中國石化儀征化纖股份有限公司

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

(a joint stock limited company established in the People's Republic of China)


# INTERIM REPORT 2003

*Important Notes:* *The Board of Directors (**"the Board"**) of Sinopec Yizheng Chemical Fibre Company Limited and its directors warrant that there are no false representations, misleading statements or material omissions in this interim report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report. The interim financial report contained therein is unaudited.*

*Mr. Fu Xing-tang, Chairman, Mr. Xu Zheng-ning, Managing Director, Ms. Zhou Xin-hua, Chief Financial Officer and Mr. Yin Jia-dong, Head of the Accounting Department of the Company warranted the true and completeness of the financial statements contained in the interim report.*

The Board of Sinopec Yizheng Chemical Fibre Company Limited (**"the Company"**) hereby presents the interim results of the Company and its subsidiaries (**"the Group"**) for the six months ended 30 June 2003. The interim financial reports are unaudited.

## 1. COMPANY PROFILE

| | | |
|---|---|---|
| 1. | Legal name: | Sinopec Yizheng Chemical Fibre Company Limited<br>中國石化儀征化纖股份有限公司 |
| | Abbreviation: | YCF<br>儀征化纖 |
| 2. | Legal representative: | Mr. Fu Xing-tang |
| 3. | Registered and office address: | Yizheng City, Jiangsu Province,<br>the People's Republic of China (**"the PRC"**) |
| | Postal code: | 211900 |
| | Telephone: | 86-514-3232235 |
| | Fax: | 86-514-3233880 |
| | Internet website: | http://www.ycfc.com |
| | E-mail address: | cso@ycfc.com |
| 4. | Company Secretary: | Mr. Tom C.Y. Wu |
| | Assistant Company Secretary: | Ms. Michelle M. Shi |
| | Contact address: | Company Secretary Office<br>Sinopec Yizheng Chemical Fibre Company Limited<br>Yizheng City, Jiangsu Province, the PRC |
| | Telephone: | 86-514-3231888 |
| | Fax: | 86-514-3235880 |
| | E-mail address: | cso@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 available for inspection: | Company Secretary Office<br>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 (**"SSE"**)
– Stock name: Yizheng Chemical
– Stock code: 600871

## 2. *FINANCIAL SUMMARY*

### 1. Principal financial data and financial indicators of the Group:

**1.1 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 | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Turnover | **4,697,495** | 3,687,456 |
| Profit from ordinary activities before taxation | **14,099** | 69,771 |
| Income tax expense | **533** | 9,076 |
| Profit attributable to shareholders | **6,847** | 56,284 |
| Basic earnings per share | **Rmb0.002** | Rmb0.014 |

**1.2 Extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations**
*(Consolidated and unaudited)*

| | **As at 30 June 2003** | As at 31 December 2002 | | Increase/ (decrease) compared to last year *(adjusted)* |
|---|---|---|---|---|
| | ***Rmb'000*** | *Rmb'000* | | *(%)* |
| | | *Adjusted* | *Before adjusted* | |
| Current assets | **2,858,473** | 3,023,948 | 3,023,948 | (5.5) |
| Current liabilities | **2,561,983** | 2,879,823* | 2,939,823 | (11.0) |
| Total assets | **12,058,987** | 12,179,002 | 12,179,002 | (1.0) |
| Shareholders' funds (excluding minority interests) | **8,886,304** | 8,941,701* | 8,881,701 | (0.6) |
| Net assets per share | **Rmb2.222** | Rmb2.235* | Rmb2.220 | (0.6) |
| Adjusted net assets per share | **Rmb2.221** | Rmb2.235* | Rmb2.220 | (0.6) |

| | For the six months ended 30 June 2003 Rmb'000 | For the six months ended 30 June 2002 Rmb'000 Adjusted | Before adjusted | Increase/(decrease) compared to the same period of last year (adjusted) (%) |
|---|---|---|---|---|
| Net profit | **4,603** | 54,040 | 54,040 | (91.5) |
| Net profit before non-operating profit | **4,212** | 54,040 | 54,040 | (92.2) |
| Earnings per share | **Rmb0.001** | Rmb0.014 | Rmb0.014 | (91.5) |
| Return on net assets | **0.05%** | 0.60%* | 0.61% | (91.7) |
| Net cash flow from operating activities | **20,163** | 744,587 | 744,587 | (97.3) |

* *These figures have been adjusted as a result of the change in accounting policy in the adoption of the revised Accounting Standard for Business Enterprises-Events Occurring After the Balance Sheet Date. Details are set out in note 2 of this interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.*

*Note:*

| Non-operating profit | Amount |
|---|---|
| Gain on disposal of fixed assets (before taxation) | Rmb460,000 |
| Total | Rmb460,000 |

## 1.3 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")

*(Consolidated and unaudited)*

*Unit: Rmb'000*

| | PRC Accounting Rules and Regulations | IFRS |
|---|---|---|
| Net Profit | 4,603 | 6,847 |

Explanations for differences: Please refer to the section on "Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRS" of this interim report.

## 2. Supplementary schedule for the income statement (extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

*(Consolidated and unaudited)*

| Profit during the reporting period | Return on net assets (%) Fully diluted | Return on net assets (%) Weighted average | Earnings per share (Rmb) Fully diluted | Earnings per share (Rmb) Weighted average |
|---|---|---|---|---|
| Income from principal operations | 3.21 | 3.19 | 0.071 | 0.071 |
| Operating profit | 0.06 | 0.06 | 0.001 | 0.001 |
| Net profit | 0.05 | 0.05 | 0.001 | 0.001 |
| Net profit before non-operating profit | 0.05 | 0.05 | 0.001 | 0.001 |

## 3. Consolidated statement of impairment of assets (extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

*(Consolidated and unaudited)*

| | **At 1 January 2003** ***Rmb'000*** | Increase for the period *Rmb'000* | Decrease for the period *Rmb'000* | **At 30 June 2003** ***Rmb'000*** |
|---|---|---|---|---|
| **1. Total provisions for bad and doubtful debts** | **34,454** | 14 | – | **34,468** |
| Including: Trade receivables | **10,832** | 14 | – | **10,846** |
| Other receivables | **23,622** | – | – | **23,622** |
| **2. Total provision for diminution in value of inventories** | **47,186** | 19,440 | (19,440) | **47,186** |
| Including: Raw materials | **8,800** | – | (1,800) | **7,000** |
| Finished goods | **8,643** | 19,440 | (17,640) | **10,443** |
| Spare parts and consumables | **29,743** | – | – | **29,743** |

## 4. Changes in the financial statements items (extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

*(Consolidated and unaudited)*

| Item | At 30 June 2003 *Rmb'000* | At 31 December 2002 *Rmb'000* | Change % | Reason for Change |
|---|---|---|---|---|
| Trade receivables | **146,889** | 93,428 | 57.2 | Increase in sales during the period |
| Construction in progress | **1,866,199** | 1,021,353 | 82.7 | Increase in construction expenditures incurred on projects, such as PTA project with an annual capacity of 450,000 tonnes |
| Construction materials | **171,718** | 614,652 | (72.1) | Used in construction projects, such as PTA project with an annual capacity of 450,000 tonnes |
| Long-term deferred expenses | **1,831** | 3,361 | (45.5) | Amortisation of long-term deferred expenses during the period |
| Trade payables | **198,480** | 349,404 | (43.2) | Payments for the purchased raw materials at the end of 2002 |
| Wages payables | **98,967** | 154,743 | (36.0) | Payments for 2002 wages and bonus |
| Staff welfare payable | **36,921** | 66,624 | (44.6) | Payments for 2002 welfare expenses |
| Dividend payable | **60,000** | –* | 100 | 2002 final dividend approved in the annual general meeting held during the period |

| Item | At 30 June 2003 Rmb'000 | At 31 December 2002 Rmb'000 | Change % | Reason for Change |
|---|---|---|---|---|
| Taxes payable | **79,887** | 142,246 | (43.8) | Decrease in total profit and payment of taxes relating to previous years |
| Long-term loans** | **550,000** | 300,000 | 83.3 | Financing for construction projects such as PTA project with an annual capacity of 450,000 tonnes |
| Accrued expenses | **2,282** | 866 | 163.5 | Increase in interest expenses as a result of the increase in loans |

* *This figure has been adjusted as a result of the change in accounting policy in the adoption of the revised Accounting Standard for Business Enterprises-Events Occuring After The Balance Sheet Date. Details are set out in note 2 of this interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.*

** *Long-term loans represent fixed rate borrowings.*

| Item | For the six months ended 30 June 2003 Rmb'000 | 2002 Rmb'000 | Change (%) | Reason for Change |
|---|---|---|---|---|
| Cost of sales from principal operations | **4,398,907** | 3,284,740 | 33.9 | Increase in sales volume and raw material purchase prices |
| Business tax and surcharges | **13,025** | 19,892 | (34.5) | Decrease in gross profit margin |
| (Profit)/loss from other operations | **(3,854)** | 6,482 | 159.5 | Decrease in net losses on sales of ancillary and raw materials |
| Financial expenses | **33,834** | 9,569 | 253.6 | Increase in loans for operation and capital projects |
| Operating profit | **5,107** | 63,264 | (91.9) | Decrease in gross profit margin due to the increase in raw material purchase prices to a greater extent than product selling prices |

| Item | For the six months ended 30 June 2003 Rmb'000 | 2002 Rmb'000 | Change (%) | Reason for Change |
|---|---|---|---|---|
| Non-operating expenses | **3,001** | 6,070 | (50.6) | Decrease in flood prevention fee |
| Total profit | **11,459** | 67,131 | (82.9) | Decrease in gross profit margin due to the increase in raw material purchase prices to a greater extent than product selling prices |
| Income tax | **137** | 8,680 | (98.4) | Decrease in total profit |
| Minority interests | **6,719** | 4,411 | 52.3 | Increase in total profit for subsidiaries which carry out trading business of polyester products with stable gross profit margin and increase in sales volume |

## 3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

### 1. Changes in share capital

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

### 2. Shareholdings of major shareholders

1. As at 30 June 2003, there were 94,662 shareholders in the Company, including 93,018 shareholders holding circulating A shares, 2 shareholders holding legal person A shares and 1,642 shareholders holding H shares.

2. As at 30 June 2003, the shareholdings of the top ten major shareholders of the Company are as follows:

| Name of shareholders | Increase/ (decrease) in the number of shares held during the reporting period *(shares)* | Number of shares held at the end of the reporting period *(shares)* | Percentage to total share capital *(%)* | Type of share | Number of pledged or frozen shares* | Nature of shareholders |
|---|---|---|---|---|---|---|
| China Petroleum & Chemical Corporation (**"Sinopec"**) | Nil | 1,680,000,000 | 42.00 | Non-circulating | Nil | Domestic legal person shareholder |
| Hong Kong Securities Clearing Company (**"HKSCC"**) (Nominees) Limited | (2,001) | 1,345,024,797 | 33.63 | Circulating | Nil | H shares |
| China International Trust and Investment Corporation (**"CITIC"**) | Nil | 720,000,000 | 18.00 | Non-circulating | Nil | Domestic legal person shareholder** |
| Tian-yuan Fund | Not applicable | 3,372,440 | 0.084 | Circulating | Not applicable | A shares |
| HSBC Nominees (HONG KONG) Limited A/C BR-13*** | Nil | 1,800,000 | 0.045 | Circulating | Not applicable | H shares |
| Kai-yuan Fund | (699,317) | 1,557,583 | 0.039 | Circulating | Not applicable | A shares |
| Xing-he Fund | Nil | 1,348,481 | 0.034 | Circulating | Not applicable | A shares |
| HSBC Nominees (HONG KONG) Limited A/C BR-12*** | Nil | 1,200,000 | 0.03 | Circulating | Not applicable | H shares |
| HSBC Nominees (HONG KONG) Limited A/C BR-16*** | Nil | 1,200,000 | 0.03 | Circulating | Not applicable | H shares |
| Guo-yuan Securities | Not applicable | 962,200 | 0.024 | Circulating | Not applicable | A shares |

| | |
|---|---|
| Relationship among the top ten shareholders | Among the top ten shareholders, Tian-yuan Fund and Kai-yuan Fund are operated by Southern Fund Management Co Ltd. |

*Note:*

* *It represents the number pledged or frozen shares held by shareholders who hold more than five per cent of the Company's shares during the reporting period.*

** *Shares held on behalf of the State.*

*** *Shares held on behalf of different customers.*

3. The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares

As at 30 June 2003, so far as the Directors, Supervisors and Senior Management of the Company are aware, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (**"SFO"**):

| Names of shareholder | Number of shares held *(shares)* | Percentage of shareholding in the Company's total issued share capital *(%)* | Percentage of shareholding in the Company's total issued domestic shares *(%)* | Percentage of shareholding in the Company's total issued H shares *(%)* | Short position |
|---|---|---|---|---|---|
| Sinopec* | 1,680,000,000 | 42.00 | 64.62 | – | – |
| CITIC | 720,000,000 | 18.00 | 27.69 | – | – |
| J.P. Morgan Chase & Co. ** | 153,046,000 | 3.83 | – | 10.93 | – |

* *As at 30 June 2003, China Petrochemical Corporation (**"CPC"**) holds 55.06% of the equity interest in Sinopec.*

** *Such shares were held through HKSCC Nominees Limited.*

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 30 June 2003, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the **"Listing Rules"**)) of the Company.

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

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

## 4. *DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT*

### 1. Changes in Directors, Supervisors and Senior Management

According to the resolution of the third meeting of the fourth term of the Board held on 30 January 2003, Mr. Li Ren-yan ceased to act as Deputy General Manager.

### 2. Directors', Supervisors' and Senior Management's interests in shares

According to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance (the **"SDI Ordinance"**) of Hong Kong, and under the relevant PRC laws and regulations concerning details of shares of the Company held by the Directors, Supervisors and Senior Management as at 30 June 2003 are as follows:

*(A) Directors*

| Name | Title | Number of A shares held at the beginning of the reporting period | Number of A shares held at the end of the reporting period | Reason for change |
|---|---|---|---|---|
| Fu Xing-tang | Chairman | 0 | 0 | No change |
| Sun Zhi-hong | Vice Chairwoman | 0 | 0 | No change |
| Qian Heng-ge | Vice Chairman | 2,000 | 2,000 | No change |
| Xu Zheng-ning | Managing Director | 2,600 | 2,600 | No change |
| Xiao Wei-zhen | Director, Deputy General Manager | 0 | 0 | No change |
| Yao Han-chong | Director | 0 | 0 | No change |
| Long Xing-ping | Director | 0 | 0 | No change |
| Zhang Hong | Director | 0 | 0 | No change |
| Ye Zong-shan | Director | 0 | 0 | No change |
| Guan Diao-sheng | Director | 0 | 0 | No change |
| Li Zhong-he | Independent Director | 0 | 0 | No change |
| Wang Hua-cheng | Independent Director | 0 | 0 | No change |
| Yi Ren-ping | Independent Director | 0 | 0 | No change |
| Qian Zhi-hong | Independent Director | 0 | 0 | No change |

*(B) Supervisors*

| Name | Title | Number of A shares held at the beginning of the reporting period | Number of A shares held at the end of the reporting period | Reason for change |
|---|---|---|---|---|
| Huang Gui-geng | Chairman of the Supervisory Committee | 2,300 | 2,300 | No change |
| Zhou Wen-fei | Supervisor | 0 | 0 | No change |
| Chen Jian | Supervisor | 0 | 0 | No change |
| Huang Zhi-wei | Independent Supervisor | 0 | 0 | No change |
| Chu Su-hua | Independent Supervisor | 0 | 0 | No change |

*(C) Senior Management*

| Name | Title | Number of A shares held at the beginning of the reporting period | Number of A shares held at the end of the reporting period | Reason for change |
|---|---|---|---|---|
| Ling Ai-bao | Deputy General Manager | 2,600 | 2,600 | No change |
| Shen Xi-jun | Deputy General Manager | 0 | 0 | No change |
| Zhou Xin-hua | Chief Financial Officer | 0 | 0 | No change |
| Tom C.Y. Wu | Company Secretary | 0 | 0 | No change |

There was no change in the number of the Company's shares held by the Directors, Supervisors of the fourth term and Senior Management during the reporting 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, and other associated corporations (within the meaning of the SDI Ordinance) during the reporting period.

## 3. Directors', Supervisors' and Senior Management's rights to acquire shares and debentures and short position

As at 30th June, 2003, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 to the Listing Rules.

At no time during the reporting 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 & PROSPECTS

*Financial figures, where applicable, contained herein have been 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 2003, the Group's turnover amounted to Rmb4,697,495,000, increased by 27.4 per cent as compared with Rmb3,687,456,000 for the corresponding period of last year. The Group's profit attributable to shareholders was Rmb6,847,000, decreased by 87.8 per cent as compared with Rmb56,284,000 for the corresponding period of last year, and basic earnings per share decreased by 87.8 per cent to Rmb0.002 as compared with Rmb0.014 for the corresponding period of last year.

The Board resolved that no interim dividend was paid for the year ending 31 December 2003 (interim dividend for 2002: Nil).

### Market review

In the first half of 2003, due to the war in Iraq and the outbreak of Severe Acute Respiratory Syndrome (**"SARS"**), the recovery of global economy slowed down. As a result, the PRC economy only achieved a GDP growth of 6.7 per cent in the second quarter. The growth rate of retail sales of social consumer goods decreased from 9.2 per cent in the first quarter to 6.7 per cent in the second quarter. The acute decrease in the growth rate of production and sales, and the operating efficiency in the textile industry led to the decrease in the demand for polyester products. On the other hand, during the first half of 2003, the PRC economy still achieved a GDP growth of 8.2 per cent, and the growth trend is still strong.

In the first half of 2003, the domestic polyester industry kept a rapid growth. The total domestic polyester production capacity increased almost by 600,000 tonnes. Total domestic supply of polyester fibre amounted to 4,692 thousand tonnes, increased by 11.1 per cent as compared with the corresponding period of last year, of which, the domestic production volume increased by 15.0 per cent as compared with the corresponding period of last year. Meanwhile, total domestic consumption of polyester fibre amounted to 4,332 thousand tonnes, increased by 10.2 per cent as compared with the corresponding period of last year. Due to the outbreak of SARS, the growth of domestic production volume of polyester products became stagnant in April and May. Therefore, it was estimated that total domestic consumption of polyester products will decrease by 500 thousand tonnes to 800 thousand tonnes in 2003.

In the first half of 2003, the prices of domestic polyester products and principal raw materials fluctuated significantly due to several reasons. In January and February, the prices of polyester products, together with polyester raw materials, rose rapidly because of the significant increase in international crude oil prices. As a result of the outbreak of SARS in the second quarter, the demand for textile products decreased significantly, and the prices of polyester products declined to a record low, which increased the operating difficulties for the polyester industry. Starting from late May, as a result of a better control of SARS in the PRC, the downstream sector of polyester industry started to recover, and the prices of polyester products started to rebound and climbed back to its normal level gradually. In the first half of 2003, the weighted average prices of principal raw materials for polyester products in Asia, such as purified terephthalic acid (**"PTA"**), mono-ethylene glycol (**"MEG"**) and paraxylene (**"PX"**), rose sharply owing to the increase in crude oil prices. Since this aggregate rise was far greater than the rise in selling prices of polyester products, the gross profit margin of polyester products was significantly compressed.

## Results review

In the first half of 2003, under the severe market condition, the Group maintained swift response to the market changes. Special measures were implemented to expand market and reduce costs. With full utilisation of the benefits from the raw material production facilities and other structural adjustments, the negative impact of the external factors on the Group was reduced. These helped the Group to make profits in the first quarter and June 2003, which covered for the loss in April and May resulting from the outbreak of SARS, and to improve the ability of the Group to manage risks.

## Production and marketing

In the first half of 2003, the Group put a great effort in increasing and stabilising production and economic operation, fully utilising its production capacity, and increasing its production and sales volume. Safety and environmental management were further strengthened, with a better control over the non-planned cessation of production. The production and sales volume of polyester products and the PTA production volume reached a record high. The total production of polyester products was 743,466 tonnes, an increase of 5.1 per cent as compared with 707,162 tonnes for the corresponding period of last year. The capacity utilisation rate of polyester utilities reached 103.0 per cent. The total production volume of PTA was 277,804 tonnes, an increase of 55.8 per cent as compared with 178,302 tonnes for the corresponding period of last year. In the first half of the year, the Group intensified its management in raw materials and finished goods, adopted a market-oriented approach, and made timely changes to balance the production, raw materials procurement, sales and new product development. The Group seized the market opportunities in the first quarter and June 2003 by postponing the major overhaul of the production facilities, and increasing production and sales. As a result, the Group's total sales volume of polyester products reached 582,646 tonnes, an increase of 3.5 per cent as compared with 562,880 tonnes for the corresponding period of last year. Excluding the self-consumption volume, the ratio of sales to production reached 98.7 per cent. A total of 18,610 tonnes of polyester products were exported, an increase of 29.1 per cent as compared with the corresponding period of last year.

## New product development and technological innovation

In the first half of 2003, the Group speeded up its new product development and technological innovation so as to increase the profit contribution from differential and specialised products. There were 11 types of new fibre products developed, of which five types of products have been put into production. The film-grade specialised polyester chip was successfully launched, which was a key point showing the Group's efforts in the structural adjustment made for the polyester chip products. The bottle-grade specialised polyester chips for edible oil were successfully developed, which becomes the Group's major bottle-grade polyester chip products during the slack consumption season. The Group also successfully developed and produced new fiber products such as moisture and perspiration absorbing fiber and bright elimination fiber. Special measures were implemented to optimise the production of differential products so as to increase the production and sales volume. In the first half of 2003, the differentiation rate of polyester fibre reached 46.0 per cent, a 6.7 per cent higher than that of corresponding period of last year. The specialisation rate of polyester chips reached 62.9 per cent, a 8.8 per cent higher than the corresponding period of last year.

## Cost control

In the first half of 2003, the Group put great efforts in reducing cost and expenses. Measures were implemented to increase production and sales volume so as to reduce the fixed costs. A leading group was set up to strengthen management in raw materials procurement and sales, which in turn controlled the business risks. Monthly budgeting, weekly review and daily checking were adopted in the entire operating process. With the aim of being the best as compared with the foreign polyester companies and the best as compared with the historic performance of the Group, the Group continuously attained its technological and economical targets. In the first half of 2003, the product quality showed a steady enhancement. The consumption of raw materials was further reduced, the overall energy consumption decreased by 2 per cent as compared with the corresponding period of last year, and the unit processing cost was also further reduced. In the first half of 2003, effective measures were implemented to enhance the Group's internal management. As a result, the Group's selling expenses and administrative expenses decreased by 11.9 per cent and 12.6 per cent respectively. The Group's net financing costs increased by 253.6 per cent, mainly due to the increase in borrowing for working capital.

## Internal reforms and strategic management

In the first half of 2003, the Group actively carried out internal reforms and strategy management. The Company put great efforts in preparing for ISO14001 and integrating ISO9001, ISO14001 and Healthy, Safety and Environmental (**"HSE"**). On 1 August, the Company received the on-site-checking certificate in respect of ISO14001 issued by France BVQI Company. Measures were adopted to further flatten the management structure and to lower the staff headcount. There was a net decrease of 118 staff during the reporting period. The internal remuneration system reform was speeded up, and the second phase reform on the supply system was completed. The Enterprise

Resources System (**"ERP"**) system, which begun a single run in July 2003, integrated the logistics, cash flow and information flow of the Group. In order to meet the new requirements from international regulatory bodies, the Group improved its internal control system. In the first half of 2003, the Group formalised a detailed plan for adopting its low cost and high value-added strategies for the next three years of the "Tenth Five-Year Plan". At the same time, the Group designed a plan to build up an advance corporate culture.

### Capital expenditure

In the first half of 2003, the Group's total capital expenditure amounted to Rmb425,131,000. The structural adjustment projects proceeded smoothly. A trial run of the PTA project with an annual capacity of 450,000 tonnes was carried out on 22 April. The staple fibre project with an annual capacity of 90,000 tonnes and the improvement project of No. 5K production line were completed and in operation in July.

### Business prospects

In the second half of 2003, the global economy is expected to have signs of recovery. Crude oil price is expected to stabilise. Starting from June, SARS was effectively and quickly contained in the PRC, and the economy showed a steady upward trend. A steadily growing economy is favorable to the increase in demand for petrochemical and chemical fiber products.

In the second half of 2003, the PRC government will continue to implement measures to stimulate exports and domestic demand, in order to maintain a steady and healthy economic growth. The outbreak of SARS gave a new opportunity for developing the PRC's textile industry, especially for the household and industry textile products. It will in turn enhance the demand for high quality and differential polyester products. At the same time, a higher safety and environmental standard will be required for the polyester industry, which helps to rationalise the investments in the polyester industry.

Recently, Jiangsu Province, where the Company situates, is going to start an important development plan along the Yangtse River in the province. From 2003 to 2010, it is estimated that Rmb2,100 billion to Rmb2,500 billion is to be invested along the 400-kilometer-long riverbank areas, for building up a highly competitive region for international manufacturing center. Nanjing City and Yangzhou City plan to jointly build the largest petrochemical industrial park along the river in the province. The implementation of this plan will surely benefit the Group in development opportunities.

At the same time, it is estimated that projects to increase in domestic polyester production capacity to 1,500,000 tonnes will commence operation in the second half of 2003 in the PRC. This will further intensify the imbalance between product supply and demand. Besides, the short term carried forward effect from SARS on textile industry, and proposed restriction on the export of the PRC's textile products from USA and European Union (**"EU"**) may suppress the growth on the demand for polyester products.

In June and July, the prices of polyester products rose again. It is estimated that the prices of polyester products will remain at a relatively high level in the second half of 2003 as a result of high raw material prices and a relatively greater demand from downstream textile industry. In addition, prices of major polyester raw materials such as PTA, MEG and PX, in Asia may remain high due to the net effect of the fall in international crude oil prices and the tight raw material supply.

In the second half of 2003, the Group will continue to implement measures to improve its operating efficiency and earnings. The following will be set as priorities in the second half of 2003:

### 1. Strengthen operational management to maximise profits

The Group will further strengthen its operational management and improve its adaptability to the market changes so as to maximise profits. Priorities will be given to match production and sales, and to sell at the optimal prices. The Group will strengthen its cooperation with other domestic polyester manufacturers so as to keep the market healthy. More efforts will be put in developing differential products and strengthening customer services, in order to improve the adaptability of new products and enlarge their market shares. In order to increase export sales, the Group will continue to explore in the international market, and will take appropriate measures to response to the anti-dumping claims made by EU. In the second half of 2003, the Group's projected sales volume of polyester products will be 595,000 tonnes or 2.4 per cent as compared with the year of 2002. The ratio of sales to production is expected to reach 99.2 per cent.

### 2. Well-organise and stabilise production, and make full-use of the new production projects

The Group will enforce great measures to optimise the operation of the existing facilities and to improve the product quality control. Efforts will be put to optimise the operation of the existing facilities, to reduce unplanned cessation of production, to control the capacity adjustment and the shift of product categories, and to improve the quality control. Efforts will also be put into the operation of the PTA project with an annual capacity of 450,000 tonnes, the staple fibre project with an annual capacity of 90,000 tonnes, the improvement project of No.5K production line, and the specialised polyester chip project with a daily capacity of 450 tonnes, so as to bring profit contribution to the Group effectively. In the second half of 2003, the Group's projected production volume of polyester products is to be 740,000 tonnes, increased by 3.1 per cent. The Group's projected production volume of PTA for the second half of 2003 is 410,000 tonnes.

### 3. Strive to reduce costs and expenses, and achieve new technological and economical targets

The Group will strengthen its prediction in the price trends of raw materials in both domestic and international markets to purchase cheap raw materials. More will be done to improve the supply management system to adopt such modes as centralised management, centralised purchasing, centralised reserves and centralised settlements. Measures will be taken to enforce the implementation of the budget management and the cost control. The financial management will be reinforced to ensure the efficient use of fund and lower the financial expenses accordingly. Measures will be taken to achieve its unit production cost target with the best level in the polyester industry so as to improve its competitiveness.

### 4. Advance in technology and increase in product differential ratio and added value to products

The Group will continue to enhance the integration of product development, production and marketing so as to increase the profit contribution from the differential products. It will pay more attention to the development of differential polyester filament products and the adjustment of product mix. Measures will be implemented to adjust its existing polyester staple fibre production lines. The Group will continue to develop different kinds of products such as sea island superb fine filament, PLA (polylactide), film-grade chips, etc. The Group's projected production volume of differential fibre products and specialised polyester chips for the second half of 2003 will be 140,000 tonnes and 127,000 tonnes while the differential rate and specialised rate are expected to be 39.7% and 75.1% respectively.

### 5. Speed up the commencement of new projects and plans for long-term development

In the second half of 2003, the Group will continue its efforts on new projects development, so as to improve the Group's product mix. The specialised polyester chip project with a daily capacity of 450 tonnes has already been in the phase of installation, and will commence operation in October. The Group will start the co-polymer (**"CP"**) project for bottle grade polyester chip with an annual capacity of 200,000 tonnes and solid-state-polymerisation (**"SSP"**) project in October. Meanwhile, the Group will start planning the subsequent structural adjustment projects for the next three years of the "Tenth Five-Year Plan" and for the "Eleventh Five-Year Plan", which can help to enhance its operating efficiency and effectiveness.

### 6. Accelerate management innovation

The Group will push forward its internal remuneration system reform, and gradually shift to a salary package for each post so as to promote a stimulating mechanism. Measures will be implemented to enhance job competition and dismissal system. The Group will continue to simplify the organisation structure and reduce the staff headcount. The Company will optimise the implementation of ERP to improve operational management. With the certificate for ISO14001, the Group will launch HSE System and 6б to encourage management innovations.

# 6. MANAGEMENT DISCUSSION & ANALYSIS

*The financial figures set out below, 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 financial figures should be read in conjunction with the information contained in the unaudited interim financial report and notes therein.*

## 1. Business Environment

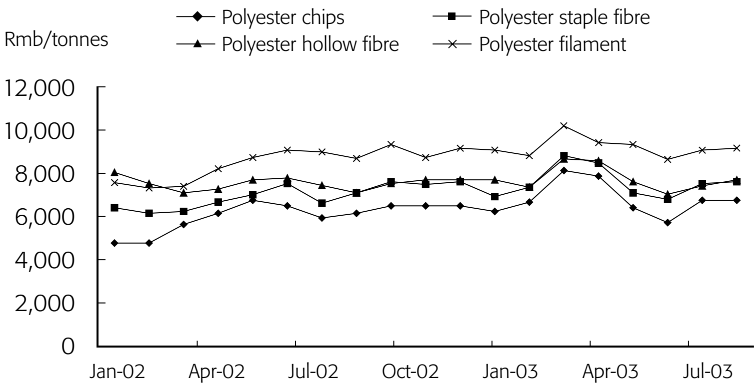
In the first half of 2003, domestic polyester industry kept a rapid growth. The total domestic consumption of polyester fibre amounted to 4,332 thousand tonnes, increased by 10.2 per cent as compared with the corresponding period of last year. Meanwhile, the total domestic production capacity increased approximately by 600,000 tonnes during the reporting period. Total domestic supply of polyester fibre reached 4,692 thousand tonnes, increased by 11.1 per cent as compared with the corresponding period of last year, of which, the domestic production volume increased by 15.0 per cent as compared with the corresponding period of last year. In the first half of 2003, due to the war in Iraq and the outbreak of SARS, prices of domestic polyester products fluctuated significantly. The increase in prices of domestic polyester products was less than the increase in prices of principal raw materials of polyester. As a result, the profit margin of polyester products was significantly compressed, which further intensified the operating risk of the polyester industry. In April and May, the growth of domestic production volume of polyester products became stagnant and the selling prices of polyester products kept decreasing. The profit of the Group decreased significantly.

**Domestic supply and demand of polyester fibre**

| | **Polyester filament** | | | **Polyester staple fibre** | | | **Total polyester fibre** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **First half of 2003 '000 tonnes** | First half of 2002 '000 tonnes | +/- (%) | **First half of 2003 '000 tonnes** | First half of 2002 '000 tonnes | +/- (%) | **First half of 2003 '000 tonnes** | First half of 2002 '000 tonnes | +/- (%) |
| Production | **2,505.5** | 2,179.8 | 14.9 | **1,550.3** | 1,348.0 | 15.0 | **4,055.8** | 3,527.8 | 15.0 |
| Import | **178.9** | 142.4 | 25.6 | **249.5** | 295.4 | -15.5 | **428.4** | 437.8 | -2.1 |
| Export | **22.5** | 14.2 | 58.5 | **65.0** | 25.6 | 153.9 | **87.5** | 39.8 | 119.8 |
| Net import | **156.4** | 128.2 | 22.0 | **184.5** | 269.8 | -31.6 | **340.9** | 398.0 | -14.3 |
| Inventories at the beginning of the period | **131.6** | 187.0 | -29.6 | **76.4** | 69.0 | 10.7 | **208.0** | 256.0 | -18.8 |
| Inventories at the end of the period | **168.6** | 163.3 | 3.2 | **104.3** | 88.9 | 17.3 | **272.9** | 252.2 | 8.2 |
| Total supply | **2,816.0** | 2,509.2 | 12.2 | **1,876.2** | 1,712.4 | 9.6 | **4,692.2** | 4,221.6 | 11.1 |
| Total consumption | **2,624.9** | 2,331.7 | 12.6 | **1,706.9** | 1,597.9 | 6.8 | **4,331.8** | 3,929.6 | 10.2 |

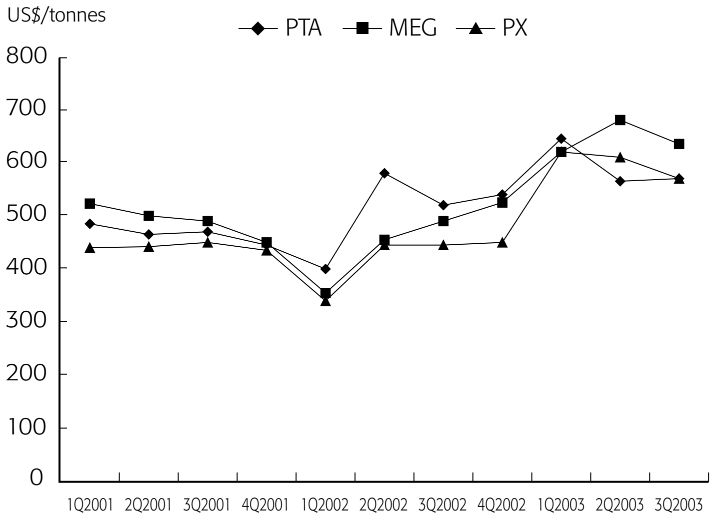
*Source: The Chemical Fibre Association of China and the Company's estimates*

**Product Prices Quoted By the Company (Excluding VAT)**




In the first half of 2003, prices of polyester raw materials in Asia, such as PTA, MEG and PX, recorded a sharp rise mainly due to the increase in crude oil prices.

**Raw Material Contract Prices Offered by the International Suppliers**




## 2. Results of Operations

In the first half of 2003, the Group's profit attributable to shareholders amounted to Rmb6,847,000, representing a decrease of 87.8 per cent as compared with the corresponding period of last year, of which, Yizheng Chemical Fibre Foshan Polyester Company Limited and Foshan Chemical Fibre Complex Group (collectively

**"Foshan Group"**) sustained a loss of Rmb7,466,000, while Yihua Kangqi Chemical Fibre Company Limited and its subsidiaries (**"Kangqi Group"**) made a profit of Rmb13,973,000.

**(1) Turnover**

In the first half of 2003, the Group maintained stable production and economic operation, and postponed major overhaul of facilities in an appropriate time. Special measures were implemented to increase the production and sales of differential and specialised products. The Group's total production volume of polyester products was 743,466 tonnes, representing an increase of 5.1 per cent as compared with 707,162 tonnes for the corresponding period of last year. The Group's capacity utilisation rate reached 103.0 per cent, as compared with that of 101.2 per cent for the corresponding period of last year.

**Production volume**

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | **Production volume *(tonnes)*** | **Percentage of total production volume *(%)*** | Production volume *(tonnes)* | Percentage of total production volume *(%)* |
| Polyester products | | | | |
| Chips | **382,816** | **51.5** | 344,317 | 48.7 |
| Of which: bottle-grade chips | **97,279** | **13.1** | 71,504 | 10.1 |
| Staple fibre | **180,995** | **24.4** | 179,740 | 25.4 |
| Hollow fibre | **17,387** | **2.3** | 19,334 | 2.7 |
| Filament | **162,268** | **21.8** | 163,771 | 23.2 |
| Of which: draw-twisted yarn (**"DTY"**) | **48,595** | **6.5** | 43,538 | 6.2 |
| Total | **743,466** | **100.0** | 707,162 | 100.0 |

In the first half of 2003, the Group continued to adopt market-oriented approach, and made timely changes to balance between production, raw materials procurement, sales and new product development. The Group seized good market opportunities to increase sales. The Group's total sales volume of the polyester products amounted to 582,646 tonnes, representing an increase of 3.5 per cent as compared with the 562,880 tonnes for the corresponding period of last year. In addition, the selling prices of the Group's products are still higher than the average prices in the domestic market during the period, contributed by the recognition of high product quality and excellent sales services.

### Sales volume

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | **Sales volume (tonnes)** | **Percentage of total sales volume (%)** | Sales volume (tonnes) | Percentage of total sales volume (%) |
| Polyester products | | | | |
| Chips | **265,713** | **45.6** | 253,330 | 45.0 |
| Of which: bottle-grade chips | **96,153** | **16.5** | 70,681 | 12.6 |
| Staple fibre | **184,402** | **31.6** | 174,012 | 30.9 |
| Hollow fibre | **17,201** | **3.0** | 17,806 | 3.2 |
| Filament | **115,330** | **19.8** | 117,732 | 20.9 |
| Of which: DTY | **48,014** | **8.2** | 37,183 | 6.6 |
| Total | **582,646** | **100.0** | 562,880 | 100.0 |

### Products prices (Rmb/tonne excluding VAT)

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2003** | 2002 | Change (%) |
| Polyester products | | | |
| Chips | **6,995** | 5,760 | 21.4 |
| Staple fibre | **7,529** | 6,471 | 16.3 |
| Hollow fibre | **7,781** | 7,329 | 6.2 |
| Filament | **9,536** | 7,757 | 22.9 |
| Weighted average price | **7,690** | 6,447 | 19.3 |

### Turnover

| | For the six months period ended 30 June | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | **Turnover Rmb' million** | **Percentage of turnover (%)** | Turnover Rmb' million | Percentage of turnover (%) |
| Polyester products | | | | |
| Chips | **1,859** | **39.6** | 1,459 | 39.6 |
| Staple fibre | **1,388** | **29.6** | 1,126 | 30.5 |
| Hollow fibre | **134** | **2.9** | 130 | 3.5 |
| Filament | **1,100** | **23.4** | 913 | 24.8 |
| Others | **216** | **4.5** | 59 | 1.6 |
| Total | **4,697** | **100.0** | 3,687 | 100.0 |

In the first half of 2003, the Group's turnover amounted to Rmb4,697 million, representing an increase of 27.4 per cent as compared with Rmb3,687 million for the corresponding period of last year. The increase was mainly due to the increase in sales volume by 3.5 per cent as compared with the corresponding period of last year, and the increase in weighted average price by 19.3 per cent.

### (2) Cost of sales

In the first half of 2003, the Group's cost of sales amounted to Rmb4,410 million, which increased by Rmb1,089 million as compared with Rmb3,321 million for the corresponding period of last year, representing 93.9 per cent of the turnover. In the first half of 2003, total costs of raw materials increased from Rmb2,572 million to Rmb3,514 million, representing an increase of 36.6 per cent as compared with the corresponding period of last year, which accounted for 79.7 per cent of cost of sales. The increase was mainly due to the increase in production volume and the increase in the prices of raw materials. In the first half of 2003, the weighted average price of external purchased polyester raw materials increased by 45.7 per cent as compared with last year, while the average purchase costs of PTA, MEG and PX increased by 37.0 per cent, 59.9 per cent and 60.9 per cent respectively as compared with the corresponding period of last year. As the Group's PTA production capacity increased and the use of purchased PTA decreased, these partly offset the impact on the Group as a result of the increase in PTA price. In addition, the Group purchased large quantities of raw materials at the market low, which helped the Group in achieving substantial savings in the purchase costs.

As the increase in the cost of sales was higher than the increase in turnover in the first half of 2003, the Group's gross profit decreased by Rmb79 million to Rmb287 million. The Group's gross margin was 6.1 per cent, representing a decrease of 3.8 per cent as compared with the corresponding period of last year .

### (3) Selling expenses, administrative expenses and net financing costs

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2003** | 2002 | Change |
| | ***Rmb'000*** | *Rmb'000* | *(%)* |
| Selling expenses | **69,772** | 79,161 | (11.9) |
| Administrative expenses | **178,064** | 203,708 | (12.6) |
| Net financing costs | **33,834** | 9,569 | 253.6 |
| Total | **281,670** | 292,438 | (3.7) |

In the first half of 2003, selling expenses and administrative expenses decreased by Rmb9 million or 11.9 per cent and Rmb26 million or 12.6 per cent respectively, mainly due to the effective measures implemented to improve the internal management. Net financing costs increased by 253.6 per cent, mainly due to the increase in borrowings for working capital. The total decrease in selling expenses, administrative expenses and net financing costs was 3.7 per cent.

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

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2003** | 2002 | Change |
| | ***Rmb'000*** | *Rmb'000* | *(%)* |
| Profit from operations | **47,933** | 79,340 | (39.6) |
| Profit from ordinary activities before taxation | **14,099** | 69,771 | (79.8) |
| Income tax expense | **533** | 9,076 | (94.1) |
| Profit attributable to shareholders | **6,847** | 56,284 | (87.8) |
| Earnings per share (in Rmb) | **0.002** | 0.014 | (87.8) |

In the first half of 2003, despite the Group's enhanced efforts in uplifting production volume and sales volume and exercising better control over costs and expenses, the increase in polyester raw materials prices was higher than that in polyester products prices. As a result, the profit margin of polyester products was significantly compressed, which brought about the decrease in the Group's profit from ordinary activities before taxation and profit attributable to shareholders by 79.8 per cent to Rmb14 million and 87.8 per cent to Rmb7 million as compared with the corresponding period of last year. The Group's operating margin and net profit margin were 1.0 per cent and 0.3 per cent respectively.

**(5) Statement of the principal operations by products**

Polyester products contributed to more than 10 per cent of the Group's income from principal operations and profit from principal operations. The following is the statement of principal operations by products for the six months ended 30 June 2003 prepared in accordance with the PRC Accounting Rules and Regulations:

*Unit: Rmb'000*

| **Products** | **Income from principal operations** | **Cost of principal operations** | **Gross profit margin (%)** | **Increase/ (decrease) in income from principal operations as compared to same period of last year (%)** | **Increase/ (decrease) in cost of principal operations as compared to same period of last year (%)** | **Decrease in gross margin ratio as compared to same period of last year** |
|---|---|---|---|---|---|---|
| Polyester products | 4,480,793 | 4,240,167 | 5.4 | 23.5 | 29.7 | Decreased by 4.5 point |
| Of which: | | | | | | |
| connected transactions | 462,763 | 434,997 | 6.0 | 45.8 | 53.0 | Decreased by 4.4 point |

**(6) Significant changes in gross profit margin as compared to last year (extracted from the interim financial report prepared in accordance with PRC Accounting Rules and Regulations)**

During the reporting period, the gross profit margin of the Group decreased by 2.8 per cent as compared to the 2002 financial year. The gross profit margin of polyester products was significantly compressed mainly as a result of the rise in polyester raw materials prices higher than that in polyester products prices. Although the Group had put great efforts in increasing production and sales volume to lower costs and expenses, the gross profit margin still decreased substantially.

**(7) Investment income from an investee company contributing to more than ten percent of the Group's net profit (extracted from the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)**

| | |
|---|---|
| Name of investee company | Sinopec Finance Company Limited (**"Sinopec Finance"**) |
| Dividend income contributed from equity investment in the unlisted company during the period | Rmb3,500,000 |
| Proportion to net profit of the listed company | 76.0% |
| Business scope | Financial services |
| Net profit | Rmb145,860,000 |

## 3. Liquidity

As at 30 June 2003, the Group's cash and cash equivalents amounted to Rmb396 million, representing a decrease of Rmb95 million as compared with Rmb491 million as at 31 December 2002.

In the first half of 2003, the Group's net cash outflow from operating activities was Rmb35 million, as compared with the cash inflow of Rmb711 million for the corresponding period of last year. The decrease was mainly due to the repayment to its creditors during the reporting period. As at 30 June 2003, inventories increased by Rmb23 million, which was mainly resulted from its sales rhythm. Trade and other receivables decreased by Rmb54 million, which was mainly due to the measures implemented to maintain sufficient fund.

In the first half of 2003, the Group's net cash outflow from investing activities was Rmb373 million, as compared with Rmb602 million for the corresponding period of last year. The change was mainly due to the decrease of Rmb178 million in capital expenditure from Rmb603 million in the first half of 2002 to Rmb425 million during the reporting period.

In the first half of 2003, the Group's net cash inflow from financing activities was Rmb313 million, as compared with the cash outflow of Rmb155 million for the corresponding period of last year. The change was mainly due to the increase in bank loans.

As at 30 June 2003, the Group's bank loans amounted to Rmb1,702 million, as compared with Rmb1,386 million as at 31 December 2002. The change was mainly due to the appropriate increase in short-term and long-term bank loans for working capital and capital expenditure.

In the first half of 2003, the Group's profits attributable to shareholders amounted to Rmb7 million and a final dividend of Rmb60 million for the year ended 31 December 2002 was approved by the Board. As such, the Group's shareholders' funds (excluding minority interests) decreased by Rmb53 million to Rmb8,713 million. The Group's total liabilities decreased by Rmb68 million to Rmb3,112 million. The decrease was mainly due to the decrease in trade and other payables of Rmb431 million, the increase in bank loans of Rmb316 million and the increase in proposed dividend of Rmb60 million. Of which, long-term liabilities amounted to Rmb550 million. As a result of the above combined effect, the Group's total assets decreased by Rmb118 million to Rmb11,885 million, including property, plant and equipment amounted to Rmb6,682 million. At 30 June 2003, total liabilities to total assets ratio was 26.2 per cent, as compared with 26.5 per cent as at 31 December 2002.

## 4. Capital Expenditure

In the first half of 2003, the Group's total capital expenditure amounted to Rmb425 million. The following table provided information on the amount invested in the Group's major construction projects during the reporting period:

| **Main projects** | **Amount invested in this reporting period** *Rmb'000* | **Project status** |
|---|---|---|
| PTA project with an annual capacity of 450,000 tonnes | 135,457 | Under trial run |
| Staple fibre project with an annual capacity of 90,000 tonnes | 168,387 | Completed and in operation in July 2003 |
| Improvement project of No. 5K production line | 1,956 | Completed and in operation in July 2003 |
| Specialised polyester chip project with a daily capacity of 450 tonnes | 39,274 | Under construction |
| Others | 80,057 | – |
| Total | 425,131 | |

The Group's capital expenditure for the second half of 2003 is expected to be approximately Rmb575 million. The planned capital expenditures will be funded from cash generated from operations and bank borrowings.

## 7. SIGNIFICANT EVENTS

1. The Company has been operating strictly in compliance with the requirements stipulated in the Company Law, Security Law of PRC, Code of Corporate Governance for Listed Companies in the PRC, Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies and other relevant laws and regulations so as to strengthen and improve its corporate governance on a continuous basis. A series of systems were set up and revised to enhance information disclosures and investor relationship.

2. As approved by 2002 annual general meeting (**"AGM"**) held on 26 June 2003, the Company paid a final cash dividend of Rmb 0.015 per share for the year ended 31 December 2002 on 28 July 2003. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 16 July 2003, while the details of dividend payments to international shareholders were included in the announcement of the resolutions passed in the 2002 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 27 June 2003.

   In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the year ending 31 December 2003.

3. The PRC government had taken action to investigate the anti-dumping of imported polyester chips and polyester staple fibre from South Korea on 3 August 2001. Following the preliminary conclusion made in October 2002, a final conclusion was made on 3 February 2003, and the PRC government decided to impose the anti-dumping taxes on imported polyester chips and polyester staple fibre from South Korea from 3 February 2003 for a five-year period. The tax rates of imported polyester chips and polyester staple fibre vary from 5 percent to 52 percent and from 2 percent to 48 percent respectively for different companies.

   On 22 May 2003, EU took actions to investigate the anti-dumping of imported bottle-grade polyester chips from the PRC and two other countries. The preliminary conclusion is expected to be made before 22 April 2004, and the final conclusion before 22 August 2004. The Company responded to the allegation on 5 June 2003. The export volume of the Group to EU in 2002 represented 2.27 per cent of the total sales volume of polyester products.

4. During the reporting period, the Company did not have any material litigation or arbitration.

5. During the reporting period, the Company did not have any acquisition and disposal of assets as well as merger and acquisition.

6. Information on connected transactions

The Group's significant connected transactions entered into during the six months ended 30 June 2003 were as follows:

(A) The followings are the significant connected transactions relating to sales and purchase of goods and provision of services:

| Type of transactions | Transaction parties | Transaction amount<br>*Rmb'000* | Share of the amount to the same type of transaction<br>*(%)* |
|---|---|---|---|
| Purchase of raw materials | Sinopec Yangzi Petrochemical Company Limited (**"Yangzi"**) | 1,016,549 | 29.5 |
| | Sinopec and its subsidiaries (excluding Yangzi) | 81,369 | 2.4 |
| | Yihua Group Corporation (**"Yihua"**) and its subsidiaries (**"Yihua Group"**) | 72,234 | 2.1 |
| | CPC and its subsidiaries (**"CPC Group"**) (excluding Yihua Group, Sinpec and its subsidiaries) | 11,428 | 0.3 |
| Sales | Yihua Group | 573,983 | 12.2 |
| Miscellaneous service charges | Yihua Group | 59,511 | 100 |
| Miscellaneous service fee income | Yihua Group | 14,764 | 100 |
| Construction service fee | Yihua Group | 45,729 | 17.8 |
| Construction expenses | CPC Group | 33,939 | 25.6 |
| Purchase of equipment | CPC Group | 12,706 | 5.7 |

The Company is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials, and the sales to Yihua Group ensures the Company maintain certain sales channels and a certain level of turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated at market price and settled mainly on cash on delivery basis. The miscellaneous service charges paid to Yihua Group, the miscellaneous service fee income from Yihua Group and the payments to Yihua Group for construction services followed strictly with the terms set out in the contracts dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua Group. The construction service fee was paid to CPC Group strictly in compliance with related contracts. The above transactions have no adverse effects on the profit of the Group.

(B) During the reporting period, there were no connected transactions relating to the transfer of the asset or equity in the Company.

(C) Amounts due from/(to) related parties: As at 30 June 2003, the amounts due from Yihua Group amounted to Rmb83,397,000, mainly representing bills and trade receivables; the amounts due to Yihua Group amounted to Rmb25,590,000, mainly representing the retention money of the construction projects. The amounts due from and due to other related parties amounted to Rmb10,444,000 and Rmb594,996,000 respectively, mainly representing bills payables to Yangzi. These connected transactions have no adverse effect on the Company.

**Advances between related parties:**

*Unit: Rmb'000*

| | Amounts receivable from related parties | | Amounts payable to related parties | |
|---|---|---|---|---|
| **Related parties** | **Amounts arising during the period** | **Remaining balance** | **Amounts arising during the period** | **Remaining balance** |
| Sinopec Finance | 1,414,514 | 668,497 | – | – |
| CITIC Industry Bank | 1,178,027 | 38,912 | 35,000 | 35,000 |
| Yangzi | – | – | 1,016,549 | 552,873 |
| Yihua Group | 588,747 | 75,604 | 182,474 | 17,797 |
| Sinopec and its subsidiaries (excluding Yangzi) | 1,610 | 1,657 | 83,374 | 33,336 |
| CPC (excluding Yihua Group, Sinopec and its subsidiaries) | – | – | 64,438 | – |
| Total | 3,182,898 | 784,670 | 1,381,835 | 639,006 |

(D) Other significant connected transactions: The interest income earned from the Company's deposits placed with Sinopec Finance at market interest rates amounted to Rmb 6,762,000 for the six months ended 30 June 2003.

On 31 December 1999, the Company placed certain deposits with Sinopec Finance. The HKSE granted a conditional waiver to the Company from the ongoing disclosure requirement and shareholders' approval under the Listing Rules for a three-year period till the end of 2002. After the Company's application, the HKSE sent a written confirmation to the Company on 4 February 2003 advising that the above connected deposit would be exempted from any disclosure/shareholder approval requirements of the Listing Rules.

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 related regulations issued by HKSE and SSE and the waivers granted by the HKSE to the Company.

Details of the Company's connected transactions during the reporting period are set out in notes 29 of the financial statements prepared in accordance with the PRC Accounting Rules and Regulations.

7. During the reporting period, the Company did not have any asset rented or contracted to or held on trust for other companies. Furthermore, the Company did not rent or contract any asset from other companies and did not have assets held by other companies.

8. As at 30 June 2003, the Company did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Company had no trusted financial matters during the reporting period.

9. The CP construction project for bottle grade polyester chip with an annual capacity of 200,000 tonnes and SSP construction project of production equipment, which will be mainly used for the production of high-quality bottle-grade chip, were approved in the fourth meeting of the fourth term of the Board held on 4 April 2003. The estimated investment of this project amounted to Rmb382,770,000. Construction is expected to commence in the third quarter of 2003 and production is expected to commence in the third quarter of 2004.

10. According to the relevant tax rules and regulations in the PRC, the income tax rate applicable to the Company is 15 per cent. The preferential income tax rate is still applicable for the six months ended 30 June 2003. The Company has not received any notice from the tax authorities regarding change to this rate.

11. As approved in the 2002 AGM, KPMG Huazhen and KPMG were re-appointed as domestic and international auditors respectively of the Company for the year 2003, and the Board was authorised to fix their remuneration.

12. According to the resolution of the third meeting of the fourth term of the Board held on 30 January 2003, Mr. Li Ren-yan ceased to act as Deputy General Manager. The Board would like to express their gratitude for his efforts and dedication to the Company throughout his terms of service.

13. The Company and its shareholders who hold more than five per cent of the Company's shares did not have any undertaking, which required discloures.

14. 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 reporting period.

# 8. INTERIM FINANCIAL REPORT (UNAUDITED)

KPMG

## (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 31 to 39.

### Respective responsibilities of directors and auditors

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.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### 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 2003.

**KPMG**
*Certified Public Accountants*
Hong Kong, China

15 August 2003

**Consolidated Income Statement**
**For the six months ended 30 June 2003 (unaudited)**

| | Note | Six months ended 30 June 2003 Rmb'000 | 2002 Rmb'000 |
|---|---|---|---|
| **Turnover** | 3 | **4,697,495** | 3,687,456 |
| **Cost of sales** | | **(4,410,410)** | (3,321,110) |
| **Gross profit** | | **287,085** | 366,346 |
| Selling expenses | | **(69,772)** | (79,161) |
| Administrative expenses | | **(178,064)** | (203,708) |
| Other operating income | | **11,685** | 8,415 |
| Other operating expenses | | **(3,001)** | (12,552) |
| **Profit from operations** | | **47,933** | 79,340 |
| Net financing costs | | **(33,834)** | (9,569) |
| **Profit from ordinary activities before taxation** | 4 | **14,099** | 69,771 |
| **Income tax expense** | 5 | **(533)** | (9,076) |
| **Profit from ordinary activities after taxation** | | **13,566** | 60,695 |
| **Minority interests** | | **(6,719)** | (4,411) |
| **Profit attributable to shareholders** | | **6,847** | 56,284 |
| **Basic earnings per share (in Rmb)** | 7(i) | **0.002** | 0.014 |

The notes on pages 35 to 39 form part of this interim financial report.

## Consolidated Balance Sheet at 30 June 2003 (unaudited)

| | Note | At 30 June 2003 Rmb'000 | At 31 December 2002 Rmb'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **6,681,816** | 7,031,796 |
| Construction in progress | | **2,037,917** | 1,636,005 |
| Lease prepayments | | **210,844** | 213,146 |
| Unlisted investment | | **62,500** | 62,500 |
| Deferred tax asset | | **31,944** | 32,340 |
| | | **9,025,021** | 8,975,787 |
| **Current assets** | | | |
| Inventories | | **1,209,398** | 1,186,850 |
| Trade and other receivables | 8 | **581,252** | 635,085 |
| Deposits with banks and other financial institutions | | **674,117** | 714,570 |
| Cash and cash equivalents | 9 | **395,537** | 490,804 |
| | | **2,860,304** | 3,027,309 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **1,273,001** | 1,704,096 |
| Bank loans | | **1,151,799** | 1,085,776 |
| Income tax payable | | **77,183** | 89,951 |
| Dividend payable | 6 | **60,000** | – |
| | | **2,561,983** | 2,879,823 |
| **Net current assets** | | **298,321** | 147,486 |
| **Total assets less current liabilities** | | **9,323,342** | 9,123,273 |
| **Non-current liabilities** | | | |
| Bank loans | | **550,000** | 300,000 |
| **Minority interests** | | **60,700** | 57,478 |
| **Net assets** | | **8,712,642** | 8,765,795 |
| **Shareholders' funds** | | | |
| Share capital | | **4,000,000** | 4,000,000 |
| Share premium | | **2,518,833** | 2,518,833 |
| Reserves | 11 | **1,136,413** | 1,136,413 |
| Retained profits | | **1,057,396** | 1,110,549 |
| | | **8,712,642** | 8,765,795 |

Approved and authorised for issue by the board of directors on 15 August 2003

**Fu Xing-tang**
*Chairman*

**Xu Zheng-ning**
*Managing Director*

The notes on pages 35 to 39 form part of this interim financial report.

**Condensed Consolidated Cash Flow Statement**
**For the six months ended 30 June 2003 (unaudited)**

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Cash flow from operating activities | **(35,056)** | 711,317 |
| Cash flow from investing activities | **(372,737)** | (602,146) |
| Cash flow from financing activities | **312,526** | (155,165) |
| Net decrease in cash and cash equivalents | **(95,267)** | (45,994) |
| Cash and cash equivalents at 1 January | **490,804** | 445,177 |
| Cash and cash equivalents at 30 June | **395,537** | 399,183 |

The notes on pages 35 to 39 form part of this interim financial report.

## Consolidated Statement of Changes in Equity
## For the six months ended 30 June 2003 (unaudited)

| | Note | Share capital Rmb'000 | Share premium Rmb'000 | Reserves Rmb'000 | Retained profits Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|---|
| At 1 January 2002 | | 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 | *6* | – | – | – | (80,000) | (80,000) |
| At 30 June 2002 | | 4,000,000 | 2,518,833 | 1,109,837 | 1,049,088 | 8,677,758 |
| **At 1 January 2003** | | **4,000,000** | **2,518,833** | **1,136,413** | **1,110,549** | **8,765,795** |
| Net profit for the period | | – | – | – | 6,847 | 6,847 |
| Dividend | *6* | – | – | – | (60,000) | (60,000) |
| **At 30 June 2003** | | **4,000,000** | **2,518,833** | **1,136,413** | **1,057,396** | **8,712,642** |

The notes on pages 35 to 39 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 30.

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 (**"IAS"**) 34 Interim Financial Reporting adopted by the International Accounting Standards Board (**"IASB"**).

The financial information relating to the financial year ended 31 December 2002 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 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 4 April 2003.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2002 annual financial statements.

The 2002 annual financial statements have been prepared in accordance with International Financial Reporting Standards (**"IFRS"**) promulgated by the IASB. IFRS includes IAS and related interpretations.

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 2002 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. Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRS are summarised in Section C.

### 2. Segment reporting

The Group's profits are almost entirely attributable to the production and sales of chemical fibre and chemical fibre raw materials 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 and is after deduction of any sales discount and returns.

## 4. Profit from ordinary activities before taxation

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

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Interest on bank loans and advances | **56,626** | 32,870 |
| *Less:* Amounts capitalised as construction in progress | **(17,033)** | (13,557) |
| Net interest expense | **39,593** | 19,313 |
| Interest income | **(8,262)** | (12,354) |
| Cost of inventories # | **4,410,410** | 3,321,110 |
| Depreciation # | **390,048** | 431,962 |
| Amortisation of lease prepayments | **2,640** | 2,640 |
| Dividend income from unlisted investment | **(3,500)** | (3,250) |

\# *Cost of inventories includes Rmb352,394,000 (2002: Rmb368,721,000) relating to depreciation.*

## 5. Income tax expense

Income tax expense in the consolidated income statement represents:

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Provision for PRC income tax for the period | **1,623** | 8,680 |
| Deferred taxation | **396** | 396 |
| | **2,019** | 9,076 |
| Overprovision in respect of prior years | **(1,486)** | – |
| | **533** | 9,076 |

The charge for PRC income tax of the Company is calculated at the rate of 15% (2002: 15%) on the estimated assessable income of the period determined in accordance with the relevant income tax rules and regulations. The Company has not received notice from the State Administration of Taxation that this tax rate will continue to be applicable to the Company in future periods. As such, it is possible that the Company's tax rate may increase.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%, 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 Rmb1.5 cents per share totalling Rmb60,000,000 in respect of the financial year 2002 was approved during the period (financial year 2001: Rmb2 cents per share totalling Rmb80,000,000).

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2003 (2002: 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 Rmb6,847,000 (2002: Rmb56,284,000) and 4,000,000,000 shares (2002: 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 2002 to 30 June 2003.

**8. Trade and other receivables**

| | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Trade receivables | **109,274** | 88,994 |
| Bills receivable | **301,018** | 401,453 |
| Amounts due from fellow subsidiaries – trade | **82,478** | 48,275 |
| | **492,770** | 538,722 |
| Amounts due from parent company and fellow subsidiaries – non-trade | **11,364** | 10,999 |
| Other receivables, deposits and prepayments | **77,118** | 85,364 |
| | **581,252** | 635,085 |

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

**8. Trade and other receivables** *(Continued)*

The ageing analysis of trade receivables, bills receivable and amounts due from fellow subsidiaries – trade, net of provision, is as follows:

| | **At 30 June 2003 *Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Within one year | **480,601** | 527,990 |
| Between one and two years | **7,386** | 6,425 |
| Between two and three years | **2,974** | 4,307 |
| Over three years | **1,809** | – |
| | **492,770** | 538,722 |

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 2003 *Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Cash in hand | **280** | 109 |
| Balances with banks and other financial institutions with an initial term of less than three months | **395,257** | 490,695 |
| | **395,537** | 490,804 |

**10. Trade and other payables**

| | **At 30 June 2003 *Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Trade payables | **321,719** | 461,890 |
| Bills payable | **13,124** | 13,528 |
| Amounts due to fellow subsidiaries – trade | **576,783** | 710,698 |
| | **911,626** | 1,186,116 |
| Amounts due to parent company and fellow subsidiaries – non-trade | **43,802** | 54,322 |
| Other payables and accrued expenses | **317,573** | 463,658 |
| | **1,273,001** | 1,704,096 |

**10. Trade and other payables** *(Continued)*

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

| | **At 30 June 2003 Rmb'000** | At 31 December 2002 Rmb'000 (audited) |
|---|---|---|
| Due within one month | **511,626** | 640,197 |
| Due after one month but within six months | **400,000** | 545,919 |
| | **911,626** | 1,186,116 |

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

**11. Reserves**

No transfers were made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from profit attributable to shareholders for the six months ended 30 June 2003 (2002: Nil).

**12. Related party transactions**

Details of the related party transactions are presented in Section B note 29. The financial data presented are the same as those prepared under IFRS.

**13. Contingent liabilities**

At 30 June 2003, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans granted to certain wholly owned subsidiaries totalled Rmb67,833,000 (at 31 December 2002: Rmb74,776,000).

At 30 June 2003, the Group discounted bills with banks totalled Rmb172,855,000 (at 31 December 2002: Rmb42,900,000).

**14. Capital commitments**

At 30 June 2003, the Group had capital commitments as follows:

| | **At 30 June 2003 Rmb'000** | At 31 December 2002 Rmb'000 (audited) |
|---|---|---|
| Authorised and contracted for | **172,617** | 455,682 |
| Authorised but not contracted for | **895,983** | 740,849 |
| | **1,068,600** | 1,196,531 |

## (B) Interim financial report prepared in accordance with the PRC Accounting Rules and Regulations

### Balance Sheets (unaudited)

| | Note | The Group At 30 June 2003 Rmb'000 | The Group At 31 December 2002 Rmb'000 (audited and restated) | The Company At 30 June 2003 Rmb'000 | The Company At 31 December 2002 Rmb'000 (audited and restated) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash at bank and in hand | 5 | **1,069,654** | 1,205,374 | **855,818** | 992,653 |
| Bills receivable | 6 | **345,881** | 445,294 | **309,947** | 420,261 |
| Trade receivables | 7 | **146,889** | 93,428 | **98,891** | 32,085 |
| Other receivables | 8 | **41,412** | 42,290 | **254,601** | 302,269 |
| Advance payments | 9 | **45,239** | 50,712 | **41,536** | 42,073 |
| Inventories | 10 | **1,209,398** | 1,186,850 | **1,051,696** | 1,012,206 |
| Total current assets | | **2,858,473** | 3,023,948 | **2,612,489** | 2,801,547 |
| **Long-term investments** | | | | | |
| Long-term equity investments (including: equity investment difference of Rmb27,819,000 (2002: Rmb29,341,000)) | 11 | **34,681** | 33,159 | **(49,487)** | (57,516) |
| Receivables due after one year | | **–** | – | **800,000** | 800,000 |
| | | **34,681** | 33,159 | **750,513** | 742,484 |
| **Fixed assets** | | | | | |
| Fixed assets, at cost | 12 | **13,183,753** | 13,144,962 | **12,077,615** | 12,041,168 |
| *Less:* Accumulated depreciation | 12 | **(6,091,807)** | (5,703,627) | **(5,637,644)** | (5,280,711) |
| Net book value of fixed assets | 12 | **7,091,946** | 7,441,335 | **6,439,971** | 6,760,457 |
| Construction in progress | 13 | **1,866,199** | 1,021,353 | **1,820,599** | 982,233 |
| Construction materials | 14 | **171,718** | 614,652 | **171,718** | 614,652 |
| Total fixed assets | | **9,129,863** | 9,077,340 | **8,432,288** | 8,357,342 |
| **Intangible assets and other assets** | | | | | |
| Intangible assets | 15 | **34,139** | 41,194 | **34,139** | 41,194 |
| Long-term deferred expenses | | **1,831** | 3,361 | **1,831** | 3,361 |
| Total intangible assets and other assets | | **35,970** | 44,555 | **35,970** | 44,555 |
| **Total assets** | | **12,058,987** | 12,179,002 | **11,831,260** | 11,945,928 |

## Balance Sheets (unaudited) *(Continued)*

| | Note | The Group At 30 June 2003 Rmb'000 | The Group At 31 December 2002 Rmb'000 (audited and restated) | The Company At 30 June 2003 Rmb'000 | The Company At 31 December 2002 Rmb'000 (audited and restated) |
|---|---|---|---|---|---|
| **Liabilities and shareholders' funds** | | | | | |
| **Current liabilities** | | | | | |
| Short-term loans | 16(a) | **801,799** | 685,776 | **733,966** | 611,000 |
| Bills payable | 17 | **563,124** | 683,528 | **550,000** | 670,000 |
| Trade payables | 17 | **198,480** | 349,404 | **174,615** | 286,288 |
| Receipts in advance | 17 | **150,022** | 153,184 | **109,908** | 149,626 |
| Wages payable | | **98,967** | 154,743 | **87,311** | 143,538 |
| Staff welfare payable | | **36,921** | 66,624 | **27,766** | 57,519 |
| Dividend payable | 18 | **60,000** | – | **60,000** | – |
| Taxes payable | 4(d) | **79,887** | 142,246 | **86,712** | 147,694 |
| Other payables | | **9,264** | 10,697 | **9,113** | 10,644 |
| Other creditors | 17 | **211,237** | 232,755 | **195,418** | 219,342 |
| Accrued expenses | 19 | **2,282** | 866 | **2,281** | 866 |
| Current portion of long-term loans | 16(b) | **350,000** | 400,000 | **350,000** | 400,000 |
| Total current liabilities | | **2,561,983** | 2,879,823 | **2,387,090** | 2,696,517 |
| **Long-term liabilities** | | | | | |
| Long-term loans | 16(b) | **550,000** | 300,000 | **550,000** | 300,000 |
| **Total liabilities** | | **3,111,983** | 3,179,823 | **2,937,090** | 2,996,517 |
| **Minority interests** | | **60,700** | 57,478 | **–** | – |
| **Shareholders' funds** | | | | | |
| Share capital | 20 | **4,000,000** | 4,000,000 | **4,000,000** | 4,000,000 |
| Capital reserve | 21 | **3,078,825** | 3,078,825 | **3,078,825** | 3,078,825 |
| Surplus reserves (Including: statutory public welfare fund of Rmb301,153,000 (2002: Rmb301,153,000)) | 22 | **1,360,813** | 1,360,813 | **1,360,813** | 1,360,813 |
| Undistributed profits (Including cash dividend of Rmb Nil approved by the Board of Directors (2002: Rmb60,000,000)) | 2 | **446,666** | 502,063 | **454,532** | 509,773 |
| Total shareholders' funds | | **8,886,304** | 8,941,701 | **8,894,170** | 8,949,411 |
| **Total liabilities and shareholders' funds** | | **12,058,987** | 12,179,002 | **11,831,260** | 11,945,928 |

The interim financial report is approved by the Board of Directors on 15 August 2003

**Fu Xing-tang**
*Chairman*

**Xu Zheng-ning**
*Managing Director*

**Zhou Xin-hua**
*Chief Financial Officer*

**Yin Jia-dong**
*Head of Accounting Department*

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

## Income statements and profit appropriation statements (unaudited)

| | Note | The Group 2003 Rmb'000 | The Group 2002 Rmb'000 (restated) | The Company 2003 Rmb'000 | The Company 2002 Rmb'000 (restated) |
|---|---|---|---|---|---|
| | | For the six months ended 30 June | | | |
| Income from principal operations | 23 | **4,697,495** | 3,687,456 | **4,298,134** | 3,363,450 |
| *Less:* Cost of sales from principal operations | | **4,398,907** | 3,284,740 | **4,042,105** | 3,012,583 |
| Business tax and surcharges | 4(c) | **13,025** | 19,892 | **12,341** | 18,938 |
| Profit from principal operations | | **285,563** | 382,824 | **243,688** | 331,929 |
| *Less:* (Profit)/loss from other operations | 24 | **(3,854)** | 6,482 | **(985)** | 6,951 |
| Selling expenses | | **69,772** | 79,161 | **56,897** | 64,325 |
| Administrative expenses | | **180,704** | 224,348 | **167,264** | 207,192 |
| Financial expenses | 25 | **33,834** | 9,569 | **28,268** | 2,784 |
| Operating profit/(loss) | | **5,107** | 63,264 | **(7,756)** | 50,677 |
| *Add:* Income from investment | 26 | **5,022** | 4,773 | **11,529** | 14,112 |
| Non-operating income | 27 | **4,331** | 5,164 | **2,451** | 4,350 |
| *Less:* Non-operating expenses | 28 | **3,001** | 6,070 | **2,951** | 5,950 |
| Total profit | | **11,459** | 67,131 | **3,273** | 63,189 |
| *Less:* Income tax | 4(b) | **137** | 8,680 | **(1,486)** | 6,919 |
| Minority interests | | **6,719** | 4,411 | **–** | – |
| Net profit | | **4,603** | 54,040 | **4,759** | 56,270 |
| *Add:* Undistributed profits at the beginning of the period | 2 | **502,063** | 468,806 | **509,773** | 477,480 |
| Distributable profits to shareholders | | **506,666** | 522,846 | **514,532** | 533,750 |
| *Less:* Dividend | 2 | **60,000** | 80,000 | **60,000** | 80,000 |
| Undistributed profits at the end of the period (Including cash dividend of Rmb Nil approved by the Board of Directors (2002: Rmb Nil)) | | **446,666** | 442,846 | **454,532** | 453,750 |

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

## Cash flow statements (unaudited)

| | Notes to the cash flow statements | The Group<br>For the six months ended 30 June<br>**2003**<br>**Rmb'000** | <br><br>2002<br>Rmb'000 | The Company<br><br>**2003**<br>**Rmb'000** | <br><br>2002<br>Rmb'000 |
|---|---|---|---|---|---|
| **(i) Cash flows from operating activities** | | | | | |
| Cash received from sale of goods | | **6,017,016** | 4,549,699 | **5,146,934** | 3,969,754 |
| Refund of taxes and levies received | | **4,171** | 4,195 | **4,171** | 4,195 |
| Other cash received relating to operating activities | | **3,184** | 7,726 | **52,629** | 137,743 |
| Sub-total of cash inflows | | **6,024,371** | 4,561,620 | **5,203,734** | 4,111,692 |
| Cash paid for purchase of goods | | **(5,249,269)** | (3,113,924) | **(4,499,362)** | (2,671,817) |
| Cash paid to and on behalf of employees | | **(317,149)** | (311,873) | **(292,560)** | (293,539) |
| Various taxes paid | | **(304,292)** | (319,337) | **(289,468)** | (308,832) |
| Other cash paid relating to operating activities | | **(133,498)** | (71,899) | **(123,391)** | (55,219) |
| Sub-total of cash outflows | | **(6,004,208)** | (3,817,033) | **(5,204,781)** | (3,329,407) |
| **Net cash flow from operating activities** | *(a)* | **20,163** | 744,587 | **(1,047)** | 782,285 |
| **(ii) Cash flows from investing activities** | | | | | |
| Cash received from investment income | | **3,500** | 3,251 | **3,500** | 3,251 |
| Cash received from disposal of fixed assets | | **643** | 263 | **630** | 155 |
| Other cash received relating to investing activities | | **48,250** | 13,120 | **26,828** | 11,919 |
| Sub-total of cash inflows | | **52,393** | 16,634 | **30,958** | 15,325 |
| Cash paid for acquisition of fixed assets, construction in progress and other long-term assets | | **(425,131)** | (603,479) | **(416,239)** | (576,317) |
| Other cash paid relating to investing activities | | **(3,497)** | (15,301) | **–** | – |
| Sub-total of cash outflows | | **(428,628)** | (618,780) | **(416,239)** | (576,317) |
| **Net cash flow from investing activities** | | **(376,235)** | (602,146) | **(385,281)** | (560,992) |

## Cash flow statements (unaudited) *(Continued)*

| | Notes to the cash flow statements | The Group For the six months ended 30 June 2003 Rmb'000 | The Group 2002 Rmb'000 | The Company 2003 Rmb'000 | The Company 2002 Rmb'000 |
|---|---|---|---|---|---|
| **(iii) Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **2,133,555** | 2,011,210 | **1,958,155** | 1,844,736 |
| Sub-total of cash inflow | | **2,133,555** | 2,011,210 | **1,958,155** | 1,844,736 |
| Repayment of borrowings | | **(1,817,532)** | (2,164,775) | **(1,635,189)** | (2,079,736) |
| Cash paid relating to dividend distributed and repayment of interest | | **(55,218)** | (33,270) | **(53,473)** | (32,296) |
| Other cash paid relating to financing activities | | **–** | (1,600) | **–** | – |
| Sub-total of cash outflows | | **(1,872,750)** | (2,199,645) | **(1,688,662)** | (2,112,032) |
| **Net cash flow from financing activities** | | **260,805** | (188,435) | **269,493** | (267,296) |
| **Net decrease in cash and cash equivalents** | *(b)* | **(95,267)** | (45,994) | **(116,835)** | (46,003) |

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

## 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 | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Net profit | **4,603** | 54,040 | **4,759** | 56,270 |
| *Add:* Provision for bad and doubtful debts or bad debts written off | **14** | (185) | **14** | – |
| Depreciation of fixed assets | **389,457** | 431,373 | **358,156** | 400,656 |
| Amortisation of intangible assets | **7,055** | 7,055 | **7,055** | 7,055 |
| Amortisation of long-term deferred expenses | **1,530** | 2,406 | **1,530** | 2,406 |
| Investment income | **(5,022)** | (4,773) | **(11,529)** | (14,112) |
| Financial expenses | **31,331** | 6,959 | **26,027** | 676 |
| Gain on disposal of fixed assets | **(460)** | (143) | **(460)** | (155) |
| Increase in inventories | **(22,548)** | (80,924) | **(39,490)** | (70,282) |
| Decrease/(increase) in operating receivables | **52,755** | (73,357) | **96,700** | 60,240 |
| (Decrease)/increase in operating payables | **(445,271)** | 397,725 | **(443,809)** | 339,531 |
| Minority interests | **6,719** | 4,411 | **–** | – |
| **Net cash flow from operating activities** | **20,163** | 744,587 | **(1,047)** | 782,285 |

### (b) Net decrease in cash and cash equivalents

| | The Group 2003 | The Group 2002 | The Company 2003 | The Company 2002 |
|---|---|---|---|---|
| Cash and cash equivalents at the end of the period | **395,537** | 399,183 | **230,818** | 261,463 |
| *Less:* Cash and cash equivalents at the beginning of the period | **490,804** | 445,177 | **347,653** | 307,466 |
| **Net decrease in cash and cash equivalents** | **(95,267)** | (45,994) | **(116,835)** | (46,003) |

## Notes to 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, China Eastern United Petrochemical Group Company Limited (**"CEUPEC"**) became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company's issued share capital) previously held by Yihua. China International Trust and Investment Corporation (**"CITIC"**) continues to hold the 18% of the Company's issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% 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% of the Company's issued share capital and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000 and 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% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec and 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 and its subsidiaries (the **"Group"**) are the manufacturing and sale of chemical fibre and chemical fibre raw materials.

### 2. Change in accounting policy

Change in accounting policy of the Group is resulted from the adoption of the revised Accounting Standard for Business Enterprises: Events Occurring After the Balance Sheet Date (the **"Standard"**). Prior to revision of the Standard, a profit appropriation provided for in a profit appropriation plan which is formulated by the board of directors after the balance sheet date in respect of the period covered by the financial statements should be regarded as an adjusting event. Pursuant to the revised Accounting Standard for Business Enterprises: Events Occurring After the Balance Sheet Date (Cai Kuai Zi [2003] No. 12) issued by the Ministry of Finance (**"MOF"**) on 14 April 2003, cash dividends provided for in a profit appropriation plan which is formulated by the board of directors between the balance sheet date and the date on which the financial statements are authorised for issue should be stated separately under the owners' equity in the balance sheet. Retrospective adjustments on cash dividend appropriation are made by the Group in accordance with the revised Standard.

## 2. Change in accounting policy *(Continued)*

The above change in accounting policy resulted in an increase in the Group's and the Company's undistributed profits at the beginning of the period for the year 2003 by Rmb60 million. The accumulated effect on prior years is as follows:

| | Before adjustment | The Group Amount of adjustment | After adjustment |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Undistributed profits at the beginning of 2002 | 388,806 | 80,000 | 468,806 |
| Undistributed profits at the end of 2002 | 442,063 | 60,000 | 502,063 |
| Dividend payable at the end of 2002 | 60,000 | (60,000) | – |

| | Before adjustment | The Company Amount of adjustment | After adjustment |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Undistributed profits at the beginning of 2002 | 397,480 | 80,000 | 477,480 |
| Undistributed profits at the end of 2002 | 449,773 | 60,000 | 509,773 |
| Dividend payable at the end of 2002 | 60,000 | (60,000) | – |

## 3. Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of the financial statements conform with the "Accounting Standards for Business Enterprises" and the "Accounting Regulations for Business Enterprises".

*(a) Accounting year*

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

*(b) Basis of consolidation*

The Group's consolidated financial statements are prepared in accordance with the "Accounting Regulations for Business Enterprise" and 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 results of the subsidiaries during the period when such control effectively commences until the date that control effective ceases are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

**3. Significant accounting policies** *(Continued)*

*(b) Basis of consolidation (Continued)*

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.

*(c) Basis of preparation and measurement basis*

The Group's basis of preparation is on an accrual basis. Unless specifically stated, the measurement basis is under the historical cost convention.

*(d) Reporting currency and translation of foreign currencies*

The Group's reporting currency is 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 (**"PBOC rates"**).

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi at the applicable PBOC rates ruling at that date. Except for exchange differences directly relating to the purchase or construction of fixed assets (including exchange differences on borrowed funds specifically for the purchase or construction of fixed assets), foreign exchange differences are recognised as exchange gains or losses in the income statement for the period.

*(e) Cash equivalents*

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

*(f) Provision for bad and doubtful debts*

Bad debts expenses are accounted for based on allowance method under which bad debt expenses are estimated periodically.

Bad debts losses are estimated by identifying trade receivables showing signs of uncollectibility individually, and allowance is then made based on the probability of the related uncollectible amount; 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 nature and corresponding estimated collectibility. Specific approval from the management is necessary for allowances made in respect of significant specific receivables.

**3. Significant accounting policies** *(Continued)*

*(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 of inventories includes the cost of purchase of raw materials computed using the weighted average method. Actual cost is used for stock-in and weighted average method is used for stock-out. In addition to the purchase costs of raw materials, work in progress and finished goods include direct labour and an appropriate share of production overheads. Net realisable value is determined based on the estimated selling price of inventories less estimated cost of completion, estimated selling expenses and related taxes payable in the ordinary course of business.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are amortised in full when received for use.

The Group adopts a perpetual inventory system.

*(h) Long-term equity investments*

Long-term investments are stated at the lower of the amortised cost and the recoverable amount. A provision for impairment is made on the difference between the amortised cost and the lower recoverable amount.

The Group accounts for its investment in subsidiaries under the equity method of accounting, which is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of shareholders' equity of the investee enterprise. Equity-investment difference, which is the difference between initial investment cost and the share by the shareholders' equity value of the investee companies, is amortised on a straight-line basis. Amortisation for the period is recognised as investment income. When the agreement specifies the investment period, it is amortised over the investment period. Where the agreement does not specify the investment period, it is amortised over 10 years.

The Group adopts the cost method to account for investments of less than 20% of the shareholdings or if the Group does not exercise significant influence over the investee despite holding more than 20% of the shareholdings. Investment income is recognised when investee company declares cash dividend or distributes profit.

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.

*(i) Fixed assets*

Fixed assets are relatively high-valued assets with useful lives over one year held by the Group for the production and operation purposes.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations and fixed assets are adjusted to the revalued amounts accordingly.

**3. Significant accounting policies** *(Continued)*

*(i) Fixed assets (Continued)*

The Group's fixed assets are depreciated using the straight-line method, which is the fixed assets' costs less their estimated residual values over their estimated useful lives. The respective estimated useful lives and the estimated rate of net residual values adopted for fixed assets are as follows:

| | **Depreciation life** | **Rate of net residual values** |
|---|---|---|
| Land and buildings | 25 to 50 years | 3% |
| Plant, machinery and equipment | 8 to 22 years | 3% |
| Motor vehicles and other fixed assets | 5 to 20 years | 3% |

*(j) Construction in progress*

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated in the balance sheet at cost less impairment losses. All direct costs and indirect costs related to the acquisition or construction of fixed assets, including interest expenses and the related foreign exchange differences on specific borrowings for the construction during the construction period (see note 3(m)) incurred before the assets are ready for their intended uses, are capitalised as construction in progress.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

No depreciation is provided in respect of construction in progress.

*(k) Intangible assets and long-term deferred expenses*

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses. The cost of intangible assets is amortised on a straight-line basis over the contractual or legal period, being the shorter of the beneficial period as specified in the relevant contracts or laws, or if in the absence of contractual or legal period, amortised over 10 years.

(ii) Long-term deferred expenses

Long-term deferred expenses are capitalised when incurred and amortised on a straight-line period over the benefit period.

3. **Significant accounting policies** *(Continued)*

*(l)* *Revenue recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and cost can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, 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.

(ii) Interest income

Interest income is recognised on a time apportioned basis that takes into account the principal and the applicable interest rate.

*(m)* *Borrowing costs*

Borrowing costs represent interest expenses and foreign exchange differences on loans. Borrowing costs incurred in relation to the purchase and construction of fixed assets are capitalised before the asset is ready for its intended use. Other borrowing costs are expensed in the income statement in the period in which they are incurred.

*(n)* *Repairs and maintenance expenses*

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

*(o)* *Research and development costs*

Research and development costs are recognised as expenses in the income statement in the period in which they are incurred.

*(p)* *Retirement benefits*

Contribution payable under the retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan.

*(q)* *Impairment of 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 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 provision of asset impairment is recognised as an expense in the income statement.

**3. Significant accounting policies** *(Continued)*

*(q) Impairment of assets (Continued)*

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 credited to the income statement in the period in which the reversal is recognised.

*(r) Taxes*

Income tax is provided using the tax-effect accounting method. Income tax expense comprises current and deferred tax.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year and the applicable tax rates.

(ii) Deferred tax

Deferred tax is provided using the liability method. This method provides for temporary differences between the amounts stated in the financial statements and the amounts used for taxation purposes. When the initial recognition of assets or liabilities which affect neither the accounting profit nor taxable profit/ loss, no deferred tax is provided for in this regard. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The resulting changes in deferred tax are dealt with in the income statement.

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 within the same jurisdiction. When the related tax benefit of the deferred tax assets cannot be realised, the net deferred tax assets are reduced to the realisable amount.

*(s) Related parties*

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly 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.

## 4. Taxation

*(a)* The applicable tax rates of the Group related to sales and services include value added tax (**"VAT"**), business tax, city construction tax and education surcharge.

The VAT tax is 17%.

The business tax rate is either 3% or 5%.

City construction tax is paid at a rate of 7% of the sum of business tax and VAT paid.

Education surcharge is paid at a rate of 4% of the sum of business tax and VAT paid.

*(b)* *Income tax*

Pursuant to the directive "Cai Shui Zi [1994] No. 17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the Company's income tax is calculated at 15%. As notice from the State Administration of Taxation whether this tax rate is still applicable in future periods has not yet been received, the tax rate applicable to the Company may increase.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%; two of its subsidiaries are sino-foreign investment enterprises and 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.

*(c)* *Business tax and surcharges*

| | **The Group For the six months ended 30 June** | | **The Company For the six months ended 30 June** | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| City construction tax | **8,152** | 12,051 | **7,854** | 12,051 |
| Education surcharge | **4,634** | 6,887 | **4,487** | 6,887 |
| Others | **239** | 954 | **–** | – |
| | **13,025** | 19,892 | **12,341** | 18,938 |

*(d)* *Taxes payable*

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **At 30 June 2003** | At 31 December 2002 | **At 30 June 2003** | At 31 December 2002 |
| | ***Rmb'000*** | *Rmb'000* *(audited)* | ***Rmb'000*** | *Rmb'000* *(audited)* |
| Income tax payable | **77,183** | 89,951 | **76,342** | 84,730 |
| Business tax and surcharges payable | **90** | 157 | **90** | 157 |
| VAT (recoverable)/ payable | **(7,669)** | 34,808 | **283** | 49,043 |
| Other taxes payable | **10,283** | 17,330 | **9,997** | 13,764 |
| | **79,887** | 142,246 | **86,712** | 147,694 |

**4. Taxation** *(Continued)*

*(e) Deferred taxation*

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

**5. Cash at bank and in hand**

| | The Group | | | |
|---|---|---|---|---|
| | | **At 30 June 2003** | | At 31 December 2002 |
| | **Original currency** | **Exchange rate** | **Renminbi equivalent** | Renminbi equivalent |
| | ***'000*** | | ***Rmb'000*** | *Rmb'000* *(audited)* |
| *Cash in hand* | | | | |
| – Renminbi | | | **280** | 109 |
| *Cash at bank* | | | | |
| – Renminbi | | | **299,605** | 325,020 |
| – Hong Kong Dollars | **143** | **1.06** | **152** | 2,522 |
| – US Dollars | **7,504** | **8.29** | **62,208** | 44,313 |
| *Cash at bank and in hand* | | | **362,245** | 371,964 |
| *Deposits with related companies* | | | **707,409** | 833,410 |
| | | | **1,069,654** | 1,205,374 |

| | The Company | | | |
|---|---|---|---|---|
| | | **At 30 June 2003** | | At 31 December 2002 |
| | **Original currency** | **Exchange rate** | **Renminbi equivalent** | Renminbi equivalent |
| | ***'000*** | | ***Rmb'000*** | *Rmb'000* *(audited)* |
| *Cash in hand* | | | | |
| – Renminbi | | | **69** | 48 |
| *Cash at bank* | | | | |
| – Renminbi | | | **115,435** | 163,170 |
| – Hong Kong Dollars | **136** | **1.06** | **144** | 143 |
| – US Dollars | **7,485** | **8.29** | **62,047** | 43,212 |
| *Cash at bank and in hand* | | | **177,695** | 206,573 |
| *Deposits with related companies* | | | **678,123** | 786,080 |
| | | | **855,818** | 992,653 |

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

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited (**"Sinopec Finance"**). Details are set out in note 29.

**6. Bills receivable**

Types of bills receivable are as follows:

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2003** | | At 31 December 2002 | | **At 30 June 2003** | | At 31 December 2002 | |
| | ***Rmb'000*** | **%** | *Rmb'000 (audited)* | % | ***Rmb'000*** | **%** | *Rmb'000 (audited)* | % |
| Bank acceptance bills of exchange | **328,416** | **95** | 390,074 | 88 | **292,482** | **94** | 365,041 | 87 |
| Commercial acceptance bills of exchange | **17,465** | **5** | 55,220 | 12 | **17,465** | **6** | 55,220 | 13 |
| | **345,881** | **100** | 445,294 | 100 | **309,947** | **100** | 420,261 | 100 |

At 30 June 2003, the above bank and commercial acceptance bills of exchange were not pledged.

Balance due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 29.

## 7. Trade receivables

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2003** | | At 31 December 2002 | | **At 30 June 2003** | | At 31 December 2002 | |
| | ***Rmb'000*** | **%** | *Rmb'000* *(audited)* | % | ***Rmb'000*** | **%** | *Rmb'000* *(audited)* | % |
| **Trade receivables** | | | | | | | | |
| Within one year | **134,720** | **85** | 82,696 | 79 | **96,049** | **88** | 28,737 | 68 |
| Between one to two years | **7,386** | **5** | 7,069 | 7 | **8** | **-** | 2,145 | 5 |
| Between two to three years | **2,997** | **2** | 7,100 | 7 | **1,657** | **2** | 4,617 | 11 |
| Over three years | **12,632** | **8** | 7,395 | 7 | **11,256** | **10** | 6,651 | 16 |
| | **157,735** | **100** | 104,260 | 100 | **108,970** | **100** | 42,150 | 100 |
| *Less:* Provision for bad and doubtful debts | | | | | | | | |
| Within one year | **-** | **-** | – | – | **-** | **-** | – | – |
| Between one to two years | **-** | **-** | (644) | 9 | **-** | **-** | (644) | 30 |
| Between two to three years | **(23)** | **1** | (2,793) | 39 | **-** | **-** | (2,770) | 60 |
| Over three years | **(10,823)** | **86** | (7,395) | 100 | **(10,079)** | **90** | (6,651) | 100 |
| | **(10,846)** | **7** | (10,832) | 10 | **(10,079)** | **9** | (10,065) | 24 |
| Trade receivables, net | **146,889** | | 93,428 | | **98,891** | | 32,085 | |

During the period ended 30 June 2003, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.

Balance due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 29.

| | **At 30 June 2003** | | At 31 December 2002 | |
|---|---|---|---|---|
| | ***Rmb'000*** | **%** | *Rmb'000* *(audited)* | *%* |
| Total of the five largest trade receivables | **61,167** | **42** | 29,802 | 32 |

## 8. Other receivables

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2003** | | At 31 December 2002 | | **At 30 June 2003** | | At 31 December 2002 | |
| | ***Rmb'000*** | **%** | *Rmb'000 (audited)* | % | ***Rmb'000*** | **%** | *Rmb'000 (audited)* | % |
| **Other receivables** | | | | | | | | |
| Within one year | **27,524** | **42** | 26,233 | 40 | **195,424** | **72** | 17,272 | 5 |
| Between one to two years | **269** | **–** | 2,752 | 4 | **269** | **–** | 2,131 | 1 |
| Between two to three years | **1,161** | **2** | 14,290 | 22 | **1,161** | **–** | 45,037 | 14 |
| Over three years | **36,080** | **56** | 22,637 | 34 | **75,350** | **28** | 255,432 | 80 |
| | **65,034** | **100** | 65,912 | 100 | **272,204** | **100** | 319,872 | 100 |
| *Less:* Provision for bad and doubtful debts | | | | | | | | |
| Within one year | **–** | **–** | – | – | **–** | **–** | – | – |
| Between one to two years | **–** | **–** | – | – | **–** | **–** | – | – |
| Between two to three years | **–** | **–** | (2,592) | 18 | **–** | **–** | (2,592) | 6 |
| Over three years | **(23,622)** | **65** | (21,030) | 93 | **(17,603)** | **23** | (15,011) | 6 |
| | **(23,622)** | **36** | (23,622) | 36 | **(17,603)** | **6** | (17,603) | 6 |
| Other receivables, net | **41,412** | | 42,290 | | **254,601** | | 302,269 | |

During the period ended 30 June 2003, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in the prior years.

Balance due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 29.

| | **At 30 June 2003** | | At 31 December 2002 | |
|---|---|---|---|---|
| | ***Rmb'000*** | **%** | *Rmb'000 (audited)* | % |
| Total of the five largest other receivables | **9,041** | **22** | 8,116 | 19 |

## 9. Advance payments

Balances due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 29.

All advance payments are aged within one year.

## 10. Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2003 Rmb'000** | At 31 December 2002 Rmb'000 (audited) | **At 30 June 2003 Rmb'000** | At 31 December 2002 Rmb'000 (audited) |
| **At cost:** | | | | |
| Raw materials | **662,529** | 727,591 | **611,762** | 666,969 |
| Work in progress | **67,619** | 56,473 | **63,848** | 52,820 |
| Finished goods | **217,372** | 199,038 | **178,770** | 113,232 |
| Goods in transit | **41,497** | 32 | **103** | 32 |
| Spare parts and consumables | **267,567** | 250,902 | **241,999** | 223,939 |
| | **1,256,584** | 1,234,036 | **1,096,482** | 1,056,992 |
| *Less:* Provision for diminution in value of inventories | | | | |
| Raw materials | **(7,000)** | (8,800) | **(7,000)** | (7,000) |
| Finished goods | **(10,443)** | (8,643) | **(8,043)** | (8,043) |
| Spare parts and consumables | **(29,743)** | (29,743) | **(29,743)** | (29,743) |
| | **(47,186)** | (47,186) | **(44,786)** | (44,786) |
| | **1,209,398** | 1,186,850 | **1,051,696** | 1,012,206 |

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 2003 | 8,800 | 8,643 | 29,743 | 7,000 | 8,043 | 29,743 |
| Charge for the period | – | 19,440 | – | – | 17,640 | – |
| Write back for the period | (1,800) | (17,640) | – | – | (17,640) | – |
| **At 30 June 2003** | **7,000** | **10,443** | **29,743** | **7,000** | **8,043** | **29,743** |

The above inventories are either purchased or self-produced.

During the period ended 30 June 2003, the Group and the Company recognised the cost of inventories as cost and expenses are Rmb4,398,907,000 (2002: Rmb3,284,740,000) and Rmb4,042,105,000 (2002: Rmb3,012,583,000) respectively.

## 11. Long-term equity investments

| | The Group | | |
|---|---|---|---|
| | Equity-investment difference Rmb'000 (note (a)) | Other unlisted equity-investment Rmb'000 (note (c)) | Total Rmb'000 |
| At 1 January 2003 | (29,341) | 62,500 | 33,159 |
| Amortisation *(note 26)* | 1,522 | – | 1,522 |
| **At 30 June 2003** | **(27,819)** | **62,500** | **34,681** |

| | The Company | | | |
|---|---|---|---|---|
| | Consolidated equity in subsidiaries Rmb'000 (note (a)) | Equity-investment difference Rmb'000 (note (b)) | Other unlisted equity-investment Rmb'000 (note (c)) | Total Rmb'000 |
| At 1 January 2003 | (90,675) | (29,341) | 62,500 | (57,516) |
| Share of profits less losses from investments accounted for under the equity method *(note 26)* | 6,507 | – | – | 6,507 |
| Amortisation *(note 26)* | – | 1,522 | – | 1,522 |
| **At 30 June 2003** | **(84,168)** | **(27,819)** | **62,500** | **(49,487)** |

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

| Name of company | Registered capital *(in thousands)* | Percentage of equity directly by the company *(%)* | Percentage of equity held by subsidiary *(%)* | Type of legal entity | Principal activities |
|---|---|---|---|---|---|
| Foshan Chemical Fibre Complex | Rmb32,933 | 100 | – | Wholly-owned legal person | Management and administration |
| Yizheng Chemical Fibre Foshan Polyester Company Limited (**"Foshan Polyester"**) | US$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 | Rmb60,000 | 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.

**11. 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 9 years.

(c) Other unlisted equity investment

At 30 June 2003, the other unlisted equity investment of the Group and the Company is as follows:

| Name of investee | Investment period | Total investment *Rmb'000* | Percentage shareholdings *%* | Provision for diminution in value *Rmb'000* |
|---|---|---|---|---|
| Sinopec Finance | – | 62,500 | 3.3 | – |

(d) The amounts due from subsidiaries of Rmb800 million (at 31 December 2002: Rmb800 million) are expected to be recovered after more than one year.

**12. Fixed assets**

| | The Group | | | |
|---|---|---|---|---|
| | Land and buildings *Rmb'000* | Plant, machinery and equipment *Rmb'000* | Motor vehicles and other fixed assets *Rmb'000* | Total *Rmb'000* |
| **Cost:** | | | | |
| At 1 January 2003 | 2,560,382 | 9,978,095 | 606,485 | 13,144,962 |
| Additions | 204 | 416 | 3,256 | 3,876 |
| Transfer from construction in progress *(note 13)* | 1,415 | 28,555 | 6,405 | 36,375 |
| Disposals | – | (487) | (973) | (1,460) |
| Reclassifications | – | 23,000 | (23,000) | – |
| **At 30 June 2003** | **2,562,001** | **10,029,579** | **592,173** | **13,183,753** |
| **Accumulated depreciation:** | | | | |
| At 1 January 2003 | 612,517 | 4,710,077 | 381,033 | 5,703,627 |
| Charge for the period | 40,614 | 322,079 | 26,764 | 389,457 |
| Written back on disposal | – | (341) | (936) | (1,277) |
| Reclassifications | – | 796 | (796) | – |
| **At 30 June 2003** | **653,131** | **5,032,611** | **406,065** | **6,091,807** |
| **Net book value:** | | | | |
| **At 30 June 2003** | **1,908,870** | **4,996,968** | **186,108** | **7,091,946** |
| At 31 December 2002 | 1,947,865 | 5,268,018 | 225,452 | 7,441,335 |

**12. Fixed assets** *(Continued)*

| | The Company | | | |
|---|---|---|---|---|
| | **Land and buildings** | **Plant, machinery and equipment** | **Motor vehicles and other fixed assets** | **Total** |
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost:** | | | | |
| At 1 January 2003 | 2,246,806 | 9,230,229 | 564,133 | 12,041,168 |
| Additions | 80 | – | 2,450 | 2,530 |
| Transfer from construction in progress *(note 13)* | 1,415 | 28,227 | 5,668 | 35,310 |
| Disposals | – | (449) | (944) | (1,393) |
| Reclassifications | – | 23,000 | (23,000) | – |
| **At 30 June 2003** | **2,248,301** | **9,281,007** | **548,307** | **12,077,615** |
| **Accumulated depreciation:** | | | | |
| At 1 January 2003 | 553,290 | 4,367,936 | 359,485 | 5,280,711 |
| Charge for the period | 36,290 | 297,372 | 24,494 | 358,156 |
| Written back on disposal | – | (311) | (912) | (1,223) |
| Reclassifications | – | 796 | (796) | – |
| **At 30 June 2003** | **589,580** | **4,665,793** | **382,271** | **5,637,644** |
| **Net book value:** | | | | |
| **At 30 June 2003** | **1,658,721** | **4,615,214** | **166,036** | **6,439,971** |
| At 31 December 2002 | 1,693,516 | 4,862,293 | 204,648 | 6,760,457 |

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

As at 30 June 2003, the Group do not have any material amount of unutilised fixed assets.

## 13. Construction in progress

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

The projects not yet completed at 30 June 2003 are as follows:

| Project | Budgeted amount | Balance at 1 January 2003 | Additions | Transferred out | Balance at 30 June 2003 | Source of fund | Percentage of completion | Interest capitalised |
|---|---|---|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* (*note 12*) | ***Rmb'000*** | | | *Rmb'000* |
| Phase 4 project | 2,055,035 | 887,504 | 648,215 | – | **1,535,719** | Bank loans/ surplus fund | 75% | 49,186 |
| Improvements and expansion of existing plants | 978,244 | 77,241 | 215,453 | (30,796) | **261,898** | Surplus fund | 27% | 6,714 |
| Other construction projects | 23,852 | 17,488 | 10,008 | (4,514) | **22,982** | Surplus fund | 96% | – |
| Total for the Company | | 982,233 | 873,676 | (35,310) | **1,820,599** | | | |
| Miscellaneous projects of the subsidiaries | | 39,120 | 7,545 | (1,065) | **45,600** | Surplus fund | | |
| Total for the Group | | 1,021,353 | 881,221 | (36,375) | **1,866,199** | | | |

The borrowing costs of the Group for the period have been capitalised at an average rate of 4.9% (2002: 5.1%).

## 14. Construction materials

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2003** | At 31 December 2002 |
| | ***Rmb'000*** | *Rmb'000* (*audited*) |
| Equipment and accessories | **170,614** | 613,659 |
| Other construction materials | **1,104** | 993 |
| | **171,718** | 614,652 |

## 15. Intangible assets

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2003** | At 31 December 2002 |
| | ***Rmb'000*** | *Rmb'000* *(audited)* |
| Cost of patent rights: | | |
| At the beginning and end of the period/year | **141,097** | 141,097 |
| Aggregate amortisation: | | |
| At the beginning of the period/year | **99,903** | 85,793 |
| Charge for the period/year | **7,055** | 14,110 |
| At the end of the period/year | **106,958** | 99,903 |
| Net balance at the end of the period/year | **34,139** | 41,194 |

The Company acquired patent rights in 1995 and 1999 which are amortised over ten years. The remaining periods of amortisation are 3 and 5 years respectively.

## 16. Short-term and long-term loans

*(a) Short-term bank loans*

Short-term loans are general credit facilities denominated in Renminbi. At 30 June 2003, the weighted average annual interest rates of the Group and the Company are 4.0% (31 December 2002: 4.4%) and 4.1% (31 December 2002: 4.5%) respectively. At 30 June 2003, the Group and the Company did not have any significant overdue short-term loans (31 December 2002: Nil). Short-term loans are not guaranteed and unsecured.

Included in short-term bank loans, loans from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 29.

**16. Short-term and long-term loans** *(Continued)*

(b) Long-term bank loans

| | | | | The Group and the Company | |
|---|---|---|---|---|---|
| **Lender** | **Period** | **Interest rate** | **Interest type** | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
| Industrial and Commercial Bank of China | Due in 2003 | 4.94% | Fixed | **300,000** | 400,000 |
| Industrial and Commercial Bank of China | Due in 2004 | 4.94% | Fixed | **400,000** | 150,000 |
| Industrial and Commercial Bank of China | Due in 2005 | 4.94% | Fixed | **200,000** | 150,000 |
| Total long-term bank loans | | | | **900,000** | 700,000 |
| *Less:* Long-term bank loans (current portion) | | | | **350,000** | 400,000 |
| Long-term bank loans (long-term portion) | | | | **550,000** | 300,000 |

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

The repayment terms of the long-term bank loans are as follows:

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
| Due within one year | **350,000** | 400,000 |
| Due between one – two years | **350,000** | 150,000 |
| Between two – three years | **200,000** | 150,000 |
| Total bank loans | **900,000** | 700,000 |

(c) At 30 June 2003, the Group's long-term loans are not secured and without guarantees.

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

Bills payable are mainly issued for the purchase of raw materials, goods or products by the Group, with the repayment terms generally ranging from three to six months.

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2003 *Rmb'000*** | **%** | At 31 December 2002 *Rmb'000* *(audited)* | % | **At 30 June 2003 *Rmb'000*** | **%** | At 31 December 2002 *Rmb'000* *(audited)* | % |
| **Bills payable** | | | | | | | | |
| Bank acceptance bills of exchange | **13,124** | **2** | – | – | **-** | **-** | – | – |
| Commercial acceptance bills of exchange | **550,000** | **98** | 683,528 | 100 | **550,000** | **100** | 670,000 | 100 |
| | **563,124** | **100** | 683,528 | 100 | **550,000** | **100** | 670,000 | 100 |

There is no material payable aged over three years included in trade payables and other creditors.

There is no material balance aged over one year included in receipts in advance.

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 voting shares of the Company are disclosed in note 29.

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2003 *Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* | **At 30 June 2003 *Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
| Within one month | **511,626** | 640,197 | **434,523** | 585,914 |
| Due after one month but within six months | **400,000** | 545,919 | **400,000** | 520,000 |
| | **911,626** | 1,186,116 | **834,523** | 1,105,914 |

## 18. Dividend payable

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2003 Rmb'000** | At 31 December 2002 *Rmb'000* *(audited and restated)* |
| **Name of investors** | | |
| Sinopec | **25,200** | – |
| CITIC | **10,800** | – |
| "A" shares (circulating shares) | **3,000** | – |
| "H" shares | **21,000** | – |
| | **60,000** | – |

## 19. Accrued expenses

Accrued expenses represent interest accrual.

## 20. Share capital

| | The Group and the Company | |
|---|---|---|
| | **At 30 June 2003 Rmb'000** | At 31 December 2002 *Rmb'000* *(audited)* |
| Registered, issued and paid up capital: | | |
| 2,400,000,000 Legal person "A" shares of Rmb1 each | **2,400,000** | 2,400,000 |
| 200,000,000 Social public "A" shares of Rmb1 each | **200,000** | 200,000 |
| 1,400,000,000 "H" shares of Rmb1 each | **1,400,000** | 1,400,000 |
| | **4,000,000** | 4,000,000 |

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

## 21. Capital reserve

Capital reserve represents share premium.

## 22. Surplus reserves

| | The Group and the Company | | | |
|---|---|---|---|---|
| | Statutory surplus reserve | Statutory public welfare fund | Discretionary surplus reserve | Total |
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| At 1 January 2002 | 451,226 | 288,464 | 594,547 | 1,334,237 |
| Transfer from distributable profits | 13,887 | 12,689 | – | 26,576 |
| At 31 December 2002 | 465,113 | 301,153 | 594,547 | 1,360,813 |
| At 1 January 2003 | 465,113 | 301,153 | 594,547 | 1,360,813 |
| Transfer from distributable profits | – | – | – | – |
| **At 30 June 2003** | **465,113** | **301,153** | **594,547** | **1,360,813** |

Transfers from 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 for the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve for the six months ended 30 June 2003.

## 23. Income from principal operations

For the period ended 30 June 2003, revenue from sales to top five customers are Rmb1,023,000,000 (2002: Rmb704,000,000) which accounts for 22% (2002: 19%) of the total income from sales of goods of the Group.

## 24. (Profit)/loss from other operations

| | The Group | | The Company | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Sales of ancillary and raw materials, net | **1,017** | 4,575 | **1,382** | 4,266 |
| Loss from transportation services, net | **2,006** | 2,153 | **2,006** | 2,153 |
| Loading and unloading income, net | **(3,980)** | (2,649) | **(3,898)** | (2,471) |
| Sales of liquid nitrogen, net | **(1,669)** | (207) | **(1,669)** | (207) |
| Others | **(1,228)** | 2,610 | **1,194** | 3,210 |
| | **(3,854)** | 6,482 | **(985)** | 6,951 |

## 25. Financial expenses

| | The Group | | The Company | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Interest expenses incurred | **56,626** | 32,870 | **54,888** | 31,746 |
| *Less:* Interest expenses capitalised | **(17,033)** | (13,557) | **(17,033)** | (13,557) |
| Interest expenses | **39,593** | 19,313 | **37,855** | 18,189 |
| Interest income | **(8,262)** | (12,354) | **(11,828)** | (17,513) |
| Net exchange (gain)/loss | **(472)** | 319 | **(678)** | (159) |
| Others | **2,975** | 2,291 | **2,919** | 2,267 |
| | **33,834** | 9,569 | **28,268** | 2,784 |

## 26. Investment income

| | The Group | | The Company | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Accounted for under the equity method *(note 11)* | **–** | – | **6,507** | 9,339 |
| Amortisation of equity investment difference *(note 11)* | **1,522** | 1,522 | **1,522** | 1,522 |
| Dividend from other equity investment | **3,500** | 3,251 | **3,500** | 3,251 |
| | **5,022** | 4,773 | **11,529** | 14,112 |

## 27. Non-operating income

| | The Group | | The Company | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Gain on disposal of fixed assets | **460** | 263 | **460** | 155 |
| Refund of education surcharge | **2,030** | 4,195 | **2,030** | 4,195 |
| Others | **1,841** | 706 | **(39)** | – |
| | **4,331** | 5,164 | **2,451** | 4,350 |

## 28. Non-operating expenses

| | The Group | | The Company | |
|---|---|---|---|---|
| | For the six months ended 30 June | | | |
| | **2003** | 2002 | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Loss on disposal of fixed assets | **6** | 99 | **1** | – |
| Flood prevention fee | **2,360** | 5,222 | **2,360** | 5,222 |
| Others | **635** | 749 | **590** | 728 |
| | **3,001** | 6,070 | **2,951** | 5,950 |

## 29. Related parties and related party transactions

(a) Related party having the ability to exercise significant influence

| | | |
|---|---|---|
| Name of company | : | China Petroleum & Chemical Corporation |
| Registered address | : | No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing |
| Principal operations | : | Exploring for, extracting and selling crude oil and natural gas, oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information |
| Relationship with the company | : | The immediate holding company |
| Economic nature | : | Joint stock limited company |
| Authorised representative | : | Chen Tonghai |
| Registered capital | : | Rmb86.7 billion |

The above mentioned related party, having the ability to exercise significant influence over the Group, has registered share capital of Rmb86,707,439,000. There was no change during the period.

The equity holding of the company having the ability to exercise significant influence over the Group and the Company is as follows:

| | Number of shares | Percentage |
|---|---|---|
| As at 31 December 2002 and 30 June 2003 | 1,680,000,000 | 42% |

**29. Related parties and related party transactions** *(Continued)*

(b) Related parties not subject to direct control

| **Name of company** | **Relationship with Company** |
|---|---|
| CPC | Ultimate holding company |
| CITIC | Shareholder |
| Yihua | Common ultimate holding company |
| Sinopec Yangzi Petrochemical Company Limited (**"Yangzi"**) | Common immediate holding company |
| Sinopec Finance | Common ultimate holding company |
| CITIC Industrial Bank | Subsidiary of CITIC |
| Nanjing Chemical Industrial Group Limited (**"Nanhua"**) | Common ultimate holding company |
| Sinopec Maoming Petrochemical Corporation (**"Maoming"**) | Common ultimate holding company |

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

**Yangzi**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Purchase of raw materials | **1,016,549** | 1,081,430 |

**Yihua and its subsidiaries ("Yihua Group")**

| | **Six months ended 30 June** | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Sales | **573,983** | 421,791 |
| Purchases | **72,234** | 50,079 |
| Miscellaneous service fee charges (see note below) | **59,511** | 51,280 |
| Miscellaneous service fee income (see note below) | **14,764** | 5,370 |
| Trademark licence fee (see note below) | **5,000** | 5,000 |
| Payments relating to the construction and maintenance work | **45,729** | 43,256 |

*Notes:* The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 12 December 2001 and 27 November 2002 signed between the Company and Yihua.

**29. 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**

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Service charges for the purchase of import equipments | **1,003** | – |
| Purchase of equipments | **1,002** | – |
| Purchase of raw materials | **81,369** | 74,953 |
| Subsidy received in respect of technological research and development | **1,610** | 1,900 |

**CPC Group (excluding Yihua Group, Sinopec and its subsidiaries)**

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Payments for construction work | **33,939** | 36,291 |
| Purchase of equipment | **12,706** | – |
| Purchase of raw materials | **11,428** | 19,715 |
| Insurance premium paid | **6,365** | 7,916 |

**Sinopec Finance**

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Interest income | **6,762** | 5,887 |

**CITIC Industrial Bank**

| | Six months ended 30 June | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Interest income | **313** | 407 |
| Interest expense | **1,041** | – |

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

**29. Related parties and related party transactions** *(Continued)*

(d) Deposits with Sinopec Finance

| | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Cash at bank and in hand | **668,497** | 772,439 |

(e) Deposits with and loan from CITIC Industrial Bank

| | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Cash at bank and in hand | **38,912** | 60,971 |
| Short term loan | **35,000** | 45,000 |

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

| | **At 30 June 2003** ***Rmb'000*** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Trade receivables | **37,615** | 4,434 |
| Bills receivable | **44,862** | 43,841 |
| Other receivables | **920** | 917 |
| Trade payables | **(4,114)** | (2,548) |
| Receipts in advance | **(7,793)** | (8,126) |
| Other creditors | **(13,683)** | (17,217) |
| | **57,807** | 21,301 |

**29. Related parties and related party transactions** *(Continued)*

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

| | **At 30 June 2003 Rmb'000** | At 31 December 2002 *Rmb'000* *(audited)* |
|---|---|---|
| Advance payment | **8,787** | 8,291 |
| Other receivables | **1,657** | 1,791 |
| Trade payables | **(14,877)** | (30,024) |
| Other creditors | **(30,119)** | (37,105) |
| Bills payable | **(550,000)** | (670,000) |
| | **(584,552)** | (727,047) |

**30. Contingent liabilities**

(a) At 30 June 2003, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank loans granted to certain wholly owned subsidiaries amounted to Rmb67,833,000 (at 31 December 2002: Rmb74,776,000).

(b) At 30 June 2003, the Group discounted commercial acceptance bills of exchange totalled Rmb172,855,000 (at 31 December 2002: Rmb42,900,000).

**31. Capital commitments**

At 30 June 2003, the Group and the Company had capital commitments as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **At 30 June 2003 Rmb'000** | At 31 December 2002 *Rmb'000* *(audited)* | **At 30 June 2003 Rmb'000** | At 31 December 2002 *Rmb'000* *(audited)* |
| Authorised and contracted for | **172,617** | 455,682 | **172,366** | 451,262 |
| Authorised but not contracted for | **895,983** | 740,849 | **884,742** | 740,849 |
| | **1,068,600** | 1,196,531 | **1,057,108** | 1,192,111 |

These capital commitments are for construction of purified terephthalic acid production plant, bottle grade polyester chip production plant, and improvement to existing plants.

## 32. Retirement benefits

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution retirement schemes 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:

| | | Contribution rate | |
|---|---|---|---|
| **Administrator** | **Beneficiary** | **At 30 June 2003** | At 31 December 2002 |
| Yizheng Municipal Government Jiangsu Province | Employees of the Company | **17%** | 17% |
| Foshan Municipal Government Guangdong Province | Employees of Foshan Polyester | **19%** | 19% |

All employees are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age. Based on the salaries, bonuses and certain allowances of its employees, the group has to make contributions according to the contributions rate stated above. Except for the above, the Group is not required to bear any other material obligation on the basis retirement benefits.

Other than the above, pursuant to a directive "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 Company's 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 2003 was 9% (2002: 9%).

## 33. Post balance sheet events

Up to the approval date of this interim financial report, there were no material post balance sheet events for the Group.

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

Other than the differences in the classification of certain financial statement captions 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 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.

(ii) Land use rights are carried at historical cost less amortisation and impairment losses under IFRS. Under the PRC Accounting Rules and Regulations, the land use rights are carried at revalued amount.

Reconciliation of the 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:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2003** | 2002 |
| | ***Rmb'000*** | *Rmb'000* |
| Net profit under the PRC Accounting Rules and Regulations | **4,603** | 54,040 |
| Differences: | | |
| – Amortisation of revaluation of land use rights *(ii)* | **2,640** | 2,640 |
| – Effect of the above adjustment on taxation | **(396)** | (396) |
| Net profit under IFRS | **6,847** | 56,284 |

| | **At 30 June 2003** | At 31 December 2002 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* *(audited and restated)* |
| Shareholders' funds under the PRC Accounting Rules and Regulations | **8,886,304** | 8,941,701 |
| Differences: | | |
| – Negative goodwill *(i)* | **7,354** | 7,354 |
| – Revaluation of land use rights *(ii)* | **(212,960)** | (215,600) |
| – Effect of the above adjustment on taxation | **31,944** | 32,340 |
| Shareholders' funds under IFRS | **8,712,642** | 8,765,795 |

## 9. COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors of the Company are not aware of any information that would reasonably indicate that the company has not complied with the Code of Best Practice as set out by the HKSE in Appendix 14 to the Listing Rules during the reporting period.

The Audit Committee of the Board of the Company held its 2nd meeting on 15 August 2003, and reviewed the interim financial report of the Group during the reporting period.

By order of the Board
**Fu Xing-tang**
**Chairman**

15 August 2003, Nanjing

## 10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 18 August 2003 (Monday) upon requests by related supervisory institutes 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 2003 signed by the Chairman and the Managing Director of the Company;

2. The interim financial report of the Company for the six months ended 30 June 2003 signed by the Chairman, Managing Director, Chief Financial Officer and the Head of Accounting Department;

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 reporting period;

5. The interim report disclosed by the Company in HKSE.

* *This 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.*