payables		10,752	10,241	10,742	9,978
Other creditors	16	239,185	165,427	216,236	147,663
Accrued expenses	17	755	1,155	605	1,155
Current portion of long-term loans	15(a)	-	150,000	-	150,000
Total current liabilities		<u>2,089,466</u>	<u>1,845,706</u>	<u>1,817,583</u>	<u>1,713,602</u>
Long-term Liabilities					
Long-term loans	15(a)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Total liabilities		<u>2,589,466</u>	<u>2,345,706</u>	<u>2,317,583</u>	<u>2,213,602</u>
Minority interests					
		<u>56,731</u>	<u>53,920</u>	<u>-</u>	<u>-</u>
Shareholders' funds					
Share capital	18	4,000,000	4,000,000	4,000,000	4,000,000
Capital reserve	19	3,078,825	3,078,825	3,078,825	3,078,825
Surplus reserves (Including: statutory public welfare fund of Rmb288,464,000 (2001: Rmb288,464,000))	20	1,334,237	1,334,237	1,334,237	1,334,237
Undistributed profits		442,846	388,806	453,750	397,480
Total shareholders' funds		<u>8,855,908</u>	<u>8,801,868</u>	<u>8,866,812</u>	<u>8,810,542</u>
Total Liabilities and Shareholders' Funds		<u>11,502,105</u>	<u>11,201,494</u>	<u>11,184,395</u>	<u>11,024,144</u>

Approved by the Board of Directors on 19 August 2002

Fu Xing-tang
Chairman

Xu Zheng-ning
Director

The notes on the financial statements form part of this interim financial report.

Income Statements and Profit Appropriation Statements (unaudited)

	Note	The Group		The Company	
		For the six months ended 30 June			
		2002	2001	2002	2001
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	21	3,687,456	3,910,340	3,363,450	3,560,963
Less: Cost of sales		3,284,740	3,457,223	3,012,583	3,164,100
Business tax and surcharges	14(b)	19,892	15,290	18,938	14,628
Profit from principal operations		382,824	437,827	331,929	382,235
Less: Loss from other operations		6,482	5,663	6,951	7,683
Selling expenses		79,161	56,242	64,325	44,072
Administrative expenses		224,348	217,471	207,192	199,805
Financial expenses	22	9,569	11,825	2,784	3,913
Operating profit		63,264	146,626	50,677	126,762
Add: Investment income	23	4,773	4,522	14,112	14,669
Non-operating income		5,164	825	4,350	596
Less: Non-operating expenses		6,070	1,549	5,950	1,255
Total profit		67,131	150,424	63,189	140,772
Less: Income tax	14(a)	8,680	26,972	6,919	26,577
Profit attributable to minority interests		4,411	2,266	-	-
Net profit		54,040	121,186	56,270	114,195
Add: Undistributed profits at the beginning of the period		388,806	340,952	397,480	356,621
Distributable profits		442,846	462,138	453,750	470,816
Less: Transfer to statutory surplus reserve	20	-	-	-	-
Transfer to statutory public welfare fund	20	-	-	-	-
Distributable profits to shareholders		442,846	462,138	453,750	470,816
Less: Transfer to discretionary surplus reserve	20	-	-	-	-
Dividend		-	-	-	-
Undistributed profits		442,846	462,138	453,750	470,816

The notes on the financial statements form part of this interim financial report.

Cash Flow Statements (unaudited)

	<i>Notes to the cash flow statements</i>	The Group		The Company	
		2002	2001	2002	2001
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
(i) Cash flows from operating activities:					
Cash received from sale of goods		4,549,699	4,629,765	3,969,754	4,034,541
Refund of taxes and levies		4,195	4,480	4,195	4,480
Other cash received relating to operating activities		7,726	9,332	137,743	15,787
Sub-total of cash inflows		4,561,620	4,643,577	4,111,692	4,054,808
Cash paid for purchase of goods		(3,113,924)	(3,667,600)	(2,671,817)	(3,161,624)
Cash paid to and on behalf of employees		(311,873)	(300,890)	(293,539)	(269,947)
VAT paid		(165,874)	(133,653)	(158,555)	(122,660)
Income tax paid		(22,834)	(20,954)	(21,192)	(19,454)
Taxes paid other than VAT and income tax		(130,629)	(164,093)	(129,085)	(162,765)
Other cash paid relating to operating activities		(71,899)	(91,547)	(55,219)	(75,647)
Sub-total of cash outflows		(3,817,033)	(4,378,737)	(3,329,407)	(3,812,097)
Net cash flow from operating activities	(a)	744,587	264,840	782,285	242,711
(ii) Cash flows from investing activities:					
Cash received from dividends or distribution of profits		3,251	3,000	3,251	3,000
Cash received from disposal of fixed assets		263	663	155	553
Other cash received relating to investing activities		13,120	525,416	11,919	557,081
Sub-total of cash inflows		16,634	529,079	15,325	560,634
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		(603,479)	(752,951)	(576,317)	(743,792)
Other cash paid relating to investing activities		(15,301)	-	-	-
Sub-total of cash outflows		(618,780)	(752,951)	(576,317)	(743,792)
Net cash flow from investing activities		(602,146)	(223,872)	(560,992)	(183,158)

Cash Flow Statements (unaudited) (Continued)

	<i>Notes to the cash flow statements</i>	The Group		The Company	
		2002	2001	2002	2001
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
(iii) Cash flows from financing activities:					
Proceeds from borrowings		2,011,210	1,446,000	1,844,736	1,446,000
Sub-total of cash inflow		2,011,210	1,446,000	1,844,736	1,446,000
Repayment of borrowings		(2,164,775)	(1,366,000)	(2,079,736)	(1,366,000)
Interest paid		(33,270)	(32,956)	(32,296)	(32,626)
Other cash paid relating to financing activities		(1,600)	(750)	-	-
Sub-total of cash outflows		(2,199,645)	(1,399,706)	(2,112,032)	(1,398,626)
Net cash flow from financing activities		(188,435)	46,294	(267,296)	47,374
Net (decrease)/increase in cash and cash equivalents (b)		(45,994)	87,262	(46,003)	106,927

The notes to the financial statements form part of these interim financial statements.

Cash Flow Statements (unaudited) (Continued)**Notes to the cash flow statements****(a) Reconciliation of net profit to net cash flow from operating activities**

	The Group		The Company	
	For the six months ended 30 June			
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net profit	54,040	121,186	56,270	114,195
Add: Provision for bad debts or bad debts written off	(185)	(2,080)	-	-
Profit attributable to minority interests	4,411	2,266	-	-
Depreciation of fixed assets	431,373	398,040	400,656	367,444
Amortisation of intangible assets	7,055	10,682	7,055	9,695
Amortisation of long-term deferred expenses	2,406	2,458	2,406	2,458
Interest and investment income	(17,127)	(25,037)	(31,625)	(42,474)
Interest expenses	19,313	29,510	18,189	29,180
(Gain)/loss on disposal of fixed assets	(143)	1,149	(155)	855
Increase in inventories	(80,924)	(67,999)	(70,282)	(115,507)
(Increase)/decrease in operating receivables	(73,357)	(172,488)	60,240	(128,065)
Increase/(decrease) in operating payables	397,725	(32,847)	339,531	4,930
Net cash flow from operating activities	<u>744,587</u>	<u>264,840</u>	<u>782,285</u>	<u>242,711</u>

(b) Net (decrease)/increase in cash and cash equivalents

Cash at the end of the period	204	164	91	50
Less: Cash at the beginning of the period	(270)	(241)	(97)	(142)
Add: Cash equivalents at the end of the period	398,979	688,112	261,372	532,666
Less: Cash equivalents at the beginning of the period	(444,907)	(600,773)	(307,369)	(425,647)
Net (decrease)/increase in cash and cash equivalents	<u>(45,994)</u>	<u>87,262</u>	<u>(46,003)</u>	<u>106,927</u>

The notes to the financial statements form part of these interim financial statements.

Notes on the interim financial report (unaudited)

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 fibre.

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.

(a) Accounting year

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

2. Significant accounting policies (Continued)

(b) Basis of preparation

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

The following 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 financial statements according to Cai Kuai Zi [1995] No.11 "Temporary regulations on consolidated financial statements" issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries made up to 31 December each year. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

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

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

(d) Reporting currency and 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 note 2(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 comprise cash balances and time deposits with an initial term of less than three months.

2. Significant accounting policies (Continued)

(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.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories.

Cost includes the cost of purchase of raw material computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate share of production overheads also computed using the weighted average method based on normal operating capacity. Net realisable value is determined based on the estimated selling price subsequent to the balance sheet date in the ordinary course of business or the management's estimation based on the prevailing market conditions.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are expensed as incurred.

(h) Fixed assets

(i) Fixed assets are stated at cost less accumulated depreciation (refer to note (iii) below) and impairment losses (refer to note 2(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 note 2(q)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowings during the construction period (refer to note 2(m)).

Construction in progress is transferred to fixed assets when the asset is substantially completed and 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

Intangible assets mainly comprise patent rights. Patent rights are stated at cost less accumulated amortisation and impairment losses (refer to note 2(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 as investment income.

(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 note 2(q)). Investment income is recognised when the investee company declares cash dividend or distributes profit.

(iii) On disposals or transfers of long-term equity investments, differences between the disposal proceeds and the carrying amount of the investments are recognised in the income statement.

(l) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the buyer receives the goods and 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.

2. Significant accounting policies *(Continued)**(l) Revenue recognition (Continued)*

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

(m) Borrowing costs

Borrowing costs represent interest expenses and foreign exchange differences on loans. Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(n) Repairs and maintenance expenses

Repairs and maintenance expenses (including major overhauls) 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 27.

(q) Provision for impairment on assets

The carrying amounts of all assets are reviewed by the Group periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of asset impairment is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. The provision for impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced. The reversed amount is recognised as income in the period in the income statement.

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.

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.

The rate of income tax payable by the Company is 15%. The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%, 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.

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 date of realisation or 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 tax losses 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 utilisation 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.

(ii) Value added tax

The Group and the Company's applicable VAT rate is 17 per cent.

2. Significant accounting policies (Continued)

(r) Taxes (Continued)

(iii) Business tax and surcharges

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

	Business tax	City construction tax	Education surcharges
Tax rate and bases	3% or 5% on turnover	7% on business tax and net VAT payable	4% 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.

3. Cash at bank and in hand

	The Group			At
	Original currency '000	Exchange rate	Renminbi equivalent Rmb'000	31 December 2001 Renminbi equivalent Rmb'000 (audited)
<i>Cash in hand</i>				
Renminbi			204	270
<i>Cash at bank</i>				
Renminbi			438,534	438,566
Hong Kong Dollars	430	1.06	456	893
US Dollars	4,235	8.29	35,106	26,538
<i>Cash at bank and in hand</i>			474,300	466,267
<i>Deposits with related companies</i>				
Renminbi			726,828	767,504
			1,201,128	1,233,771

3. Cash at bank and in hand *(Continued)*

	The Company			At
		At		31 December
		30 June		2001
	Original	Exchange	Renminbi	Renminbi
	currency	rate	equivalent	equivalent
	'000		Rmb'000	Rmb'000
				<i>(audited)</i>
<i>Cash in hand</i>				
Renminbi			91	97
<i>Cash at bank</i>				
Renminbi			269,860	280,076
Hong Kong Dollars	135	1.06	143	144
US Dollars	3,965	8.29	32,888	24,078
			302,982	304,395
<i>Deposits with related companies</i>				
Renminbi			673,481	720,021
			976,463	1,024,416

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Details are set out in note 24.

4. Bills receivable

Bills receivable represent mainly the bills of acceptance issued by banks for sales of goods and products. At 30 June 2002, no bills receivable were discounted or pledged.

Balances due from substantial shareholders who hold 5% or more of the shares of the Company are disclosed in note 24.

5. Trade receivables

	The Group				The Company			
	At 30		At 31		At 30		At 31	
	June 2002		December 2001		June 2002		December 2001	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
			<i>(audited)</i>				<i>(audited)</i>	
Trade receivables								
Within one year	160,736	87	87,006	80	95,572	87	31,817	71
Between one to two years	5,685	3	6,310	6	4,314	4	4,700	10
Between two to three years	6,310	3	2,624	2	4,700	4	2,589	6
Over three years	13,182	7	13,026	12	5,926	5	5,805	13
	<u>185,913</u>	<u>100</u>	<u>108,966</u>	<u>100</u>	<u>110,512</u>	<u>100</u>	<u>44,911</u>	<u>100</u>
Less: Provision for bad debts								
Within one year	-	-	-	-	-	-	-	-
Between one to two years	(376)	7	(1,963)	31	(376)	9	(1,764)	38
Between two to three years	(2,820)	45	(1,574)	60	(2,820)	60	(1,553)	60
Over three years	(13,182)	100	(13,026)	100	(5,926)	100	(5,805)	100
	<u>(16,378)</u>	<u>9</u>	<u>(16,563)</u>	<u>15</u>	<u>(9,122)</u>	<u>8</u>	<u>(9,122)</u>	<u>20</u>
Trade receivables, net	<u>169,535</u>		<u>92,403</u>		<u>101,390</u>		<u>35,789</u>	

Balances due from substantial shareholders who hold 5% or more of the shares of the Company are disclosed in note 24.

The Group's five largest trade receivables at 30 June 2002 are shown below:

Name of entity	Period of original debts	Particulars	Amount Rmb'000	Percentage of gross trade receivables %
Yangzhou Thermo Power Company Limited	2002	Sale of goods	23,048	12
Hangzhou Wahaha Health Care Food Company Limited	2002	Sale of goods	21,752	12
MB Barter & Trading SA	2002	Sale of goods	17,054	9
Mitsui & Co., Ltd	2002	Sale of goods	7,865	4
Yu Shan Enterprise Company Limited	2002	Sale of goods	4,800	3

During the six months ended 30 June 2002, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided in prior years.

6. Other receivables

	The Group				The Company			
	At 30		At 31		At 30		At 31	
	June 2002		December 2001		June 2002		December 2001	
	<i>Rmb'000</i>	<i>%</i>	<i>Rmb'000</i>	<i>%</i>	<i>Rmb'000</i>	<i>%</i>	<i>Rmb'000</i>	<i>%</i>
	<i>(audited)</i>				<i>(audited)</i>			
Other receivables								
Within one year	33,893	37	45,846	47	22,311	7	65,889	14
Between one to two years	22,073	24	16,002	17	21,479	6	136,258	30
Between two to three years	6,174	7	336	-	36,666	11	194,143	42
Over three years	28,927	32	34,699	36	250,213	76	64,578	14
	91,067	100	96,883	100	330,669	100	460,868	100
Less: Provision for bad debts								
Within one year	-	-	-	-	-	-	-	-
Between one and two years	(8,979)	41	(2,868)	18	(8,979)	42	(2,868)	2
Between two and three years	-	-	(330)	98	-	-	(330)	-
Over three years	(26,435)	91	(32,216)	93	(8,900)	4	(14,681)	23
	(35,414)	39	(35,414)	37	(17,879)	5	(17,879)	4
Other receivables, net	55,653		61,469		312,790		442,989	

Balances due from substantial shareholders who hold 5% or more of the shares of the Company are disclosed in note 24.

The Group's five largest other receivables at 30 June 2002 are shown below:

Name of entity	Period of original debts	Particulars	Amount <i>Rmb'000</i>	Percentage of gross other receivables <i>%</i>
Beijing Tak Hang Company Limited	2002	Current account	5,000	5
Xinhua Life Insurance Company	2002	Expenses paid on behalf	3,400	4
People's Insurance Company of China	2002	Expenses paid on behalf	2,700	3
Guangzhou Hexingwang Logistic Company Limited	2002	Expenses paid on behalf	2,435	3
Sinopec Finance	2002	Interest receivable	858	1

During the six months ended 30 June 2002, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided in prior years.

7. Advance payments

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

All advance payments are aged within a year.

8. Inventories

	The Group		The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
At cost				
Raw materials	477,229	537,707	406,976	447,894
Work in progress	72,005	52,649	69,534	49,509
Finished goods	346,101	216,642	225,147	125,890
Materials in transit	131	323	131	323
Spare parts and consumables	245,765	234,986	219,477	209,367
	<u>1,141,231</u>	<u>1,042,307</u>	<u>921,265</u>	<u>832,983</u>
Less: Provision for diminution in value of inventories				
Raw materials	(6,800)	(1,800)	(5,000)	–
Finished goods	(25,600)	(12,600)	(25,000)	(12,000)
Spare parts and consumables	(29,743)	(29,743)	(29,743)	(29,743)
	<u>(62,143)</u>	<u>(44,143)</u>	<u>(59,743)</u>	<u>(41,743)</u>
	<u>1,079,088</u>	<u>998,164</u>	<u>861,522</u>	<u>791,240</u>

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

	The Group			The Company		
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000
At 1 January 2002	1,800	12,600	29,743	–	12,000	29,743
Additions	<u>5,000</u>	<u>13,000</u>	<u>–</u>	<u>5,000</u>	<u>13,000</u>	<u>–</u>
At 30 June 2002	<u>6,800</u>	<u>25,600</u>	<u>29,743</u>	<u>5,000</u>	<u>25,000</u>	<u>29,743</u>

9. Long-term equity investments

	Equity- investment difference <i>Rmb'000</i> <i>Note (b)</i>	The Group Other unlisted equity- investment <i>Rmb'000</i> <i>Note (c)</i>	Total <i>Rmb'000</i>
At 1 January 2002	(32,384)	62,500	30,116
Amortisation (<i>Note 23</i>)	1,522	–	1,522
At 30 June 2002	<u>(30,862)</u>	<u>62,500</u>	<u>31,638</u>

	Consolidated equity in subsidiaries <i>Rmb'000</i> <i>Note (a)</i>	Equity- investment difference <i>Rmb'000</i> <i>Note (b)</i>	The Company Other unlisted equity- investment <i>Rmb'000</i> <i>Note (c)</i>	Total <i>Rmb'000</i>
At 1 January 2002	(114,645)	(32,384)	62,500	(84,529)
Share of profits less losses from investments accounted for under the equity method (<i>Note 23</i>)	9,339	–	–	9,339
Amortisation (<i>Note 23</i>)	–	1,522	–	1,522
At 30 June 2002	<u>(105,306)</u>	<u>(30,862)</u>	<u>62,500</u>	<u>(73,668)</u>

- (a) The particulars of subsidiaries which principally affected the results, assets and liabilities of the Group are as follows:

Name of company	Registered capital <i>in thousands</i>	Percentage of equity held directly by		Type of legal entity	Principal activities
		the Company %	held by subsidiary %		
Foshan Chemical Fibre Complex	Rmb 32,933	100	–	Wholly-owned legal person	Management and administration
Yizheng Chemical Fibre Foshan Polyester Company Limited ("Foshan Polyester")	USD 85,427	59	41	Limited company	Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after- sales services
Yihua Kangqi Chemical Fibre Company Limited	Rmb 60,000	95	5	Limited company	Investment holding and trading of polyester chips and polyester fibre

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

9. Long-term equity investments (Continued)

- (b) The difference between the Company's initial cost of investments in subsidiaries, which were acquired in 1995, and its share of their net asset values was treated as an "equity-investment difference". The "equity-investment difference" is amortised on a straight-line basis over 15 years. The remaining period of amortisation is approximately 10 years.
- (c) Other unlisted equity-investment

At 30 June 2002, the other unlisted equity-investment of the Group and the Company is as follows:

Investee	Investment period	Total investment <i>Rmb'000</i>	Percentage shareholdings <i>%</i>	Provision for diminution in value <i>Rmb'000</i>
Sinopec Finance	—	<u>62,500</u>	3.3	<u>—</u>

- (d) The amounts due from subsidiaries of Rmb800 million (At 31 December 2001: Rmb800 million) are expected to be recovered after more than one year.

10. Fixed assets

	Land and buildings <i>Rmb'000</i>	Plant, machinery and other equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2002	2,500,133	9,399,966	578,175	12,478,274
Additions	—	675	255	930
Transfer from construction in progress (<i>Note 11</i>)	220	462,750	4,106	467,076
Disposals	—	(50)	(2,012)	(2,062)
Reclassifications	(1,394)	(10,367)	11,761	—
At 30 June 2002	<u>2,498,959</u>	<u>9,852,974</u>	<u>592,285</u>	<u>12,944,218</u>
Accumulated depreciation:				
At 1 January 2002	533,013	4,093,892	313,642	4,940,547
Charge for the period	43,920	333,355	54,098	431,373
Written back on disposal	—	(50)	(1,892)	(1,942)
Reclassifications	(87)	(1,681)	1,768	—
At 30 June 2002	<u>576,846</u>	<u>4,425,516</u>	<u>367,616</u>	<u>5,369,978</u>
Net book value:				
At 30 June 2002	<u>1,922,113</u>	<u>5,427,458</u>	<u>224,669</u>	<u>7,574,240</u>
At 31 December 2001	<u>1,967,120</u>	<u>5,306,074</u>	<u>264,533</u>	<u>7,537,727</u>

10. Fixed assets (Continued)

	Land and buildings <i>Rmb'000</i>	The Company Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2002	2,184,326	8,687,570	549,678	11,421,574
Additions	1,889	232	71	2,192
Transfer from construction in progress (Note 11)	99	460,932	3,074	464,105
Disposals	-	(50)	(753)	(803)
Reclassifications	507	882	(1,389)	-
At 30 June 2002	<u>2,186,821</u>	<u>9,149,566</u>	<u>550,681</u>	<u>11,887,068</u>
Accumulated depreciation:				
At 1 January 2002	482,514	3,794,934	298,337	4,575,785
Charge for the period	38,863	310,088	51,705	400,656
Written back on disposal	-	(50)	(753)	(803)
Reclassifications	450	882	(1,332)	-
At 30 June 2002	<u>521,827</u>	<u>4,105,854</u>	<u>347,957</u>	<u>4,975,638</u>
Net book value:				
At 30 June 2002	<u>1,664,994</u>	<u>5,043,712</u>	<u>202,724</u>	<u>6,911,430</u>
At 31 December 2001	<u>1,701,812</u>	<u>4,892,636</u>	<u>251,341</u>	<u>6,845,789</u>

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

11. Construction in progress

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

The projects not yet commissioned at 30 June 2002 are as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance at		Transferred out <i>Rmb'000</i> (Note 10)	Balance at 30 June 2002 <i>Rmb'000</i>	Source of fund	Percentage of completion %	Interest capitalised <i>Rmb'000</i>
		1 January 2002 <i>Rmb'000</i>	Additions <i>Rmb'000</i>					
Phase 4 project	2,055,035	205,707	219,255	-	424,962	Bank loans/ surplus fund	21	22,818
Improvements to existing plants	681,173	74,000	398,847	(462,183)	10,664	Surplus fund	2	-
Other construction projects	10,170	<u>846</u>	<u>7,934</u>	<u>(1,922)</u>	6,858	Surplus fund	67	-
Total for the Company		280,553	626,036	(464,105)	442,484			
Miscellaneous projects of the subsidiary		<u>43,120</u>	<u>28,424</u>	<u>(2,971)</u>	68,573	Surplus fund		
Total for the Group		<u>323,673</u>	<u>654,460</u>	<u>(467,076)</u>	511,057			

12. Construction materials

	The Group and The Company	
	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> (audited)
Equipment and accessories	373,802	424,740
Other construction materials	15,319	2,735
	389,121	427,475

13. Intangible assets

	The Group and The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Cost of patent rights:		
At the beginning and end of the period/year	141,097	141,097
Amortisation:		
At the beginning and end of the period/year	85,793	71,683
Charge for the period/year	7,055	14,110
	92,848	85,793
Net balance at the end of the period/year	48,249	55,304

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 4 years and 6 years respectively.

14. Taxation

(a) Income tax in the income statements

With effect from 1 January 1994, PRC domestic enterprises are subject to a unified income tax rate of 33% 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%. Since no further notice has been received from the PRC State Tax Bureau, this tax rate is still effective for 2002.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%, 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.

14. Taxation (Continued)

(b) Business tax and surcharges in the income statements represent:

	The Group		The Company	
	For the six months ended 30 June			
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
City construction tax	12,051	9,327	12,051	9,327
Education surcharges	6,887	5,301	6,887	5,301
Others	954	662	-	-
	<u>19,892</u>	<u>15,290</u>	<u>18,938</u>	<u>14,628</u>

(c) Taxes payable in the balance sheets represent:

	The Group		The Company	
	At 30	At 31	At 30	At 31
	June	December	June	December
	2002	2001	2002	2001
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
		(audited)		(audited)
Provision for PRC income tax for the period/year	8,680	40,087	6,919	37,275
Provisional PRC income tax paid	(11,642)	(27,138)	(10,000)	(25,931)
	(2,962)	12,949	(3,081)	11,344
Balance of PRC income tax provision relating to prior periods	136,986	135,229	135,381	135,229
Income tax payable	134,024	148,178	132,300	146,573
Business tax and surcharges payable	22	143	22	143
VAT payable	102,705	93,899	99,385	110,719
Other taxes payable	15,341	14,176	13,270	11,910
Taxes payable	<u>252,092</u>	<u>256,396</u>	<u>244,977</u>	<u>269,345</u>

(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.

15. Short-term and long-term loans

- (a) Bank loans of the Group and of the Company as at 30 June 2002 were repayable as follows:

	The Group		The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Short-term bank loans	576,455	580,020	465,000	550,000
Current portion of long-term bank loans (Note 15(b))	-	150,000	-	150,000
	<u>576,455</u>	<u>730,020</u>	<u>465,000</u>	<u>700,000</u>
After 1 year but within 2 years	350,000	300,000	350,000	300,000
After 2 years but within 3 years	150,000	200,000	150,000	200,000
	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Long-term portion of long-term bank loans (Note 15(b))	500,000	500,000	500,000	500,000
Total bank loans	<u>1,076,455</u>	<u>1,230,020</u>	<u>965,000</u>	<u>1,200,000</u>

At 30 June 2002, the Group and the Company did not have any overdue short-term loans. (At 31 December 2001: Nil). Short-term loans are unsecured and denominated in Renminbi.

15. 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	The Group and The Company		At	At 31
		Interest rate	Interest type	30 June 2002 Rmb'000	December 2001 Rmb'000 (audited)
Bank of China	Due in 2002	5.94%	Floating	-	100,000
Industrial and Commercial Bank of China	Due in 2002	5.94%	Floating	-	50,000
Industrial and Commercial Bank of China	Due in 2003	4.94%	Fixed	250,000	-
Industrial and Commercial Bank of China	Due in 2003	5.94%	Floating	50,000	250,000
Bank of China	Due in 2003	5.94%	Floating	-	50,000
Industrial and Commercial Bank of China	Due in 2004	4.94%	Fixed	50,000	-
Industrial and Commercial Bank of China	Due in 2004	5.94%	Fixed	150,000	150,000
Construction Bank	Due in 2004	5.35%	Floating	-	50,000
Total long-term bank loans				500,000	650,000
Less: Long-term bank loans (Current portion) (Note 15(a))				-	150,000
Long-term bank loans (Long-term portion) (Note 15(a))				500,000	500,000

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

- (c) At 30 June 2002, CPC did not give guarantees to banks in respect of long-term loans to the Company (At 31 December 2001: Rmb50,000,000).

16. Bills payable, trade payables, receipts in advance and other creditors

Bills payable primarily represent the bank accepted bills for the purchase of material, goods and products. The repayment term is normally from three to six months.

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

In the accounts of bills payable, trade payables, receipts in advance and other creditors, balances due to substantial shareholders who hold 5% or more of the shares of the Company are disclosed in note 24.

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

	The Group		The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Due within one month or on demand	435,762	309,687	365,527	256,657
Due after one month but within six months	294,666	69,796	254,756	44,796
	<u>730,428</u>	<u>379,483</u>	<u>620,283</u>	<u>301,453</u>

17. Accrued expenses

	The Group		The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Accrued interest	755	1,155	605	1,155

18. Share capital

	The Group and The Company	
	At 30 June 2002 Rmb'000	At 31 December 2001 Rmb'000 (audited)
Registered, issued and paid up capital:		
2,400,000,000 Legal person "A" shares of Rmb 1 each	2,400,000	2,400,000
200,000,000 Social public "A" shares of Rmb 1 each	200,000	200,000
1,400,000,000 "H" shares of Rmb 1 each	1,400,000	1,400,000
	<u>4,000,000</u>	<u>4,000,000</u>

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

19. Capital reserve

Capital reserve represents share premium.

20. Surplus reserves

	The Group and The Company			
	Statutory surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Discretionary surplus reserve Rmb'000	Total Rmb'000
At 1 January 2001	429,289	267,466	594,547	1,291,302
Transfer from distributable profits	<u>21,937</u>	<u>20,998</u>	<u>—</u>	<u>42,935</u>
At 31 December 2001	<u>451,226</u>	<u>288,464</u>	<u>594,547</u>	<u>1,334,237</u>
At 1 January 2002	451,226	288,464	594,547	1,334,237
Transfer from distributable profits	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 30 June 2002	<u>451,226</u>	<u>288,464</u>	<u>594,547</u>	<u>1,334,237</u>

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

No transfers were made from profit attributable to shareholders to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve for the six months ended 30 June 2002.

21. Income from principal operations

For the six months ended 30 June 2002, revenue from sales to top five customers are Rmb704,000,000 which accounts for 19% of the income from principal operations of the Group.

22. Financial expenses

	The Group		The Company	
	For the six months ended 30 June			
	2002	2001	2002	2001
	Rmb'000	<i>Rmb'000</i>	Rmb'000	<i>Rmb'000</i>
Interest expenses incurred	32,870	34,510	31,746	34,180
Less: Capitalised interest expenses	(13,557)	(5,000)	(13,557)	(5,000)
Interest expenses	19,313	29,510	18,189	29,180
Interest income	(12,354)	(20,515)	(17,513)	(27,805)
Net exchange loss/(gain)	319	(123)	(159)	(240)
Others	2,291	2,953	2,267	2,778
	9,569	11,825	2,784	3,913

23. Investment income

	The Group		The Company	
	For the six months ended 30 June			
	2002	2001	2002	2001
	Rmb'000	<i>Rmb'000</i>	Rmb'000	<i>Rmb'000</i>
Investment income in subsidiaries accounted for under the equity method (<i>Note 9</i>)	-	-	9,339	10,147
Amortisation of equity-investment difference (<i>Note 9</i>)	1,522	1,522	1,522	1,522
Dividend from other equity investment	3,251	3,000	3,251	3,000
	4,773	4,522	14,112	14,669

24. Related parties and related party transactions

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

Name of company	Registered address	Principal activities	Relationship with the group	Type 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 etc; 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; sales of crude oil, natural gas and refined petroleum products; and manufacture and sales 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

Registered capital and their movements of the above related parties:

Name of company	At the beginning of the period <i>Rmb'000</i>	Increase during the period <i>Rmb'000</i>	Decrease during the period <i>Rmb'000</i>	At the end of the period <i>Rmb'000</i>
CPC	104,912,000	—	—	104,912,000
Sinopec	86,702,439	—	—	86,702,439
CITIC	3,000,000	—	—	3,000,000

24. Related parties and related party transactions (Continued)

- (a) Related parties having the ability to exercise control over the Group (Continued)

Percentage shareholdings held by the above related parties and their movements:

Name of company	Number of shares held at the beginning of the period		Increase in number of shares held		Decrease in number of shares held		Number of shares held at the end of the period	
	'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 company

Yihua
Sinopec Yangzi Petrochemical Company Limited ("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	
	2002	2001
	Rmb'000	Rmb'000
Purchase of raw materials	<u>1,081,430</u>	<u>1,168,720</u>

Yihua and its subsidiaries ("Yihua Group")

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Sales	421,791	586,683
Purchase	50,079	60,304
Miscellaneous service fee charges (see note below)	51,280	60,695
Miscellaneous service fee income (see note below)	5,370	14,660
Trademark licence fee (see note below)	5,000	5,000
Payments to the engineering company of Yihua relating to the construction and maintenance work carried out on behalf of the Company	<u>43,256</u>	<u>46,190</u>

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

24. Related parties and related party transactions (Continued)

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

Sinopec and its subsidiaries, excluding Yangzi

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Purchase of raw materials	74,953	57,548
Subsidy received in respect of technological research and development	1,900	10,349
	<u>76,853</u>	<u>67,897</u>

CPC Group, including Nanhua and Maoming but excluding Yihua Group, Sinopec and Sinopec Finance

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Construction work carried out on behalf of the Company	36,291	–
Purchase of equipment	–	5,585
Purchase of raw materials	19,715	13,223
Insurance premium paid	7,916	4,534
	<u>63,922</u>	<u>23,342</u>

Sinopec Finance

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Interest income	5,887	7,224
	<u>5,887</u>	<u>7,224</u>

CITIC Industrial Bank

	For the six months ended 30 June	
	2002	2001
	Rmb'000	Rmb'000
Interest income	407	268
	<u>407</u>	<u>268</u>

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 in normal commercial terms or in accordance with the terms of the agreements governing these transactions.

- (d) At 30 June 2002, CPC did not give guarantees to banks in respect of bank loans to the Company (At 31 December 2001: Rmb50,000,000).

24. Related parties and related party transactions (Continued)

(e) Deposits with Sinopec Finance

At	At
30 June	31 December
2002	2001
Rmb'000	<i>Rmb'000</i>
	<i>(audited)</i>

Cash at bank and in hand	665,497	<u>715,728</u>
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(f) Deposits with CITIC Industrial Bank

At	At
30 June	31 December
2002	2001
Rmb'000	<i>Rmb'000</i>
	<i>(audited)</i>

Cash at bank and in hand	61,331	<u>51,776</u>
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(g) Details of amounts due from/(to) Yihua Group are as follows:

At	At
30 June	31 December
2002	2001
Rmb'000	<i>Rmb'000</i>
	<i>(audited)</i>

Trade receivables	3,060	7,139
Bills receivable	74,098	35,912
Other receivables	2,553	53
Trade payables	(7,509)	(8,379)
Receipts in advance	(5,166)	(6,800)
Other creditors	(57,940)	(57,160)
	9,096	<u>(29,235)</u>

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

At	At
30 June	31 December
2002	2001
Rmb'000	<i>Rmb'000</i>
	<i>(audited)</i>

Other receivables	4,858	8,257
Trade payables	(131,846)	(38,795)
Bills payable	(250,000)	-
Other creditors	(42,404)	(36,690)
	(419,392)	<u>(67,228)</u>

25. Contingent liabilities

At 30 June 2002, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans to certain wholly owned subsidiaries amounted to Rmb111,455,000 (At 31 December 2001: Rmb30,020,000).

26. Capital commitments

At 30 June 2002, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>	At 30 June 2002 <i>Rmb'000</i>	At 31 December 2001 <i>Rmb'000</i> <i>(audited)</i>
Authorised and contracted for	987,892	690,890	975,938	665,652
Authorised but not contracted for	756,433	1,416,623	756,433	1,393,669
	<u>1,744,325</u>	<u>2,107,513</u>	<u>1,732,371</u>	<u>2,059,321</u>

These capital commitments are for construction of purified terephthalic acid production plant and improvement to existing plants.

27. 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	
		At 30 June 2002	At 31 December 2001
Yizheng Municipal Government Jiangsu Province	Employees of the Company	16%	16%
Foshan Municipal Government Guangdong Province	Employees of Foshan Polyester	22.5%	19%

All employees are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees described above.

Other than the above, pursuant to 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 2002 was 9 per cent (2001: 9 per cent).

28. Post balance sheet events

There were no material post balance sheet events for the Group after the balance sheet date at 30 June 2002.

C. Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and International Financial Reporting Standards (“IFRS”):

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 interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRS. 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 IFRS, dividends are recognised in the period in which they are declared or approved.
- (ii) Under IFRS, 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 IFRS financial statements before 1 January 1998.
- (iii) Effective 1 January 2002, land use rights are carried at historical cost base under IFRS. Accordingly, the surplus on the revaluation of land use rights was reversed to shareholders’ equity. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.

Reconciliation of net profit and shareholders’ funds of the Group in the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IFRS are summarised below:

	The Group	
	For the six months	
	ended 30 June	
	2002	2001
	Rmb’000	Rmb’000
Net profit under PRC Accounting Rules and Regulations	54,040	121,186
Differences:		
– Amortisation of revaluation of land use rights (iii)	2,640	–
– Effect of the above adjustment on taxation	(396)	–
Net profit under IFRS	56,284	121,186
	At	At
	30 June	31 December
	2002	2001
	Rmb’000	Rmb’000
		<i>(audited)</i>
Shareholders’ funds under PRC Accounting Rules and Regulations	8,855,908	8,801,868
Differences:		
– Dividends (i)	–	80,000
– Negative goodwill (ii)	7,354	7,354
– Revaluation of land use rights (iii)	(218,240)	(220,880)
– Effect of the above adjustment on taxation	32,736	33,132
Shareholders’ funds under IFRS	8,677,758	8,701,474

9. CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the report period in compliance with the Code of Best Practice as set out by the HKSE in Appendix 14 to the Rules Governing (the Listing of Securities on the HKSE (“HKSE Listing Rules”).)

The fifth meeting of the Audit Committee of the Board of the Company was held on 19 August 2002, and mainly reviewed the Interim Financial Report of the Group during the report period.

By order of the Board
Fu Xing-tang
 Chairman

19 August 2002, Nanjing

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 19 August 2002 (Monday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2002 signed by the Chairman and the General Manager of the Company;
2. The interim financial reports of the Company for the six months ended 30 June 2002 signed by the Legal representative, Chief Financial Officer and the person in charge of the accounts;
3. The Articles of Association of the Company;
4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by CSRC during the report period.

* *This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IAS 34, the Chinese version is considered to be more accurate.*