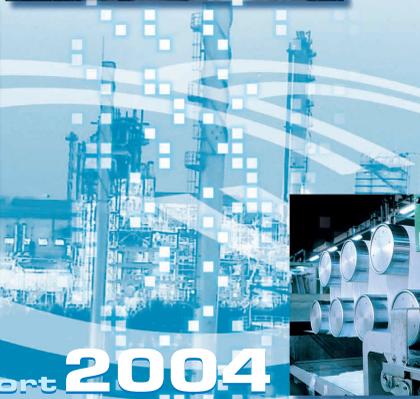




中國石化儀征化纖股份有限公司

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

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



Interim Report **2004**

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*Important Notes: The Board of Directors (“**the Board**”) of Sinopec Yizheng Chemical Fibre Company Limited and its directors warranted 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. Xu Zheng-ning, Chairman, Mr. Xiao Wei-zhen, Managing Director, Ms. Zhou Xin-hua, Chief Financial Officer and Mr. Yin Jia-dong, Supervisor of the Accounting Department of the Company warranted the authenticity 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 2004. The interim financial report therein is unaudited.

1. COMPANY PROFILE

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



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

H share

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

A share

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

2. FINANCIAL SUMMARY**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	
	2004	2003
	RMB'000	RMB'000
Turnover	5,936,961	4,697,495
Profit from ordinary activities before taxation	242,199	14,099
Income tax expense	39,932	533
Profit attributable to shareholders	198,770	6,847
Basic earnings per share	RMB 0.0497	RMB 0.002

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

	As at	As at	Increase/
	30 June	31 December	(decrease)
	2004	2003	compared
	RMB'000	RMB'000	to last year
			(%)
Current assets	3,092,973	2,800,822	10.4
Current liabilities	2,478,457	2,559,673	(3.2)
Total assets	12,043,938	12,078,960	(0.3)
Shareholders' equity (excluding minority interests)	9,220,349	9,125,832	1.0
Net assets per share	RMB 2.305	RMB 2.281	1.0
Adjusted net assets per share	RMB 2.303	RMB 2.279	1.0



	For the six months ended 30 June 2004 RMB'000	For the six months ended 30 June 2003 RMB'000	Increase/ (decrease) compared to the same period of last year %
Net profit	194,517	4,603	4,125.9
Net profit before non-operating (losses)/profits	197,806	4,212	4,596.2
Non-operating (losses)/profits *	(3,289)	391	(941.2)
Earnings per share	RMB 0.049	RMB 0.001	4,125.9
Return on net assets	2.11%	0.05%	Increased by 2.06 percentage points
Net cash flow from operating activities	155,791	20,163	672.7

Notes*: **Non-operating losses**

Non-operating profits/(losses) item	Amount RMB'000
Non-operating income excluding income from disposal of fixed assets	2,656
Non-operating expenses excluding losses from disposal of fixed assets	(6,726)
Net gain on disposal of fixed assets	201
Effect of income tax	580
Total	<u><u>(3,289)</u></u>

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)

	PRC Accounting Rules and Regulations		IFRS	
	The Group RMB'000	The Company RMB'000	The Group RMB'000	The Company RMB'000
Net Profit	194,517	199,036	198,770	203,289

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 (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Income from principal operations	6.652	6.686	0.153	0.153
Operating profit	2.585	2.598	0.060	0.060
Net profit	2.110	2.121	0.049	0.049
Net profit before non-operating losses	2.145	2.156	0.049	0.049

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 2004 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	At 30 June 2004 RMB'000
1. Total provisions for bad and doubtful debts	42,477	–	–	42,477
Including: Trade receivables	15,237	–	–	15,237
Other receivables	27,240	–	–	27,240
2. Total provision for diminution in value of inventories	30,772	22,640	–	53,412
Including: Finished goods	9,122	–	–	9,122
Spare parts and consumables	21,650	22,640	–	44,290
Total	<u>73,249</u>	<u>22,640</u>	<u>–</u>	<u>95,889</u>



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

Item	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000	Change %	Reason for Change
Trade receivables	183,257	123,861	48	Increase in sales during the period
Advance payments	134,153	74,624	80	Substantial purchase of raw materials according to the production schedule at the end of the period
Inventories	1,421,147	990,715	43	Increase in the purchase cost of raw materials
Construction in progress	180,374	270,480	(33)	Transfer to fixed assets as a result of the completion of the polyester project with a daily capacity of 450 tonnes
Construction materials	78,683	24,483	221	Increase in purchase of the related materials for construction projects
Receipts in advance	124,473	231,428	(46)	The demand at the end of the year was stronger as compared with mid-year
Current portion of long-term loans	150,000	100,000	50	Changes due to the execution of loan contract



Item	For the six months ended 30 June		Change %	Reason for Change
	2004 RMB'000	2003 RMB'000		
Administrative expenses	250,357	180,704	39	Increase in provision for diminution in value of inventories and amortization of intangible assets
Financial expenses	44,948	33,834	33	Increase in interest expenditure of bills discount and reduced level of the interest expenses capitalized
Operating profit	238,333	5,107	4,567	Increase in turnover and gross profit margin
Non-operating expenses	6,885	3,001	129	Increase in provision for market-price-adjustment fund
Total profit	237,464	11,459	1,972	Increase in turnover and gross profit margin
Income tax	39,450	137	28,696	Increase in total profit
Minority interests income	3,497	6,719	(48)	Decrease in gross profit margin of subsidiaries which carry out trading business of polyester products

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Changes in share capital

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

2. Shareholdings of major shareholders

(1) Number of shareholders

The number of shareholders of the Company as at 30 June 2004 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	86,163
H share	1,327
Total	87,492



(2) *The shareholdings of the top ten shareholders and circulating shareholders of the Company*

As at 30 June 2004, the respective shareholdings of the top ten shareholders and circulating shareholders of the Company are as follows:

Details of the top ten major shareholders

Names of shareholders	Increase (decrease) 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 share*	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***	4,447,900	1,352,261,099	33.81	Circulating	Not applicable	Overseas capital shareholder
CITIC Group Corporation ("CITIC")**	Nil	720,000,000	18.00	Non-circulating	Nil	Domestic legal person shareholder
NG HON LAM	Not applicable	2,000,000	0.05	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-13***	Nil	1,800,000	0.045	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-12***	Nil	1,200,000	0.03	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-16***	Nil	1,200,000	0.03	Circulating	Not applicable	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited***	50,000	1,052,000	0.026	Circulating	Not applicable	Overseas capital shareholder
Xing-he Fund	(362,368)	986,113	0.025	Circulating	Not applicable	Domestic legal person shareholder
Ma Ze-qi	Not applicable	811,000	0.02	Circulating	Not applicable	Domestic natural person shareholder



Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of the reporting period (shares)	Classification
HKSCC***	1,352,261,099	H shares
NG HON LAM	2,000,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-13***	1,800,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-12***	1,200,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-16***	1,200,000	H shares
HSBC Nominees (HONG KONG) Limited***	1,052,000	H shares
Xing-he Fund	986,113	A shares
Ma Ze-qi	811,000	A shares
Guoxin Group	794,600	A shares
HSBC Nominees (HONG KONG) Limited A/C BR-10***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-11***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-34***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-37***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-49***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-8***	600,000	H shares
HSBC Nominees (HONG KONG) Limited A/C BR-9***	600,000	H shares
KAY KWONG NAM	600,000	H shares

Explanation of connected relationship among the above shareholders and connected activities

So far as the Company is aware, there is no connected relationship among the above shareholders and no connected activities.



Explanation on the appointed period of holding shares which strategic investors or general legal person participates in the placing of new shares

Names of shareholder **Appointed period of holding shares**

Nil Nil

Notes:

* It represents the number of pledged or frozen shares held by shareholders who held more than 5 percent 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 2004, (according to the shareholders' register and related application documents received by the Company) so far as the Directors, Supervisors and Senior Management of the Company are aware, each of the following persons, not being a Director, Supervisor and 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 share held (shares)	Percentage of shareholding in the Company's total issued share capital (%)	Percentage of shareholding		Short position
			in the Company's total issued domestic shares (%)	in the Company's total issued H shares (%)	
Sinopec*	1,680,000,000	42.00	64.62	Not applicable	-
CITIC	720,000,000	18.00	27.69	Not applicable	-
JPMorgan Chase & Co. (formerly known as "J.P. Morgan Chase & Co.")**	131,120,200	3.28	Not applicable	9.37	-



* As at 30 June 2004, China Petrochemical Corporation (“CPC”) holds 55.06 percent of the equity interest in Sinopec.

** The shares in which JPMorgan Chase & Co. were deemed to be interested were held via JPMorgan Chase Bank, JF Asset Management Limited, J.P.Morgan Fleming Asset Management (Asia) Inc., J.P.Morgan Fleming Asset Management Holdings Inc., J.P.Morgan Whitefriars Inc., J.P.Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited and J.P.Morgan International Inc. respectively, and all the above shares were held via nominees companies.

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 30 June 2004, no other person held any 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

The seventeenth meeting of the fourth term Board held on 1 July 2004 accepted the resignations of Mr. Fu Xing-tang, Mr. Yao Han-chong and Mr. Ye Zong-shan as directors of the Company, elected Mr. Xu Zheng-ning as Chairman of the Company, appointed Mr. Xiao Wei-zhen as General Manager and appointed Mr. Li Zhen-feng and Mr. Zhang Zhong-an as Deputy General Managers of the Company. Mr. Xu Zheng-ning ceased to act as General Manager and Ms. Ling Ai-bao ceased to act as Deputy General Manager of the Company.

The sixth meeting of the Supervisory Committee held on 1 July 2004 accepted the resignation of Mr. Huang Gui-geng as a supervisor of the Company and elected Mr. Zhou Wen-fei as Chairman of the Supervisory Committee.

The Extraordinary General Meeting was held on 26 August 2004 and elected Mr. Shen Xi-jun, Mr. Cao Yong and Mr. Li Zhen-feng as the Directors of the fourth term Board of the Company.



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 2004 are as follows:

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
Xu Zheng-ning	Chairman	2,600	2,600	No Change
Sun Zhi-hong	Vice Chairwoman	0	0	No Change
Qian Heng-ge	Vice Chairman	2,000	2,000	No Change
Xiao Wei-zhen	Managing Director	0	0	No Change
Long Xing-ping	Director	0	0	No Change
Zhang Hong	Director	0	0	No Change
Guan Tiao-sheng	Director	0	0	No Change
Shen Xi-jun	Director, Deputy General Manager	0	0	No Change
Cao Yong	Director	0	0	No Change
Li Zhen-feng	Director, Deputy General Manager	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
Zhou Wen-fei	Chairman of the Supervisory Committee	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
Zhang Zhong-an	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 30 June 2004, 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 or short position which any such Director, Supervisor and 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 and 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.

4. Independent Director and Audit Committee

As at 30 June 2004, the Company has four Independent Directors, two of them are professionals in accounting field and have experience in financial management.

The Audit Committee of the Board of the Company has been founded, which was in accordance with the requirements under the Listing Rules.

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 2004, the Group's consolidated turnover amounted to RMB 5,936,961,000, increased by 26.4 per cent as compared with RMB 4,697,495,000 for the corresponding period of last year. The Group's consolidated profit attributable to shareholders was RMB 198,770,000, increased by 2,803.0 per cent as compared with RMB 6,847,000 for the corresponding period of last year, and basic earnings per share increased by 2,803.0 per cent to RMB 0.0497 as compared with RMB 0.002 for the corresponding period of last year.

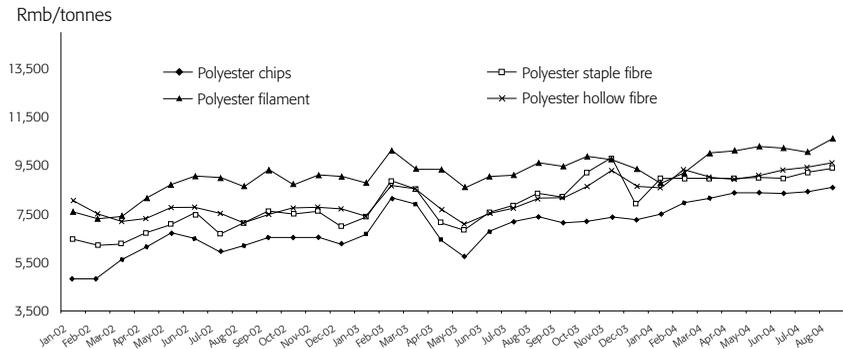
The Board resolved that no interim dividend was paid for the year ending 31 December 2004 (interim dividend for 2003: Nil).



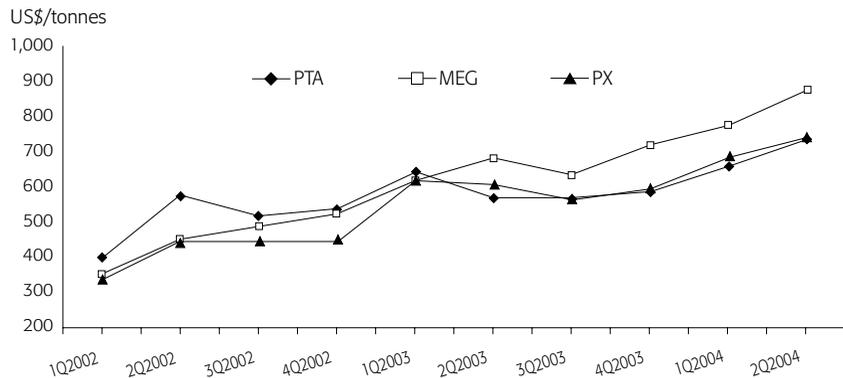
Market review

In the first half of 2004, in view of the polyester industrial chain, polyester raw material played a dominant role in the polyester industry. Owing to the upsurge in global oil prices and the limited supply of polyester raw materials, prices of principal raw materials for polyester products in Asia, such as purified terephthalic acid ("PTA"), mono-ethylene glycol ("MEG") and paraxylene ("PX"), continued to increase. Meanwhile, owing to the imbalance between demand and supply of domestic polyester production capacity and the increase in the price of polyester raw material, prices of polyester products increased. The increase in prices of polyester products was less than the increase in prices of principal raw material of polyester. As a result, the profit margin of polyester products was significantly compressed. In view of the downstream textile industry, in the first half of 2004, the export growth of the PRC textile products and clothes increased rapidly, and the export volume reached US\$41.62 billion, an increase of 23.4 per cent as compared with the corresponding period of last year, which drove the demand of polyester products and offset partly the imbalance between demand and supply of domestic polyester production capacity.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers





In the first half of 2004, the domestic supply and demand of polyester products continued to grow rapidly. The total domestic polyester capacity increased almost by 1,660,000 tonnes. Total domestic supply of polyester fibre was 6,130,900 tonnes, increased by 30.1 per cent as compared with the corresponding period of last year, of which, the domestic production volume increased by 34.2 percent as compared with the corresponding period of last year. Meanwhile, total domestic consumption of polyester fibre amounted to 5,762,000 tonnes, increased by 32.4 percent as compared with the corresponding period of last year. Starting from the end of April 2004, the PRC Government has implemented austerity measures by controlling bank credit scale and strict land management, etc, which restrained the low-level increase in the production capacity of polyester industry, but the operational environment for polyester industry was also severe.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	First half of	First half of	+/-	First half of	First half of	+/-	First half of	First half of	+/-
	2004	2003	(%)	2004	2003	(%)	2004	2003	(%)
	'000 tonnes	'000 tonnes	(%)	'000 tonnes	'000 tonnes	(%)	'000 tonnes	'000 tonnes	(%)
Production volume	3,378.4	2,518.4	34.1	2,088.2	1,556.1	34.2	5,466.6	4,074.5	34.2
Import volume	193.9	178.9	8.4	263.1	249.5	5.5	457.0	428.4	6.7
Export volume	57.2	22.5	154.2	57.1	65.0	-12.1	114.3	87.5	30.6
Net import	136.7	156.4	-12.6	206.0	184.5	11.7	342.7	340.9	0.5
Inventories at the beginning of the period	145.5	131.6	10.6	61.8	76.4	-19.1	207.3	208.0	0.3
Inventories at the end of the period	180.6	168.6	7.1	74.0	104.3	-29.1	254.6	272.9	-6.7
Total supply volume	3,717.8	2,828.9	31.4	2,413.1	1,882.0	28.2	6,130.9	4,710.9	30.1
Total consumption volume	3,480.0	2,637.8	31.9	2,282.0	1,712.7	33.2	5,762.0	4,350.5	32.4

Source: The Chemical Fibre Association of China

Result review

In the first half of 2004, under the severe market condition, the Group concentrated on market orientation and efficiency to expand the market and reduce costs. The Group also made full use of the advantage of raw material production facilities, ancillary public utility facilities and advanced technology. In addition, due to full operation of the PTA line II which was put into production in April last year, the output of PTA greatly increased and cost of raw materials was further reduced. As a result, the Group's consolidated profit attributable to shareholders increased as compared with the corresponding period of last year.



Production and marketing

In the first half of 2004, the Group put a great effort in increasing and stabilising production, 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 unplanned cessation of production. Under the condition of the overhaul of Polyester Plant No. 3 and the PTA line I, the production and sales volume of polyester products and the PTA production volume continued to increase. The total production volume of polyester products was 813,953 tonnes, an increase of 9.5 percent as compared with 743,466 tonnes for the corresponding period of last year. The capacity utilisation rate of polyester utilities reached 101.1 per cent. The total production volume of PTA was 450,257 tonnes, an increase of 62.1 per cent as compared with 277,804 tonnes for the corresponding period of last year. In the first half of 2004, the Group intensified its management in raw materials procurement and finished goods, followed the market tightly, and made timely changes to balance production, raw materials procurement, sales and new product development. As a result, the Group's total sales volume of polyester products reached 639,099 tonnes, an increase of 9.7 percent as compared with 582,646 tonnes for the corresponding period of last year. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 97.3 percent. In the first half of 2004, the Group took measures to expand the export of polyester products, and achieved a breakthrough in the export of hollow fibre. The export volume of hollow fibre amounted to 2,365 tonnes, and accounted for 9.5 percent of hollow fibre production volume.

New product development and technological innovation

In the first half of 2004, the Group improved the coordination between marketing, production and research ("MPR") and increased the profit contributed by differential and specialized products. A total of 8 kinds of new products were applied for patent, of which 6 patent rights have been obtained. The new differential and specialized products, such as film-grade polyester chip for high-speed drawing film, the bottle-grade polyester chip for high absorbing heat, 4.44dtex X 90mm polyester staple fibre, FDY83/71 and FDY110/144 polyester filament, were successfully developed and produced, and quickly launched. In the first half of 2004, the Group's total production volume of specialization polyester chips amounted to 190,586 tonnes and the specialization rate was 60.9 percent, 0.4 percentage points higher than that of the corresponding period of last year. The total production volume of differential polyester fibre amounted to 194,428 tonnes and the differential rate of polyester fibre was 54.8 percent, 7.0 percentage points higher than that of the corresponding period of last year.

Cost control

In the first half of 2004, 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. The Group intensified its management in raw materials and finished goods, optimized the stock structure of raw materials and polyester products, which in turn controlled the business risks and reduced the use of funds. The consumption of energy and raw materials was further reduced, the overall energy consumption per unit decreased by 3.0 percent as compared with the corresponding period of last year. In the first half of 2004, mainly due to the increase in sales volume, transportation costs,



provision for diminution in value of inventories, amortization of intangible assets, the reduced level of the interest capitalization and the increase in interest expenditure of bills discount, the Group's selling expenses, administrative expenses and net financing costs increased by 18.8 percent, 26.4 percent and 29.4 percent as compared with the corresponding period of last year respectively. The proportion of the above expenses to turnover decreased slightly as compared with the corresponding period of last year.

Capital expenditure

In the first half of 2004, the Group's total capital expenditure amounted to RMB 154,325,000. The co-polymer ("CP") project for bottle grade polyester chips and solid-state-polymerization ("SSP") project with an annual capacity of 200,000 tonnes are under the installation, and will commence operation in November. The prophase preparation of specialization of polyester chips project with an annual capacity of 160,000 tonnes has been completed and the construction work will be commenced at the end of August.

Business prospects

In the second half of 2004, the aspects of good opportunity for development faced by the Group are indicated below: firstly, the global economy has been recovering at a faster pace. Under the direction of austerity measures, the PRC economy shall show a steady upward trend. A steadily growing economy is favorable to the increase in demands for petrochemical and chemical fibre products. Secondly, because the overhaul of the PTA line I was completed in the first half of 2004 and the capacity enlargement project of the PTA line II will be implemented in the second half of 2004, the Group's PTA production volume will be increased as compared with that in the first half of 2004, which will further reduce the raw material cost. Thirdly, the polyester industry is facing the limited supply of funds and electricity currently, but the Group has more advantage than other domestic private-owned companies in this respect.

At the same time, the main risks faced by the Group are: firstly, it is estimated that several new polyester projects will commence operation in the second half of 2004 in the PRC. This will further intensify the imbalance between product supply and demand. Secondly, there will be a periodic effect on the development of the downstream textile industry owing to the limited supply of domestic utilities such as electricity, which in turn may affect the periodical demand for polyester products. Thirdly, there is a rising trend for the prices of coal and transportation cost in the PRC. Fourthly, proposed restriction and anti-dumping claims on the PRC's textile products by some foreign government may restrain the growth of exports for polyester products.

In the second half of 2004, crude oil prices are expected to stay at a high level. In Asia, prices of major polyester raw materials such as PTA, MEG and PX may remain high due to the combined effects of high international crude oil prices and limited raw material supply. It is estimated that prices of polyester products will remain at a relatively high level in the second half of 2004 as a result of high raw material prices and a relatively greater seasonal demand from the downstream textile industry. As a result, the business risks in polyester industry are increased.



In the second half of 2004, the Group will continue to implement measures to reduce expenses and costs, to maximize profit and efficiency. The following will be set as priorities in the second half of 2004:

1. Well-organised and stabilized production, and improvement of product quality

The Group will implement strict safety measures and controls over key facilities and areas, to ensure safe production. Efforts will be put to optimise the operation of the existing facilities, to reduce unplanned cessation of production. Priorities will be given to PTA facility to ensure a safe and stable production, and to achieve a target on increasing PTA production volume. The Group will continuously improve product quality, upgrade the stability of product quality and the adaptability of consumers. In the second half of 2004, the Group's projected production volume of polyester products is 862,000 tonnes. The projected production volume of polyester products is 1,676,000 tonnes for the year of 2004 increased by 11.8 percent as compared with the year of 2003. The Group's projected production volume of PTA for the second half of 2004 is 460,000 tonnes. The projected production volume of PTA for the year of 2004 is 910,000 tonnes, increased by 26.5 percent as compared with the year of 2003.

2. Stick to market orientation and make full efforts in raw material procurement and marketing

The Group will stick to market-orientation, strengthen the balance of production, supply and sale and keep low storage level so as to control the business risks. The Group will strengthen the tracking, forecast and analysis of international and domestic raw material price trend, take advantage of long-term contracts signed with international and domestic suppliers so as to stabilize raw material supply and reduce procurement cost and capital occupation. The Group will closely follow the market trends, and maintain a balance between production and sales in order to sell at the optimal prices. Management of dealers will be strengthened and long-term strategic cooperation relationship with key customers will be established to improve the direct selling rate. The emphasis is put on the sales of differential products. The Group will do pre-sales work well of CP and SSP project with annual capacity 200,000 tonnes so as to make the investment yield well. The Group will make full effort to explore the international market, strengthen customer relationship management and provide good customer services. In the second half of 2004, the Group's projected sales volume of polyester products is 694,000 tonnes. The projected sales volume of polyester products for the year 2004 is 1,330,000 tonnes, which is increased by 10.6 percent as compared with the year of 2003. The ratio of sales to production is expected to reach 100 percent in the second half of 2004.

3. Accelerate the product development and try to improve the profit of differential products

The Group will fully make use of MPR and strengthen the relationship of differential products and cost & profit, try to improve the profit of differential products. Emphasis will be put on batch production of newly developed products so as to achieve



scale profits. The Group will strive for expanding production scale of excellent products such as 1.33 detx full bright sewing thread type polyester staple fibre in the second half of the year. The Group will start to lay down the programs of new product development in the next two years, further optimize products structure and increase value. In the second half of 2004, the Group will develop 5 kinds of new products put forward in the second half of 2004, 4 kinds of products brought forward from the first half of 2004 and launch 13 kinds of products. The Group's projected production volume of differential fibre products and specialised polyester chips for the second half of 2004 will be 194,000 tonnes and 196,000 tonnes while differential rates are expected to be 52.0 percent and specialized rates are expected to be 60.2 percent.

4. Strive to reduce costs and expenses and carry out energy-consumption savings

The Group will continually implement overall budget management, firmly reduce non-production expenses and strictly manage unplanned expenses so as to realize the target on reducing controllable expenses. The capital management will be reinforced to reduce the draw of fund and lower the financial expenses. The emphasis is to strengthen the management and control of bank acceptance bill. Measures should be taken to reduce energy-consumption and an energy-savings program should be organized so as to realize the target on decreasing the overall energy consumption per unit by 5 percent as compared with the corresponding period of last year.

5. Speed up the adjustment of principal business structure

The Group will continue to focus on construction of new projects, so as to speed up the adjustment of principal business structure. The CP and SSP project with an annual capacity of 200,000 tonnes will be completed and commence operations in November, and the capacity enlargement project of the PTA line II will be carried out and complete in October. Preparation will be made for the construction of the specialized polyester chips project with annual capacity of 160,000 tonnes and the staple fibre project with an annual capacity of 100,000 tonnes, which will commence operation in the third quarter of 2005 and in the second quarter of 2006 respectively.



6. MANAGEMENT DISCUSSION & ANALYSIS

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

1. Results of Operations

In the first half of 2004, the Group's consolidated profit attributable to shareholders amounted to RMB 198,770,000, representing an increase of 2,803.0 percent as compared with the corresponding period of last year, of which, Yizheng Chemical Fibre Foshan Polyester Company Limited ("**Foshan Polyester**") and Foshan Chemical Fibre Complex Group (collectively "**Foshan Group**") sustained losses of RMB 3,844,000, while Yihua Kangqi Chemical Fibre Company Limited and its subsidiaries ("**Kangqi Group**") recorded a profit of RMB 6,769,000.

(1) Turnover

In the first half of 2004, the Group maintained safe and stable operations at a high utilization rate. Special measures were implemented to increase the production and sales volume of differential and specialized products. Under the condition of the overhaul of Polyester Plant No. 3 and the PTA line 1, the production and sales volume of polyester products and the PTA production volume continued to increase. The Group's total production volume of polyester products was 813,953 tonnes, representing an increase of 9.5 percent as compared with 743,466 tonnes for the corresponding period of last year. The Group's capacity utilization rate reached 101.1 percent. The Group's total production volume of PTA was 450,257 tonnes, representing an increase of 62.1 percent as compared with 277,804 tonnes for the corresponding period of last year.

Production volume

	For the six months ended 30 June			
	2004	Percentage of total production volume (%)	2003	Percentage of total production volume (%)
	Production volume (tonnes)	Percentage of total production volume (%)	Production volume (tonnes)	Percentage of total production volume (%)
Polyester products				
Chips	413,982	50.9	382,816	51.5
Including:				
bottle-grade chips	101,176	12.4	97,279	13.1
Staple fibre	227,822	28.0	180,995	24.4
Hollow fibre	24,827	3.0	17,387	2.3
Filament	147,322	18.1	162,268	21.8
Including: draw twisted yarn (" DTY ")	47,516	5.8	48,595	6.5
Total	813,953	100.0	743,466	100.0



In the first half of 2004, the Group insisted in the market-oriented approach, and made timely changes to regulate balance between production, raw materials procurement, sales and new product development. Priority was given to balance production and sales, and to sell at the optimal prices. The Group's total sales volume of polyester products amounted to 639,099 tonnes, representing an increase of 9.7 percent as compared with the 582,646 tonnes for the corresponding period of last year. In addition, the sales prices of the Group's products were still higher than the average prices in the domestic market during the period, due to high quality and excellent sales services.

Sales volume

	For the six months ended 30 June 2004		2003	
	Sales volume (tonnes)	Percentage of total sales volume (%)	Sales volume (tonnes)	Percentage of total sales volume (%)
Polyester products				
Chips	291,541	45.6	265,713	45.6
Including:				
bottle-grade chips	93,172	14.6	96,153	16.5
Staple fibre	225,496	35.3	184,402	31.6
Hollow fibre	23,585	3.7	17,201	3.0
Filament	98,477	15.4	115,330	19.8
Including: draw twisted yarn	46,095	7.2	48,014	8.2
Total	639,099	100.0	582,646	100.0

Average Prices for Products (RMB/tonne excluding VAT)

	For the six months ended 30 June		
	2004	2003	Change (%)
Polyester products			
Chips	8,329	6,995	19.1
Staple fibre	8,983	7,529	19.3
Hollow fibre	9,065	7,781	16.5
Filament	10,507	9,536	10.2
Weighted average price	8,923	7,690	16.0



Turnover

	For the six months period ended 30 June			
	2004		2003	
	Turnover RMB million	Percentage of turnover (%)	Turnover RMB million	Percentage of turnover (%)
Polyester products				
Chips	2,428	40.9	1,859	39.6
Staple fibre	2,026	34.1	1,388	29.6
Hollow fibre	214	3.6	134	2.9
Filament	1,035	17.5	1,100	23.4
Others	234	3.9	216	4.5
Total	5,937	100.0	4,697	100.0

In the first half of 2004, the Group's turnover amounted to RMB 5,937 million, representing an increase of 26.4 percent as compared with RMB 4,697 million for the corresponding period of last year. The increase was mainly due to the increase in sales volume by 9.7 percent as compared with the corresponding period of last year, and the increase in weighted average price of polyester products by 16.0 percent as compared with the corresponding period of last year.

(2) Cost of sales

In the first half of 2004, the Group's cost of sales amounted to RMB 5,345 million, which increased by RMB 935 million as compared with RMB 4,410 million for the corresponding period of last year, representing 90.0 percent of turnover. In the first half of 2004, total costs of raw materials increased from RMB 3,514 million to RMB 4,391 million, representing an increase of 25.0 percent as compared with the corresponding period of last year, which accounted for 82.2 percent of cost of sales. The increase was mainly due to the increase in production volume and the increase in the prices of raw materials. Meanwhile, the increase was also due to the increase in purchase cost of coal and the increase in maintenance expenses as compared with the corresponding period of last year. In the first half of 2004, the weighted average price of external purchased polyester raw materials increased by 15.8 percent as compared with the corresponding period of last year, while the average purchase costs of PTA, MEG and PX increased by 9.7 percent, 27.8 percent and 13.1 percent respectively as compared with the corresponding period of last year. The Group's PTA production volume increased by 62.1 percent as compared with the corresponding period of last year, and the use of purchased PTA decreased substantially, which partly offset the impact on the Group as a result of the increase in PTA price. In addition, owing to the long-term relationships established with suppliers, the raw material procurement was mainly based on contracts supplemented by spot goods, which slightly saved the procurement cost and reduced the occupation of fund.



In the first half of 2004, due to the increase in turnover by 26.4 percent as compared with the corresponding period of last year, and the significant increase in PTA production volume, the Group's gross profit increased by RMB 305 million to RMB 592 million. The Group's gross margin was 10.0 percent, representing an increase of 3.9 percent as compared with the corresponding period of last year. Meanwhile, the Group's gross margin decreased by 3.1 percentage points as compared with the second half of 2003, which was mainly due to the increase in the weighted average price of external purchased polyester raw materials by 20.5 percent as compared with the second half of 2003, whereas, the increase in weighted average price of polyester products by 7.2 percent as compared with the second half of 2003.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		
	2004 RMB'000	2003 RMB'000	Change (%)
Sales expenses	82,876	69,772	18.8
Administrative expenses	225,077	178,064	26.4
Financial expenses, net	43,768	33,834	29.4
Total	351,721	281,670	24.9

In the first half of 2004, selling expenses, administrative expenses and net financial expenses increased by 18.8 percent, 26.4 percent and 29.4 percent respectively as compared with the corresponding period of last year, which was mainly due to the increase in sales volume, transportation cost, provision for diminution in value of inventories, amortization of intangible assets, interest expenditure of bills discount and reduced level of the interest capitalization. The proportion of the above expenses to turnover decreased slightly as compared with the corresponding period of last year.

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

	For the six months ended 30 June		
	2004 RMB'000	2003 RMB'000	Change (%)
Profit from operations	285,967	47,933	496.6
Profit from ordinary activities before taxation	242,199	14,099	1,617.8
Income tax expenses	39,932	533	7,391.9
Profit attributable to shareholders	198,770	6,847	2,803.0
Basic earnings per share (<i>in RMB</i>)	0.0497	0.002	2,803.0



In the first half of 2004, owing to the Group's enhanced efforts in increasing production volume and sales volume, exercising better control over costs and expenses and the significant increase in PTA production volume, the Group's profit from ordinary activities before taxation and profit attributable to shareholders amounted to RMB 242 million and RMB 199 million respectively, representing an increase of 1,617.8 percent and 2,803.0 percent as compared with the corresponding period of last year respectively. The Group's operating margin and net profit margin after tax were 4.8 percent and 3.4 percent respectively, representing an increase of 3.8 percentage points and 3.1 percentage points as compared with the corresponding period of last year respectively.

(5) Statement of the principal operations by products

Polyester products are the only products contributed more than 10 percent 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 2004 in accordance with the PRC Accounting Rules and Regulations.

Products	Income from principal operations RMB'000	Cost of principal operations RMB'000	Gross profit margin (%)	Increase/ (decrease) in income from principal operations as compared with the corresponding period of last year (%)	Increase/ (decrease) in cost of principal operations as compared with the corresponding period of last year (%)	Increase/ (decrease) in gross margin ratio as compared with the corresponding period of last year
Polyester products	5,702,402	5,095,513	10.6	27.3	20.2	Increased by 5.2 percentage points
Including: connected transactions	305,398	272,824	10.7	(34.0)	(37.3)	Increased by 4.7 percentage points

During the reporting period, the Group didn't sell any products to its controlling shareholders and their subsidiaries.

(6) Changes in gross profit margin (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 increased by 4.3 percentage points as compared with the corresponding period of last year. The increase was mainly owing to the Group's enhanced efforts in uplifting production volume and sales volume, exercising better control over costs and expenses and the significant increase in PTA production volume. On the contrary, the Group's gross profit margin was adversely impacted by the war in Iraq and SARS in the corresponding period of last year.



(7) Profit mix during the reporting period and major reasons for the significant variance in the profit mix as compared with last year (extracted from the interim financial report prepared in accordance with PRC Accounting Rules and Regulations)

During the reporting period, profit from principal operations was RMB 613,326,000, representing 258.3 percent of total profit, which was decreased by 92.4 percentage points as compared with last year. The decrease was mainly due to the increase in the Group's total profit, and the adverse impact of the war in Iraq and SARS on the Group's total profit last year.

During the reporting period, expenses for the period was RMB 378,181,000 and representing 159.3 percent of total profit, which was decreased by 77.4 percentage points as compared with last year. The decrease was mainly due to the combined effect of the increase in the Group's total profit, lower costs and expenses as a result of enhancing internal management and the adverse impact of the war in Iraq and SARS on the Group's total profit last year.

(8) Warnings and explanations for potential loss for the period from the beginning of the year to the end of next reporting period or significant changes as compared with the corresponding period of last year (extracted from the interim financial report prepared in accordance with PRC Accounting Rules and Regulations).

It is estimated that the accumulated net profit of the first three quarters of 2004 will show a significant increase as compared with the same period of last year, mainly because the profit accumulated for the first half of 2004 increased by 39.4 percent as compared with the first three quarters of last year and the Group will continually increase its production and sales volume, and reduce costs and expenses and continue to expand its business steadily.

2. Financial Analysis

The Group's primary sources of funds come from operating activities, short-term and long-term borrowings, and the funds are primarily used for working capital, capital expenditures and repayment of short-term and long-term borrowings.

(1) Assets, liabilities and shareholders' equity analysis

	At 30 June 2004	<i>Unit: RMB million</i> At 31 December 2003	Changes in amount
Total assets	11,891	11,922	(31)
Current assets	3,093	2,801	292
Non-current assets	8,798	9,121	(323)
Total liabilities	2,768	2,900	(132)
Current liabilities	2,478	2,560	(82)
Non-Current liabilities	290	340	(50)
Minority interests	55	53	2
Net assets	9,068	8,969	99
Shareholders' equity	9,068	8,969	99



As at 30 June 2004, the Group's total assets were RMB 11,891 million, total liabilities were RMB 2,768 million, and shareholders' equity (excluding minority interests) were RMB 9,068 million. Compared with the assets and liabilities as at 31 December 2003 (hereinafter referred to as "as compared with the end of last year"), the variations and main causes of such changes are described as follows:

Total assets were RMB 11,891 million, a decrease of RMB 31 million as compared with the end of last year. Current assets were RMB 3,093 million, an increase of RMB 292 million as compared with the end of last year. It's mainly because prices of polyester raw material and products rose rapidly in the first half of 2004, and the balance of inventories increased by RMB 430 million. In addition, cash at bank and cash in hand decreased by RMB 220 million because the Group paid attention to control and reduce liabilities with interest. Non-current assets were RMB 8,798 million, a decrease of RMB 323 million as compared with the end of last year, which was mainly due to the increase in ordinary depreciation and amortisation.

Total liabilities were RMB 2,768 million, a decrease of RMB 132 million as compared with the end of last year. Current liabilities were RMB 2,478 million, a decrease of RMB 82 million as compared with the end of last year, which was mainly due to the decrease of RMB 88 million in trade and other payables by the Group's effort on reducing short-term debts. Non-current liabilities were RMB 290 million, a decrease of RMB 50 million as compared with the end of last year because part of long-term borrowings will be due within one year and these borrowings were classified as current liabilities.

Cash flow analysis

In the first half of 2004, cash and cash equivalents decreased by RMB 322 million (decreased from RMB 564 million as at 31 December 2003 to RMB 242 million as at 30 June 2004). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2004 and 2003.

Unit: RMB million

Major items in cash flow statement	Six month period ended 30 June 2004	Six month period ended 30 June 2003	Increase/ (Decrease)	Change rate (%)
Net cash flow from operating activities	108	(35)	143	408.6
Net cash flow from investing activities	(285)	(373)	88	23.6
Net cash flow from financing activities	(146)	313	(459)	(146.6)
Net decrease in cash and cash equivalents	(322)	(95)	(227)	(238.9)
Cash and cash equivalents at the beginning of the period	564	491	73	14.9
Cash and cash equivalents at the end of the period	242	396	(154)	(38.9)



In the first half of 2004, the Group's net cash inflow from operating activities was RMB 108 million, representing an increase of RMB 143 million as compared with the corresponding period of last year. The main incremental factors: (1) Profit from ordinary operation before taxation was RMB 242 million, up by RMB 228 million from RMB 14 million in the first half of 2003. (2) Trade and other payables concerning operating activities decreased by RMB 52 million, whereas, there was a decrease by RMB 431 million in this regard in the first half of 2003. As a result, the net cash flow from operating activities increased by RMB 379 million. The main decremental factors: (1) Owing to the price influence and production expansion, inventories increased by RMB 430 million, whereas, there was an increase by RMB 23 million in this regard in the first half of 2003. As a result, the net cash flow from operating activities decreased by RMB 407 million. (2) Trade and other receivables concerning operating activities increased by RMB 78 million, whereas, there was a decrease by RMB 54 million in this regard in the first half of 2003. As a result, the net cash flow from operating activities decreased by RMB 132 million.

In the first half of 2004, the Group's net outflow from investing activities was RMB 285 million, a decrease of cash outflow by RMB 88 million as compared with the corresponding period of last year. This was mainly due to: (1) The cash outflow used for capital expenditure in the first half of 2004 was RMB 190 million, while the capital expenditure in the first half of 2003 was RMB 425 million. As a result, the cash outflow from investing activities decreased RMB 235 million. Time deposits with banks and other financial institutions increased by RMB 102 million while the deposits in the first half year of 2003 decreased by RMB 40 million, which increased cash outflows RMB 142 million.

In the first half of 2004, the Group's net outflow from financing activities was RMB 146 million, an increase of cash outflow by RMB 459 million as compared with the corresponding period of last year. The main reasons are that the amount of repayment exceeded that of borrowing RMB 144 million in the first half year of 2004, while the amount of borrowing exceeded that of repayment, which resulted in the increase in the cash outflows by RMB 360 million.

Bank borrowings

At 30 June 2004, the Group's bank borrowings were RMB 1,015 million, decreased by RMB 144 million compared with RMB 1,159 million as at 31 December 2003. The Group's major bank borrowings were denominated in RMB and all of the bank borrowings were charged at the fixed interest rate. The borrowing requirements of the Group were not subject to seasonal changes.

Contingent liabilities

The Group's contingent liabilities are set out in note 15 of the interim financial statements prepared in accordance with the IAS 34 Interim Financial Reporting.

Debt-equity ratio

The debt-equity ratio of the Group was 3.1 percent for the first half of 2004 (first half of 2003: 3.6 percent). The ratio is computed by long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

Assets charges

As at 30 June 2004, there was not any significant charge on the Company's assets.

Management of foreign exchange risk

The major receivables and payables items of the Group are dominated in RMB. Foreign currency used in the Group's operation were dominated in US dollars and were settled out immediately under current items. Therefore, there is no material effect on the Group as a result of the fluctuations in foreign exchange rates.

3. Capital Expenditure

In the first half of 2004, the Group's capital expenditure amounted to RMB 154 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 <i>RMB'000</i>	Project status
CP and SSP project with annual capacity of 200,000 tonnes	116,791	Under the installation
Specialized polyester chip with an annual capacity of 160,000 tonnes	7,060	Prophase preparation completed
Others	30,474	-
Total	154,325	-

The Group's capital expenditure for the second half of 2004 is expected to be approximately RMB 417 million, including: the CP and SSP project with annual capacity of 200,000 tonnes, the specialized polyester chip with an annual capacity of 160,000 tonnes and the technological improvement project to increase capacity of the second set PTA amounting to RMB 153 million, RMB 43 million and RMB 40 million respectively. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.



7. SIGNIFICANT EVENTS

1. In 2003, in light of new regulatory requirements from both China and overseas, the Company designed a detailed internal control system, covering the Company's production and operation processes and key business sectors and began a trial run at the beginning of the 2004.
2. As approved by 2003 Annual General Meeting ("**AGM**") held on 30 June 2004, the Company paid a final cash dividend of RMB 0.025 per share (including tax) for the year ended 31 December 2003 on 26 July 2004. Detail information of dividend payments to domestic shareholders was disclosed in China Securities, Shanghai Securities News and Securities Times on 14 July 2004, while the detailed information of dividend payments to overseas shareholders was included in the announcement of the resolutions passed in the 2003 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times on 1 July 2004, Hong Kong Economic Times and South China Morning Post on 2 July 2004.

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 2004.

3. During the reporting period, the Group did not have significant litigation or arbitration.
4. During the reporting period, the Group did not have any acquisition or disposal of investment assets and merger and acquisition activity.
5. Information on connected transactions
 - (a) The Group's material connected transactions entered into during the period ended 30 June 2004 are as follows:

The following are the significant connected transactions relating to sales and purchase of goods and provision of services during the reporting period:

Type of transactions	Transaction parties	Transaction amount RMB'000	Share of the same type of transaction (%)
Purchase of raw materials	Sinopec Yangzi Petrochemical Company Limited (" Yangzi ")	1,382,121	27.05
	Sinopec Zhenhai Refining & Chemical Company Limited (" Zhenhai ")	799,444	15.64
	Sinopec and its subsidiaries (excluding Yangzi and Zhenhai)	115,919	2.27
	Yihua Group Corporation (" Yihua ") and its subsidiaries (" Yihua Group ")	52,654	1.03
	CPC and its subsidiaries (" CPC Group ") (excluding Yihua Group, Sinopec and its subsidiaries)	33,597	0.66



Type of transactions	Transaction parties	Transaction amount <i>RMB'000</i>	Share of the same type of transaction (%)
Sales	Yihua Group	357,243	5.90
Miscellaneous service charges	Yihua Group	66,151	100
Trademark licence fee	Yihua	5,000	100
Miscellaneous service fee income	Yihua Group	9,162	100
Construction service fee	Yihua Group	19,992	100

The Company is of the opinion that purchasing of goods from the above related parties ensures a steady and secure supply of raw materials, and that sales to Yihua ensures the Group maintain certain sales channels and a certain level of turnover. Therefore, these connected transactions are beneficial to the Group. These transactions are negotiated at market price and settled mainly on a cash-on-delivery basis. The miscellaneous service charges and the trademark licence fee paid to Yihua, the miscellaneous service fee income from Yihua and the payments to Yihua for construction work followed strictly the terms set out in the agreements dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua. The above transactions have no adverse effect 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 Group.
- (c) Amounts due from/(to) related parties: As at 30 June 2004, the amounts due from Yihua Group amounted to RMB 65,711,000, mainly representing bills and trade receivables; the amounts due to Yihua Group amounted to RMB 26,839,000, mainly representing the retention money of the construction projects. The amounts due from and due to Sinopec and its subsidiaries amounted to RMB 2,219,000 and RMB 620,542,000 respectively, the latter mainly representing the trade and bills payables to Yangzi and Zhenhai. These connected transactions have no adverse effect on the Company.

**Advances between related parties**

Related parties	Relations	Advances to related party		Advances from related party to the listed company	
		Amounts arising during the period <i>RMB'000</i>	Remaining balance <i>RMB'000</i>	Amounts arising during the period <i>RMB'000</i>	Remaining balance <i>RMB'000</i>
Sinopec Finance Company Limited ("Sinopec Finance")	Subsidiary of ultimate holding company	–	–	25,000	25,000
CITIC Industry Bank	Subsidiary of CITIC	–	–	4,500	4,500
Total		–	–	29,500	29,500

During the reporting period, the Group did not have advances to its controlling shareholders or their subsidiaries.

- (d) Other significant connected transactions: The interest income earned from the Company's deposits placed with Sinopec Finance at market interest rates during the reporting period.

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

For details of the connected transactions entered into by the Company during the reporting period, please refer to note 26 of the financial interim report prepared in accordance with the PRC Accounting Rules and Regulations.

6. During the reporting period the Company did not have any asset leased or contracted to or held on trust for other companies. Meanwhile, the Company did not lease or contract to buy any asset from other companies and did not have assets held by other companies.



7. As approved by the Board, the Company provided guarantee in respect of Foshan Polyester for loans granted by the banks. Except for the above, the Company did not make any material guarantee or pledge during the reporting period. Details of these are set out as follows:

Name of guaranteed entity	Beginning date (Date of agreement)	Guarantee amount	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Foshan Polyester	30 June 2003	RMB 350,000,000	Joint liability	30 June 2003-30 June 2005	No	Yes
Foshan Polyester	26 July 2003	US\$4,500,000	Joint liability	26 July 2003-26 July 2005	No	Yes
Total guaranteed amount					-	
Remaining guaranteed amount					-	
Of which: total balance of connected guarantees					-	
The ratio of guaranteed amount not conforming to the regulations to the net asset of the Group					1.9%	
Total guaranteed amount provided by the Company to its subsidiary					RMB 425,218,200	

According to the "Notice on Certain Issues Relating to Regulating Funds Transfers between a Listed Company and Connected Parties and the External Guarantees of the Listed Company" (Zheng Jian Fa [2003] No.56 ("No.56 Document")) promulgated by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council, total guaranteed amount not conforming to the related regulations amounted to RMB 175,395,700 as at 30 June 2004.

The special explanations and independent opinion from the Independent Directors of the Company on the Company's compliance with No. 56 Document from the CSRC.

We considered the external guarantee issues of the Company during the reporting period and remaining guaranteed amount as at 30 June 2004, and confirm:

- (A) The Company didn't provide guarantee for controlling shareholders and other related parties which the Company held less than 50% share equity, any non-legal units or individuals;
- (B) Total guaranteed amount the Company provided for (including the external guarantee of the Company, of the subsidiaries and associates) didn't exceed 50 per cent of the net assets of the latest fiscal year's consolidated financial statements;
- (C) The Company provided guarantee for Foshan Polyester, which is wholly-owned by the Company, and the latter didn't provided counter-guarantee for the Company. Its total liability to total asset ratio is over 70 percent The above guarantee happened before the enforcement of No. 56 Document and the Company has fulfilled the related approval and disclosure responsibilities;
- (D) The Company has modified the Company's Articles of Association accordingly in the 2003 AGM.



8. As at 30 June 2004, the Group did not have any designated deposits with any financial institutions or have any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.
9. Construction of CP & SSP project with an annual capacity of 200,000 tonnes was approved in the fourth meeting of the fourth term of the Board held on 4 April 2003. This was mainly used for the production of high-quality bottle-grade chips. The estimated investment of the project amounted to RMB 382,770,000. Construction commenced in September 2003 and the project is expected to be in operation in November 2004.
10. Construction of a project for specialized polyester chip with an annual capacity of 160,000 tonnes and a project for staple fibre with an annual capacity of 100,000 tonnes were approved in the twelfth meeting of the fourth term of the Board held on 24 December 2003. The estimated investment of these two projects amounted to RMB 144,340,000 and RMB 335,820,000 respectively. These two projects are expected to commence operation in the third quarter of 2005 and in the second quarter of 2006 respectively.
11. 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 period ended 30 June 2004. The Company has not received any notice from the tax authorities regarding any change to this rate.
12. According to the "Protocol on the Accession of to WTO" and the related legal documents the PRC government has to reduce the import tariff rates for the polyester products and major polyester raw materials from 1 January 2004 in accordance with the progressive table. The related progressive table is listed below:

Type	2001	2002	2003	2004	2005	2006	2007	2008
Polyester chips	16%	12.8%	11.8%	10.7%	9.7%	8.6%	7.6%	6.5%
Polyester staple fibre	17%	10.6%	7.8%	5%	5%	5%	5%	5%
Polyester filament	21%	14%	11%	8%	5%	5%	5%	5%
PX	8%	5%	4%	3%	2%	2%	2%	2%
MEG	12%	8.8%	7%	5.5%	5.5%	5.5%	5.5%	5.5%
PTA	14%	12.8%	8%*	7%*	9.7%	8.6%	7.6%	6.5%

* *Temporary most-favoured-nation tariff rate, effective in the relevant year.*

Upon formal entry into WTO, import quotas for polyester and polyester fibre products were completely removed.



13. On 22 May 2003, the European Union (“EU”) took actions to investigate the allegation of anti-dumping against imported bottle-grade polyester chips from the PRC and two other countries. The preliminary conclusion was made on 22 February 2004, and the final conclusion was made on 19 August 2004, which required the Company to pay proposed anti-dumping duty of EUR 184/tonne for a five-year period for the export products mentioned above.

On 19 December 2003, the EU took actions to investigate the allegation of anti-dumping against imported polyester staple fibre from the PRC and other countries. The Group did not export the products mentioned above to the EU in 2003. The Company has submitted an explanatory document, and will follow the progress of the case closely.

On 17 June 2004, the EU took actions to investigate the allegation of anti-dumping against imported textile products made from polyester filament from the PRC. In 2003 the above mentioned products exported to the EU from the PRC only accounted for 72,000 tonnes, and there will be little effect in the PRC’ market in the second half of 2004.

14. As approved in the 2003 AGM, KPMG Huazhen and KPMG were re-appointed as domestic and international auditors respectively of the Company for the year of 2004, and the Board was authorized to fix their remuneration.
15. The Company and its shareholders who hold more than 5 per cent of the Company’s shares did not have any commitment of which disclosures are required.
16. 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)

(A) Interim financial report prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”



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

(Established in the People’s Republic of China with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 35 to 43.

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 2004.

KPMG

Certified Public Accountants
Hong Kong, China

27 August 2004



**Consolidated Income Statement
for the six months ended 30 June 2004 (unaudited)**

	Note	Six months ended 30 June	
		2004 Rmb'000	2003 Rmb'000
Turnover	3	5,936,961	4,697,495
Cost of sales		(5,345,360)	(4,410,410)
Gross profit		591,601	287,085
Selling expenses		(82,876)	(69,772)
Administrative expenses		(225,077)	(178,064)
Other operating income		9,204	11,685
Other operating expenses		(6,885)	(3,001)
Profit from operations		285,967	47,933
Net financing costs		(43,768)	(33,834)
Profit from ordinary activities before taxation	4	242,199	14,099
Income tax expense	5	(39,932)	(533)
Profit from ordinary activities after taxation		202,267	13,566
Minority interests		(3,497)	(6,719)
Profit attributable to shareholders		198,770	6,847
Basic earnings per share (in Rmb)	7(i)	0.0497	0.002

The notes on pages 39 to 43 form part of this interim financial report.

**Consolidated Balance Sheet
at 30 June 2004 (unaudited)**

	<i>Note</i>	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Non-current assets			
Property, plant and equipment	8	8,240,488	8,525,854
Construction in progress		260,237	294,963
Lease prepayments		206,234	208,538
Unlisted investment		62,500	62,500
Deferred tax asset		28,518	29,000
		8,797,977	9,120,855
Current assets			
Inventories		1,421,147	990,715
Trade and other receivables	9	663,112	581,681
Deposits with banks and other financial institutions	10	767,272	664,969
Cash and cash equivalents	11	241,704	563,761
		3,093,235	2,801,126
Current liabilities			
Trade and other payables	12	1,570,735	1,658,629
Bank loans		724,703	818,820
Income tax payable		83,019	82,224
Dividend payable	6	100,000	-
		2,478,457	2,559,673
Net current assets		614,778	241,453
Total assets less current liabilities		9,412,755	9,362,308
Non-current liabilities			
Bank loans		290,000	340,000
Minority interests		55,132	53,455
Net assets		9,067,623	8,968,853
Shareholders' funds			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves		1,188,963	1,188,963
Retained profits	13	1,359,827	1,261,057
		9,067,623	8,968,853

Approved and authorised for issue by the Board of Directors on 27 August 2004.

Xu Zheng-ning
Chairman

Xiao Wei-zhen
Managing director

The notes on pages 39 to 43 form part of this interim financial report.



**Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2004 (unaudited)**

	Six months ended 30 June	
	2004	2003
	Rmb'000	<i>Rmb'000</i>
Cash flow generated from/(used in) operating activities	108,392	(35,056)
Cash flow used in investing activities	(284,512)	(372,737)
Cash flow (used in)/generated from financing activities	(145,937)	312,526
Net decrease in cash and cash equivalents	(322,057)	(95,267)
Cash and cash equivalents at 1 January	563,761	490,804
Cash and cash equivalents at 30 June	<u>241,704</u>	<u>395,537</u>

The notes on pages 39 to 43 form part of this interim financial report.

**Consolidated Statement of Changes in Shareholders' Equity
for the six months ended 30 June 2004 (unaudited)**

		Share capital	Share premium	Reserves	Retained profits	Total
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
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		<u>4,000,000</u>	<u>2,518,833</u>	<u>1,136,413</u>	<u>1,057,396</u>	<u>8,712,642</u>
At 1 January 2004		4,000,000	2,518,833	1,188,963	1,261,057	8,968,853
Net profit for the period		-	-	-	198,770	198,770
Dividend	6	-	-	-	(100,000)	(100,000)
At 30 June 2004		<u>4,000,000</u>	<u>2,518,833</u>	<u>1,188,963</u>	<u>1,359,827</u>	<u>9,067,623</u>

The notes on pages 39 to 43 form part of this interim financial report.



Notes on the unaudited interim financial report

1. Principal activities and basis of preparation

Sinopec Yizheng Chemical Fibre Company Limited (“**the Company**”) and its subsidiaries (“**the Group**”) is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People’s Republic of China (“**the PRC**”).

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 34.

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

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company’s registered office. The Company’s independent auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2004.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2003 annual financial statements.

The 2003 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

The Company also prepares an interim financial report which complies with the 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 by the Group.

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 2004	2003
	Rmb'000	Rmb'000
Interest on bank loans and advances	46,940	56,626
Less: Amounts capitalised as construction in progress	(1,180)	(17,033)
Net interest expense	45,760	39,593
Interest income	(7,905)	(8,262)
Cost of inventories	5,345,360	4,410,410
Depreciation	475,259	390,048
Amortisation of lease prepayments	2,304	2,640
Dividend income from unlisted investment	(3,000)	(3,500)

5. Income tax expense

Income tax expense in the consolidated income statement represents:

	Six months ended 30 June 2004	2003
	Rmb'000	Rmb'000
Current tax expense		
– Current period	41,409	1,623
– Overprovision in respect of prior years	(1,959)	(1,486)
	39,450	137
Deferred taxation	482	396
	39,932	533

The charge for PRC income tax of the Company is calculated at the rate of 15% (2003: 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 Ministry of Finance that the 15% tax rate will be revoked in 2004. It is possible that the Company's tax rate will increase in future periods.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%, and a subsidiary has 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 Rmb 2.5 cents per share totalling Rmb 100,000,000 in respect of the financial year 2003 was approved during the period (financial year 2002: Rmb 1.5 cents per share totalling Rmb 60,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2004 (2003: Rmb 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 Rmb 198,770,000 (2003: Rmb 6,847,000) and 4,000,000,000 shares (2003: 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 2004 to 30 June 2004.

8. Property, plant and equipment

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2004 are as follows:

	Six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Costs of acquisitions and transfer from construction in progress	190,233	40,251
Disposals (net carrying amount)	340	183
	<u>190,233</u>	<u>40,251</u>

9. Trade and other receivables

	At	At
	30 June	31 December
	2004	2003
	Rmb'000	Rmb'000
Trade receivables	172,896	114,186
Bills receivable	266,413	314,170
Amounts due from fellow subsidiaries – trade	60,845	78,477
	<u>500,154</u>	<u>506,833</u>
Amounts due from parent company and fellow subsidiaries – non-trade	7,085	1,715
Other receivables, deposits and prepayments	155,873	73,133
	<u>663,112</u>	<u>581,681</u>

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 for major customers with well-established trading records.

**9. 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 2004 Rmb'000	At 31 December 2003 Rmb'000
Within one year	494,139	504,139
Between one and two years	3,330	2,009
Between two and three years	2,685	685
	<u>500,154</u>	<u>506,833</u>

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

10. Deposits with banks and other financial institutions

Time deposits of a subsidiary pledged as security for short-term bank loans borrowed by a sub-subsidiary totalled Rmb 11,640,000 as at 30 June 2004 (2003: Rmb nil).

11. Cash and cash equivalents

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Cash on hand	51	159
Balances with banks and other financial institutions with an initial term of less than three months	241,653	563,602
	<u>241,704</u>	<u>563,761</u>

12. Trade and other payables

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Trade payables	473,514	543,739
Bills payable	19,957	20,239
Amounts due to parent company and fellow subsidiaries – trade	566,031	470,555
	1,059,502	1,034,533
Amounts due to parent company and fellow subsidiaries – non-trade	39,350	62,361
Other payables and accrued expenses	471,883	561,735
	<u>1,570,735</u>	<u>1,658,629</u>



12. Trade and other payables (continued)

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

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Due within one month or on demand	767,502	827,640
Due after one month but within six months	292,000	206,893
	<u>1,059,502</u>	<u>1,034,533</u>

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

13. Reserves

No transfers were made to the statutory surplus reserve, the statutory public welfare fund or the discretionary surplus reserve from profit attributable to shareholders for the six months ended 30 June 2004 (2003: Rmb nil).

14. Related party transactions

Details of the related party transactions are presented in Section B note 26. The financial data presented therein are the same as those prepared under the accounting policies adopted in the Group's financial statements for the year ended 31 December 2003 prepared under IFRS.

15. Contingent liabilities

At 30 June 2004, contingent liabilities in respect of guarantees given to banks by the Company in respect of banking credit facilities granted to a wholly-owned subsidiary of the Group totalling Rmb 175,395,700 (at 31 December 2003: Rmb 181,311,000).

16. Capital commitments

At 30 June 2004, the Group had capital commitments as follows:

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Authorised and contracted for	1,787	17,520
Authorised but not contracted for	766,886	991,461
	<u>768,673</u>	<u>1,008,981</u>

**(B) Interim financial report prepared in accordance with the PRC Accounting Rules and Regulations****Balance Sheets (unaudited)**

	Note	The Group		The Company	
		At	At	At	At
		30 June 2004 Rmb'000	31 December 2003 Rmb'000	30 June 2004 Rmb'000	31 December 2003 Rmb'000
Assets					
Current assets					
Cash at bank and in hand	4	1,008,976	1,228,730	836,754	984,253
Bills receivable	5	311,894	352,205	262,691	313,375
Trade receivables	6	183,257	123,861	106,133	81,938
Other receivables	7	33,546	30,687	243,778	156,842
Advance payments	8	134,153	74,624	107,676	67,305
Inventories	9	1,421,147	990,715	1,128,405	820,332
Total current assets		3,092,973	2,800,822	2,685,437	2,424,045
Long-term investments					
Long-term equity investments (including: equity-investment difference of Rmb 29,341,000 (2003: Rmb 29,341,000))	10	33,159	33,159	285,568	278,799
Receivables due after one year	10	-	-	512,999	516,843
		33,159	33,159	798,567	795,642
Fixed assets					
Fixed assets, at cost	11	15,338,768	15,154,640	14,162,236	13,999,044
Less: Accumulated depreciation	11	(6,962,352)	(6,508,055)	(6,437,796)	(6,021,238)
Net book value of fixed assets	11	8,376,416	8,646,585	7,724,440	7,977,806
Construction in progress	12	180,374	270,480	177,744	265,919
Construction materials	13	78,683	24,483	78,683	24,483
Total fixed assets		8,635,473	8,941,548	7,980,867	8,268,208
Intangible assets and other assets					
Intangible assets	14	282,071	303,127	282,071	303,127
Long-term deferred expenses	15	262	304	262	304
Total intangible assets and other assets		282,333	303,431	282,333	303,431
Total assets		12,043,938	12,078,960	11,747,204	11,791,326

The notes on pages 50 to 78 form part of this interim financial report.


Balance Sheets (unaudited) (Continued)

	Note	The Group		The Company	
		At	At	At	At
		30 June 2004 Rmb'000	31 December 2003 Rmb'000	30 June 2004 Rmb'000	31 December 2003 Rmb'000
Liabilities and shareholders' funds					
Current liabilities					
Short-term loans	16(a)	574,703	718,820	459,384	633,869
Bills payable	17	449,957	420,239	430,000	400,000
Trade payables	17	485,072	382,866	439,028	324,535
Receipts in advance	17	124,473	231,428	82,553	199,735
Wages payable		143,750	162,044	133,681	147,647
Staff welfare payable		54,830	47,874	45,588	38,688
Dividend payable	18	100,000	–	100,000	–
Taxes payable	3(d)	181,248	224,652	193,421	219,310
Other compulsory payables		20,292	19,969	20,292	19,969
Other creditors	17	192,960	250,150	172,170	235,293
Accrued expenses	19	1,172	1,631	1,172	1,401
Current portion of long-term loans	16(b)	150,000	100,000	150,000	100,000
Total current liabilities		2,478,457	2,559,673	2,227,289	2,320,447
Long-term liabilities					
Long-term loans	16(b)	290,000	340,000	290,000	340,000
Total liabilities		2,768,457	2,899,673	2,517,289	2,660,447
Minority interests		55,132	53,455	–	–
Shareholders' funds					
Share capital	20	4,000,000	4,000,000	4,000,000	4,000,000
Capital reserve	21	3,082,752	3,082,752	3,082,752	3,082,752
Surplus reserves (Including statutory public welfare fund of Rmb 325,127,000 (2003: Rmb 325,127,000))	22	1,409,436	1,409,436	1,409,436	1,409,436
Undistributed profits (Including cash dividend of Rmb nil approved and appropriated after the balance sheet date (2003: Rmb 100,000,000))		728,161	633,644	737,727	638,691
Total shareholders' funds		9,220,349	9,125,832	9,229,915	9,130,879
Total liabilities and shareholders' funds		12,043,938	12,078,960	11,747,204	11,791,326

The interim financial report is approved by the Board of Directors on 27 August 2004.

Xu Zheng-ning
Chairman

Xiao Wei-zhen
Managing director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of Accounting Department

The notes on pages 50 to 78 form part of this interim financial report.

**Income statements and profit appropriation statements (unaudited)**

	Note	The Group		The Company	
		For the six months		For the six months	
		ended 30 June		ended 30 June	
		2004	2003	2004	2003
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Income from principal operations	23	5,936,961	4,697,495	5,595,245	4,298,134
Less: Cost of sales from principal operations					
Business tax and surcharges	23 3(c)	5,303,591	4,398,907	4,999,039	4,042,105
		20,044	13,025	19,401	12,341
Profit from principal operations		613,326	285,563	576,805	243,688
Less: (Profit)/loss from other operations		(3,188)	(3,854)	1,683	(985)
Selling expenses		82,876	69,772	67,917	56,897
Administrative expenses		250,357	180,704	236,540	167,264
Financial expenses	24	44,948	33,834	39,264	28,268
Operating profit/(loss)		238,333	5,107	231,401	(7,756)
Add: Net investment income	25	3,000	5,022	5,925	11,529
Non-operating income		3,016	4,331	2,772	2,451
Less: Non-operating expenses		6,885	3,001	6,478	2,951
Total profit		237,464	11,459	233,620	3,273
Less: Income tax	3(b)	39,450	137	34,584	(1,486)
Minority interests		3,497	6,719	-	-
Net profit		194,517	4,603	199,036	4,759
Add: Undistributed profits at the beginning of the period		633,644	502,063	638,691	509,773
Distributable profits to shareholders		828,161	506,666	837,727	514,532
Less: Appropriation of ordinary shares' dividend		100,000	60,000	100,000	60,000
Undistributed profits at the end of the period (Including cash dividend of Rmb nil approved and appropriated after the balance sheet date (2003: Rmb nil))		728,161	446,666	737,727	454,532

The notes on pages 50 to 78 form part of this interim financial report.



Cash flow statements (unaudited)

	The Group		The Company	
	For the six months ended 30 June		For the six months ended 30 June	
Notes to the cash flow statement	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
(i) Cash flows from operating activities				
Cash received from sale of goods and rendering of services	7,222,331	6,017,016	6,520,340	5,146,934
Refund of taxes and levies received	3,200	4,171	3,200	4,171
Other cash received relating to operating activities	3,929	3,184	2,571	52,629
Sub-total of cash inflows	7,229,460	6,024,371	6,526,111	5,203,734
Cash paid for purchase of goods and services	(6,186,861)	(5,249,269)	(5,370,844)	(4,499,362)
Cash paid to and on behalf of employees	(361,590)	(317,149)	(332,577)	(292,560)
Various taxes paid	(392,379)	(304,292)	(379,535)	(289,468)
Other cash paid relating to operating activities	(132,839)	(133,498)	(211,417)	(123,391)
Sub-total of cash outflows	(7,073,669)	(6,004,208)	(6,294,373)	(5,204,781)
Net cash flow from operating activities	(a) 155,791	20,163	231,738	(1,047)

The notes on pages 50 to 78 form part of this interim financial report.

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

	The Group		The Company	
	For the six months		For the six months	
	ended 30 June		ended 30 June	
Notes to the cash flow statement	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
(ii) Cash flows from investing activities				
Cash received from investment income	3,000	3,500	3,000	3,500
Cash received from disposal of fixed assets	541	643	492	630
Other cash received relating to investing activities	4,492	7,797	7,747	6,828
Sub-total of cash inflows	<u>8,033</u>	<u>11,940</u>	<u>11,239</u>	<u>10,958</u>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets	(190,242)	(425,131)	(171,124)	(416,239)
Other cash paid relating to investing activities	(11,640)	(3,497)	-	-
Sub-total of cash outflows	<u>(201,882)</u>	<u>(428,628)</u>	<u>(171,124)</u>	<u>(416,239)</u>
Net cash flow from investing activities	<u>(193,849)</u>	<u>(416,688)</u>	<u>(159,885)</u>	<u>(405,281)</u>
(iii) Cash flows from financing activities				
Proceeds from borrowings	2,345,082	2,133,555	2,152,458	1,958,155
Sub-total of cash inflow	<u>2,345,082</u>	<u>2,133,555</u>	<u>2,152,458</u>	<u>1,958,155</u>
Repayment of borrowings	(2,489,199)	(1,817,532)	(2,326,943)	(1,635,189)
Cash paid relating to dividend distribution and interest payment	(49,219)	(55,218)	(44,867)	(53,473)
Sub-total of cash outflows	<u>(2,538,418)</u>	<u>(1,872,750)</u>	<u>(2,371,810)</u>	<u>(1,688,662)</u>
Net cash flow from financing activities	<u>(193,336)</u>	<u>260,805</u>	<u>(219,352)</u>	<u>269,493</u>
Net decrease in cash and cash equivalents	(b) <u>(231,394)</u>	<u>(135,720)</u>	<u>(147,499)</u>	<u>(136,835)</u>

The notes on pages 50 to 78 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		For the six months ended 30 June	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Net profit	194,517	4,603	199,036	4,759
Add: Provision for bad and doubtful debts	–	14	–	14
Provision for inventories	22,640	–	22,640	–
Depreciation of fixed assets	460,062	389,457	422,259	358,156
Amortisation of intangible assets	21,056	7,055	21,056	7,055
Amortisation of long-term deferred expenses	42	1,530	42	1,530
Investment income	(3,000)	(5,022)	(5,925)	(11,529)
Financial expenses	39,035	31,331	33,478	26,027
Net gain on disposal of fixed assets	(201)	(460)	(201)	(460)
Increase in inventories	(453,072)	(22,548)	(330,713)	(39,490)
(Increase)/decrease in operating receivables	(78,060)	52,755	(97,405)	96,700
Decrease in operating payables	(50,725)	(445,271)	(32,529)	(443,809)
Minority interests	3,497	6,719	–	–
Net cash flow from operating activities	155,791	20,163	231,738	(1,047)
(b) Net decrease in cash and cash equivalents				
Cash and cash equivalents at the end of the period (note 4)	997,336	1,069,654	836,754	855,818
Less: Cash and cash equivalents at the beginning of the period (note 4)	1,228,730	1,205,374	984,253	992,653
Net decrease in cash and cash equivalents	(231,394)	(135,720)	(147,499)	(136,835)

The notes on pages 50 to 78 form part of this interim financial report.



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 government 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. Significant accounting policies

The significant accounting policies adopted by the Group in the preparation of the interim financial report conform to the “Accounting Standards for Business Enterprises”, the “Accounting Regulations for Business Enterprises” and the relevant regulations issued by the MOF of the PRC.

(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.

2. Significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% of the issued share capital, or has the power to control despite the issued share capital held by the company is equal to or less than 50%. The results of the subsidiaries during the period in which the Company holds more than 50% of the issued share capital or the Company has the power to control despite the issued share capital held is equal to or less than 50%, are included in the consolidated income statement of the Group. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

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

The principal subsidiaries of the Company are disclosed in long-term equity investments note 10(a).

(c) Basis of preparation and measurement basis

The Group's basis of preparation is on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is Renminbi.

Foreign currency transactions during the period are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the transaction dates ("PBOC rates").

Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable PBOC rates ruling at the balance sheet 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) are capitalised before they are ready for use, other exchange gains and losses on foreign currency translation are dealt with in the income statement.

(e) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in value.

(f) Provision for bad debts

The provision for bad debt losses is estimated based on individual trade receivable which shows signs of uncollectibility, 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 the corresponding estimated collectibility.



2. Significant accounting policies (Continued)

(g) Inventories

Inventories, other than spare parts and low value consumables, are carried 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 comprise all costs of purchase, costs of conversion and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing overheads. Net realisable value is the estimated selling price of inventories in the normal course of business less the estimated costs to completion and the estimated selling expenses and related taxes necessary to make the sale.

Spare parts are stated at cost less any provision for obsolescence. Low value 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 which is determined on an item by item basis is made on the difference between the amortised cost and the recoverable amount if the latter is lower.

A long-term equity investment in an investee enterprise in which the Company has the power to control, jointly control or exercise significant influence over is accounted for under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Company's share of net assets of the enterprise. Equity-investment difference, which is the difference between initial investment cost and the Company's share of investors' equity of the investee enterprise, is accounted for as follows:

Any excess of the initial investment cost over the Company's share of investors' equity is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or a period of not more than 10 years if the investment period is not specified in the agreement. Amortisation is recognised as net investment income for the period.

Any shortfall of the initial investment cost over the Company's share of investors' equity is amortised on a straight-line basis over a period of not less than 10 years if the investment was acquired before the issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10) on 7 April 2003. Such shortfall is recognised in "Capital reserve – reserve for equity investment" if the investment was acquired after the issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No. 10) on 7 April 2003.

A long-term equity investment in an investee enterprise in which the Company does not control, jointly control or exercise significant influence over is accounted for under the cost method. Investment income is recognised when an investee enterprise declares a cash dividend or distributes profits.

Upon disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying value of the investments is recognised in the net investment income.



2. Significant accounting policies (Continued)

(i) Fixed assets

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods and for administrative purposes. They are expected to be used for more than one year.

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

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

	Depreciation life	Rate of 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 and indirect costs related to the acquisition or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs, which include foreign exchange differences, on specific borrowings for the construction of the fixed assets during the construction period. (see note 2(m))

Construction in progress is transferred to fixed assets when it 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 carried in the balance sheet at cost less accumulated amortisation and impairment losses. The cost of the 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 amortised on a straight-line basis over their beneficial period.



2. Significant accounting policies (Continued)

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs 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 the ownership of goods have been transferred to the buyers. 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.

(iii) Rendering of services

Revenue from the rendering of services is recognised in the income statement upon performance of the services.

(m) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when 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 when incurred.

(p) Retirement benefits

The contributions payable under the retirement plans are charged to the income statement when the contribution becomes due in accordance with the terms of the plan. Further information is set out in note 29.



2. Significant accounting policies (Continued)

(q) **Impairment of long-term investments, fixed assets, construction in progress, intangible assets and other 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 impairment loss is calculated on an item by item basis and recognised as an expense in the income statement.

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

(r) **Taxes**

Income tax is recognised using the tax-effect accounting method. Income tax for the period comprises current and deferred tax.

(i) *Current tax*

Current tax is calculated at the applicable tax rate on taxable income.

(ii) *Deferred tax*

Deferred tax is provided using the liability method, for timing differences between the accounting profit before tax and the taxable income arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of tax are levied, adjustments should be made to the amounts originally recognised for the timing differences. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from the tax value of losses, which are expected to be utilised against future taxable income, are set off against the deferred tax liabilities of the same taxpayer and within the same jurisdiction. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) **Dividends appropriation**

Cash dividend are recognised in the income statement and profit appropriation statement when it is declared to appropriate. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' equity in the balance sheet.

**2. Significant accounting policies** (Continued)**(t) Related parties**

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

3. 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 rate 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%. The Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2004. It is possible that the Company’s tax rate will increase in future periods.

The income tax rates applicable to the Company’s principal subsidiaries in the PRC range from 15% to 33%; one of its subsidiaries is a sino-foreign investment enterprise 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		The Company	
	For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003
	Rmb’000	Rmb’000	Rmb’000	Rmb’000
City construction tax	12,829	8,152	12,346	7,854
Education surcharge	7,215	4,634	7,055	4,487
Others	—	239	—	—
	20,044	13,025	19,401	12,341



3. Taxation (Continued)

(d) Taxes payable

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Income tax payable	83,019	82,224	80,349	75,617
Business tax and surcharges payable	164	156	159	156
VAT payable	67,703	109,823	82,730	111,675
Other taxes payable	30,362	32,449	30,183	31,862
	<u>181,248</u>	<u>224,652</u>	<u>193,421</u>	<u>219,310</u>

(e) Deferred taxation

No deferred taxes have been provided for in the financial statements as the effects of temporary difference arising from subsidiaries' unused tax losses available for set-off against their future taxable income and other temporary differences are considered not material.

4. Cash at bank and in hand

	The Group			At
	Original currency '000	At 30 June 2004 Exchange rate	Renminbi equivalent Rmb'000	31 December 2003 Renminbi equivalent Rmb'000
Cash in hand				
– Renminbi			51	159
Cash at bank				
– Renminbi			336,954	385,889
– Hong Kong Dollars	135	1.065	144	149
– US Dollars	2,582	8.278	21,374	37,501
Cash at bank and in hand			358,523	423,698
Deposits with related companies			650,453	805,032
Balance per consolidated balance sheet			1,008,976	1,228,730
Less: Pledged time deposits			(11,640)	–
Cash and cash equivalents			<u>997,336</u>	<u>1,228,730</u>

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

Time deposits of a subsidiary pledged as security for short-term bank loans borrowed by a sub-subsidiary totalled Rmb 11,640,000 as at 30 June 2004 (2003: Rmb nil).

	The Company			At
	Original currency '000	Exchange rate	Renminbi equivalent Rmb'000	31 December 2003 Renminbi equivalent Rmb'000
Cash in hand				
– Renminbi			19	19
Cash at bank				
– Renminbi			193,326	176,556
– Hong Kong Dollars	134	1.065	143	144
– US Dollars	2,526	8.278	20,910	35,970
Cash at bank and in hand			214,398	212,689
Deposits with related companies			622,356	771,564
Cash and cash equivalents			836,754	984,253

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited (“**Sinopec Finance**”). Details are set out in note 26.

5. Bills receivable

Types of bills receivable are as follows:

	The Group				The Company			
	At 30 June 2004 Rmb'000	%	At 31 December 2003 Rmb'000	%	At 30 June 2004 Rmb'000	%	At 31 December 2003 Rmb'000	%
Bank acceptance bills	278,155	89	329,314	94	228,952	87	285,484	91
Commercial acceptance bills	33,739	11	22,891	6	33,739	13	27,891	9
	311,894	100	352,205	100	262,691	100	313,375	100

At 30 June 2004, the above bank and commercial acceptance bills were not pledged.

Balance due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 26.



6. Trade receivables

Ageing analysis of trade receivables is as follows:

	The Group				The Company				
	At		At		At		At		
	30 June 2004	%	31 December 2003	%	30 June 2004	%	31 December 2003	%	
	Rmb'000		Rmb'000		Rmb'000		Rmb'000		
Trade receivables									
Within one year	177,339	89	121,227	87	106,230	90	81,998	87	
Between one and two years	3,437	2	3,438	3	107	-	526	1	
Between two and three years	4,989	3	3,198	2	534	-	1,244	1	
Over three years	12,729	6	11,235	8	11,228	10	10,136	11	
	<u>198,494</u>	<u>100</u>	<u>139,098</u>	<u>100</u>	<u>118,099</u>	<u>100</u>	<u>93,904</u>	<u>100</u>	
Less: Provision for bad and doubtful debts									
Within one year	(97)	-	(60)	-	(97)	-	(60)	-	
Between one and two years	(107)	3	(1,429)	42	(107)	100	(526)	100	
Between two and three years	(2,304)	46	(2,513)	79	(534)	100	(1,244)	100	
Over three years	(12,729)	100	(11,235)	100	(11,228)	100	(10,136)	100	
	<u>(15,237)</u>	<u>8</u>	<u>(15,237)</u>	<u>11</u>	<u>(11,966)</u>	<u>10</u>	<u>(11,966)</u>	<u>13</u>	
Trade receivables, net	<u>183,257</u>		<u>123,861</u>		<u>106,133</u>		<u>81,938</u>		

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	At	At	At	At
	30 June 2004	31 December 2003	30 June 2004	31 December 2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Opening balance	15,237	10,832	11,966	10,065
Charge for the period/year	-	5,147	-	2,510
Write-off during the period/year	-	(742)	-	(609)
Closing balance	<u>15,237</u>	<u>15,237</u>	<u>11,966</u>	<u>11,966</u>

**6. Trade receivables (Continued)**

During the six months ended 30 June 2004, 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 26.

The amount and proportion of the Group's five largest trade receivables over the total net trade receivables are as follows:

	At 30 June 2004		At 31 December 2003	
	Rmb'000	%	Rmb'000	%
Total of the five largest trade receivables	<u>80,137</u>	<u>44</u>	<u>68,640</u>	<u>55</u>

7. Other receivables

Ageing analysis of other receivables is as follows:

	The Group				The Company			
	At 30 June 2004		At 31 December 2003		At 30 June 2004		At 31 December 2003	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Other receivables								
Within one year	24,253	40	20,810	36	237,345	76	150,548	66
Between one and two years	870	1	1,375	2	400	-	905	1
Between two and three years	674	1	383	1	674	-	383	-
Over three years	<u>34,989</u>	<u>58</u>	<u>35,359</u>	<u>61</u>	<u>75,182</u>	<u>24</u>	<u>74,829</u>	<u>33</u>
	<u>60,786</u>	<u>100</u>	<u>57,927</u>	<u>100</u>	<u>313,601</u>	<u>100</u>	<u>226,665</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Over three years	<u>(27,240)</u>	<u>78</u>	<u>(27,240)</u>	<u>77</u>	<u>(69,823)</u>	<u>93</u>	<u>(69,823)</u>	<u>93</u>
	<u>(27,240)</u>	<u>45</u>	<u>(27,240)</u>	<u>47</u>	<u>(69,823)</u>	<u>22</u>	<u>(69,823)</u>	<u>31</u>
Other receivables, net	<u>33,546</u>		<u>30,687</u>		<u>243,778</u>		<u>156,842</u>	



7. Other receivables (Continued)

Analysis of provision for bad and doubtful debts is as follows:

	The Group		The Company	
	At	At	At	At
	30 June	31 December	30 June	31 December
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Opening balance	27,240	23,622	69,823	66,205
Charge for the period/year	-	4,149	-	4,149
Write-off during the period/year	-	(531)	-	(531)
	<u>27,240</u>	<u>27,240</u>	<u>69,823</u>	<u>69,823</u>
Closing balance	27,240	27,240	69,823	69,823

During the six months ended 30 June 2004, 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 26.

The amount and proportion of the Group's five largest other receivables over the total net other receivables are as follows:

	At 30 June 2004		At 31 December 2003	
	Rmb'000	%	Rmb'000	%
Total of the five largest other receivables	<u>5,676</u>	<u>17</u>	<u>6,106</u>	<u>20</u>

8. Advance payments

Balance due from substantial shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 26.

All advance payments aged within one year.

**9. Inventories**

	The Group		The Company	
	At	At	At	At
	30 June	31 December	30 June	31 December
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At cost:				
Raw materials	774,403	522,109	654,411	449,121
Work in progress	84,542	65,666	79,229	59,802
Finished goods	334,920	180,645	239,591	136,385
Goods in transit	49,961	24,494	-	-
Spare parts and consumables	230,733	228,573	206,186	203,396
	1,474,559	1,021,487	1,179,417	848,704
Less: Provision for diminution in value of inventories				
Finished goods	(9,122)	(9,122)	(6,722)	(6,722)
Spare parts and consumables	(44,290)	(21,650)	(44,290)	(21,650)
	(53,412)	(30,772)	(51,012)	(28,372)
	1,421,147	990,715	1,128,405	820,332

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

	The Group		The Company	
	Finished goods	Spare parts and consumables	Finished goods	Spare parts and consumables
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2004	9,122	21,650	6,722	21,650
Charge for the period	-	22,640	-	22,640
At 30 June 2004	9,122	44,290	6,722	44,290

The above inventories are either purchased or self-produced.

During the six months ended 30 June 2004, the Group and the Company recognised the cost of inventories as an expense, including cost of inventories sold, are Rmb 5,303,591,000 (2003: Rmb 4,398,907,000) and Rmb 4,999,039,000 (2003: Rmb 4,042,105,000) respectively.



10. Long-term equity investments

	The Group			
	Equity- investment difference	Other unlisted equity investment	Total	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	
	<i>note (b)</i>	<i>note (c)</i>		
At 1 January 2004 and 30 June 2004	(29,341)	62,500	33,159	
	The Company			
	Consolidated equity in subsidiaries	Equity- investment difference	Other unlisted equity investment	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
	<i>note (a)</i>	<i>note (b)</i>	<i>note (c)</i>	
At 1 January 2004	245,640	(29,341)	62,500	278,799
Investment income accounted for under the equity method (note 25)	6,769	-	-	6,769
At 30 June 2004	252,409	(29,341)	62,500	285,568

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

Name of company	Registered capital <i>(in thousands)</i>	Percentage of equity held directly		Type of legal entity	Principal activities
		by the Company %	held by subsidiary %		
Foshan Chemical Fibre United Corporation	Rmb 32,933	100	-	Limited company	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	Rmb 60,000	95	5	Limited company	Investment holding and trading of polyester chips and polyester fibre

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

**10. 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 amortisation has currently been suspended as those subsidiaries had incurred accumulated losses which caused the carrying amounts of the relevant long-term equity investments to be reduced to zero. The remaining period of amortisation is approximately 10 years.
- (c) Other unlisted equity investment

At 30 June 2004, the Group's and the Company's other unlisted equity investment is as follows:

Name of investee	Total investment <i>Rmb'000</i>	Percentage shareholdings %
Sinopec Finance	<u>62,500</u>	<u>3.3</u>

- (d) Receivables due after one year

	The Company At 30 June 2004 Rmb'000	At 31 December 2003 <i>Rmb'000</i>
Amount due from a subsidiary	800,000	800,000
Less: Provision for impairment	(287,001)	(283,157)
	<u>512,999</u>	<u>516,843</u>

The Company has advanced Rmb 800 million to a subsidiary to support its operating working capital on a going concern basis, which is not expected to be recovered within one year. Provision has been made for this amount by the Company in view of its recoverability.



11. Fixed assets

	Land and buildings <i>Rmb'000</i>	The Group Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2004	2,582,747	11,947,048	624,845	15,154,640
Additions	2,479	133	57	2,669
Transfer from construction in progress (<i>note 12</i>)	5,849	176,600	5,115	187,564
Disposals	–	(56)	(6,049)	(6,105)
At 30 June 2004	<u>2,591,075</u>	<u>12,123,725</u>	<u>623,968</u>	<u>15,338,768</u>
Accumulated depreciation:				
At 1 January 2004	695,050	5,353,918	459,087	6,508,055
Charge for the period	46,498	370,679	42,885	460,062
Written back on disposal	–	(1)	(5,764)	(5,765)
At 30 June 2004	<u>741,548</u>	<u>5,724,596</u>	<u>496,208</u>	<u>6,962,352</u>
Net book value:				
At 30 June 2004	<u>1,849,527</u>	<u>6,399,129</u>	<u>127,760</u>	<u>8,376,416</u>
At 31 December 2003	<u>1,887,697</u>	<u>6,593,130</u>	<u>165,758</u>	<u>8,646,585</u>

**11. Fixed assets** (Continued)

	Land and buildings <i>Rmb'000</i>	The Company Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and other fixed assets <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost:				
At 1 January 2004	2,267,784	11,150,792	580,468	13,999,044
Transfer from construction in progress (note 12)	5,849	158,263	5,072	169,184
Disposals	–	(56)	(5,936)	(5,992)
At 30 June 2004	<u>2,273,633</u>	<u>11,308,999</u>	<u>579,604</u>	<u>14,162,236</u>
Accumulated depreciation:				
At 1 January 2004	627,191	4,960,871	433,176	6,021,238
Charge for the period	37,231	344,280	40,748	422,259
Written back on disposal	–	(1)	(5,700)	(5,701)
At 30 June 2004	<u>664,422</u>	<u>5,305,150</u>	<u>468,224</u>	<u>6,437,796</u>
Net book value:				
At 30 June 2004	<u>1,609,211</u>	<u>6,003,849</u>	<u>111,380</u>	<u>7,724,440</u>
At 31 December 2003	<u>1,640,593</u>	<u>6,189,921</u>	<u>147,292</u>	<u>7,977,806</u>

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

As at 30 June 2004, the net book value of fully depreciated fixed assets in use was RMB 17,086,000 (2003: RMB 4,214,000).



12. 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 2004 are as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance at 1 January 2004 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Transfer to fixed assets <i>Rmb'000</i> <i>(note 11)</i>	Balance at 30 June 2004 <i>Rmb'000</i>	Source of fund	Percentage of completion
Specialised polyester chip project with a daily capacity of 450 tonnes	147,000	97,121	42,879	(140,000)	-	Bank loans/ own fund	100%
Improvements of existing plants	825,437	166,264	37,788	(27,316)	176,736	Own fund	21%
Other construction projects	1,025	2,534	342	(1,868)	1,008	Own fund	98%
Total for the Company		265,919	81,009	(169,184)	177,744		
Miscellaneous projects of the subsidiaries		4,561	16,449	(18,380)	2,630	Own fund	
Total for the Group		<u>270,480</u>	<u>97,458</u>	<u>(187,564)</u>	<u>180,374</u>		
Including: Borrowing costs capitalised		<u>1,761</u>	<u>-</u>	<u>(1,761)</u>	<u>-</u>		

No borrowing costs of the Group have been capitalised for the six months ended 30 June 2004 (2003: 4.9%).

13. Construction materials

	The Group and the Company	
	At 30 June 2004 <i>Rmb'000</i>	At 31 December 2003 <i>Rmb'000</i>
Equipment and accessories	68,918	15,007
Other construction materials	9,765	9,476
	<u>78,683</u>	<u>24,483</u>

**14. Intangible assets**

	The Group and the Company		
	Technology right	Patent right	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cost:			
At 1 January 2004 and at 30 June 2004	280,000	141,097	421,097
Accumulated depreciation:			
At 1 January 2004	7,000	110,970	117,970
Amortisation for the period	14,000	7,056	21,056
At 30 June 2004	21,000	118,026	139,026
Net book value:			
At 30 June 2004	259,000	23,071	282,071
At 31 December 2003	273,000	30,127	303,127

In 2003, the Company acquired technology licences to operate the 450,000-tonne PTA plant. The cost of the technology right is amortised over 10 years. The remaining period of amortisation is 9 years.

The Company acquired patent rights in 1995 and 1999, which costs are amortised over ten years. The remaining periods of amortisation are 1 and 5 years respectively.

15. Long-term deferred expenses

	The Group and the Company	
	At 30 June 2004	At 31 December 2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Opening balance	304	3,361
Amortisation for the period/year	(42)	(3,057)
Closing balance	262	304

Long-term deferred expenses are amortised over 5 years.



16. Short-term and long-term loans

(a) Short-term bank loans

The Group's and the Company's weighted average interest rates per annum on short-term bank loans were 3.4% (31 December 2003: 4.3%) and 3.6% (31 December 2003: 4.5%) respectively at 30 June 2004. All the short-term bank loans are denominated in Renminbi and United States Dollar. Except for the loans of RMB 11.64 million mentioned in note 4, all the Group's short-term bank loans are unsecured and not guaranteed. At 30 June 2004, the Group and the Company had no significant overdue short-term bank loan (31 December 2003: Rmb nil).

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 26.

(b) Long-term bank loans

Lender	Period	The Group and the Company			At	At
		Interest rate per annum	Interest type	At 30 June 2004	31 December 2003	
				Rmb'000	Rmb'000	
Industrial and Commercial Bank of China	Due in 2004	4.94%	Fixed	50,000	100,000	
Industrial and Commercial Bank of China	Due in 2005	4.94%	Fixed	200,000	200,000	
Bank of China	Due in 2005	4.94%	Fixed	-	50,000	
Industrial and Commercial Bank of China	Due in 2006	4.94%	Fixed	90,000	90,000	
China Construction Bank	Due in 2007	4.94%	Fixed	100,000	-	
Total long-term bank loans				440,000	440,000	
Less: Long-term bank loans (current portion)				150,000	100,000	
Long-term bank loans (long-term portion)				290,000	340,000	

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 2004	At 31 December 2003
	Rmb'000	Rmb'000
Due within one year	150,000	100,000
Due between one and two years	100,000	250,000
Between two and three years	190,000	90,000
Total bank loans	440,000	440,000

(c) At 30 June 2004, the Group's long-term bank loans are unsecured and not guaranteed.

**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 2004 Rmb'000	%	At 31 December 2003 Rmb'000	%	At 30 June 2004 Rmb'000	%	At 31 December 2003 Rmb'000	%
Bills payable								
Bank acceptance bills	19,957	4	-	-	-	-	-	-
Commercial acceptance bills	430,000	96	420,239	100	430,000	100	400,000	100
	<u>449,957</u>	<u>100</u>	<u>420,239</u>	<u>100</u>	<u>430,000</u>	<u>100</u>	<u>400,000</u>	<u>100</u>

Bills payable aged within one year.

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 26.

18. Dividend payable

	The Group and the Company	
	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Name of investors		
Sinopec	42,000	-
CITIC	18,000	-
"A" shares (circulating shares)	5,000	-
"H" shares	35,000	-
	<u>100,000</u>	<u>-</u>

19. Accrued expenses

Accrued expenses represent interest accrual.



20. Share capital

	The Group and the Company	
	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Registered, issued and paid up capital:		
2,400,000,000 "Legal person A" shares of Rmb 1 each	2,400,000	2,400,000
200,000,000 "Social public A" shares of Rmb 1 each	200,000	200,000
1,400,000,000 "H" shares of Rmb 1 each	1,400,000	1,400,000
	<u>4,000,000</u>	<u>4,000,000</u>

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

21. Capital reserve

	The Group and the Company	
	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Share premium	3,078,825	3,078,825
Other capital reserve	3,927	3,927
	<u>3,082,752</u>	<u>3,082,752</u>

22. Surplus reserves

	The Group and the Company			Total Rmb'000
	Statutory surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Discretionary surplus reserve Rmb'000	
At 1 January 2003	465,113	301,153	594,547	1,360,813
Transfer from distributable profits	24,649	23,974	-	48,623
At 31 December 2003 and 30 June 2004	<u>489,762</u>	<u>325,127</u>	<u>594,547</u>	<u>1,409,436</u>

Transfers from distributable profits to the above surplus reserves and welfare fund 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 or the discretionary surplus reserve for the six months ended 30 June 2004.

**23. Income and cost of sales from principal operations**

The Group is principally engaged in the production and sale of chemical fibre and chemical fibre raw materials. The Group's income and cost of sales from principal operations represent income earned and cost incurred in relation to the above activities.

For the six months ended 30 June 2004, revenue from sales to the top five customers amounted to Rmb 967 million (2003: Rmb 1,023 million) which accounted for 16% (2003: 22%) of the total income from principal operations of the Group.

24. Financial expenses

	The Group		The Company	
	For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest expenses incurred	46,940	56,626	44,638	54,888
Less: Interest expenses capitalised	-	(17,033)	-	(17,033)
	<u>46,940</u>	<u>39,593</u>	<u>44,638</u>	<u>37,855</u>
Interest expenses	46,940	39,593	44,638	37,855
Interest income	(7,905)	(8,262)	(11,160)	(11,828)
Net exchange gain	(878)	(472)	(912)	(678)
Others	6,791	2,975	6,698	2,919
	<u>44,948</u>	<u>33,834</u>	<u>39,264</u>	<u>28,268</u>

25. Net investment income

	The Group		The Company	
	For the six months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Investment income derived from subsidiaries accounted for under the equity method (note 10)	-	-	6,769	6,507
Provision for impairment loss for accounts receivable aged over one year	-	-	(3,844)	-
Amortisation of equity-investment difference (note 10)	-	1,522	-	1,522
Dividend income from other equity investment	3,000	3,500	3,000	3,500
	<u>3,000</u>	<u>5,022</u>	<u>5,925</u>	<u>11,529</u>



26. Related parties and related party transactions

(a) Related party with controlling relationship:

Name of company	:	China Petroleum & Chemical Corporation
Registered address	:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal operations	:	Exploring, extracting and selling crude oil and natural gas, oil refining; production, sale and transport of petrochemical, 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 Tong Hai
Registered capital	:	Rmb 86.7 billion

The above mentioned related party, having the ability to control the Group, has registered share capital of Rmb 86,702,439,000. There was no change during the period.

The equity interest held by the related party having the ability to control the Group is as follows:

	Number of shares	Percentage
As at 31 December 2003 and 30 June 2004	1,680,000,000	42%

(b) Relationships between the Company and related parties without controlling relationships:

Name of company	Relationship with Company
CPC	Ultimate holding company
CITIC	Shareholder
Yihua	With a common ultimate holding company
Sinopec Yangzi Petrochemical Company Limited (" Yangzi ")	With a common immediate holding company
Sinopec Finance	With a common ultimate holding company
CITIC Industrial Bank	Subsidiary of CITIC
Nanjing Chemical Industrial Group Limited (" Nanhua ")	With a common ultimate holding company
Sinopec Maoming Refining & Chemical Company Limited (" Maoming ")	With a common immediate holding company
Sinopec Zhenhai Refining and Chemical Company Limited (" Zhenhai ")	With a common immediate holding company

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

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

	For the six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Yangzi		
Purchase of raw materials	<u>1,382,121</u>	<u>1,016,549</u>
Zhenhai		
Purchase of raw materials	<u>799,444</u>	<u>—</u>
Yihua and its subsidiaries ("Yihua Group")		
Sales	357,243	573,983
Purchases	52,654	72,234
Miscellaneous service fee charges (see note below)	66,151	59,511
Miscellaneous service fee income (see note below)	9,162	14,764
Trademark licence fee (see note below)	5,000	5,000
Payments relating to the construction and maintenance work	<u>19,992</u>	<u>45,729</u>

Note: The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 21 December 2001 and 27 November 2002 signed between the Company and Yihua.

	For the six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Sinopec and its subsidiaries (excluding Yangzi and Zhenhai)		
Service charges for the purchase of import equipment	—	1,003
Purchase of equipment	8,725	1,002
Purchase of raw materials	115,919	81,369
Subsidy received in respect of technological research and development	<u>—</u>	<u>1,610</u>
CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec and its subsidiaries)		
Payments for construction work	9,711	33,939
Purchase of equipment	—	12,706
Purchase of raw materials	33,597	11,428
Insurance premium	<u>17,090</u>	<u>6,365</u>



26. Related parties and related party transactions (Continued)

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

	For the six months ended 30 June	
	2004	2003
	Rmb'000	Rmb'000
Sinopec Finance		
Interest income	3,672	6,762
Interest expense	253	—
	<u>3,419</u>	<u>6,762</u>
CITIC Industrial Bank		
Interest income	270	313
Interest expense	17	1,041
	<u>253</u>	<u>1,354</u>

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

- (d) Deposits with and loan from Sinopec Finance

	At	At
	30 June	31 December
	2004	2003
	Rmb'000	Rmb'000
Cash at bank and in hand	616,642	754,217
Short-term loan	(25,000)	—
	<u>591,642</u>	<u>754,217</u>

- (e) Deposits with and loan from CITIC Industrial Bank

	At	At
	30 June	31 December
	2004	2003
	Rmb'000	Rmb'000
Cash at bank and in hand	33,811	50,815
Short-term loan	(4,500)	—
	<u>29,311</u>	<u>50,815</u>

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

- (f) Details of amounts due from/(to) CPC and its subsidiaries (excluding Yihua Group) are as follows:

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Advance payments	606	30,736
Other receivables	1,613	930
Trade payables	(120,448)	(55,924)
Other creditors	(28,094)	(25,812)
Bills payable	(430,000)	(400,000)
Dividend payable	(42,000)	—
	<u>(618,323)</u>	<u>(450,070)</u>

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

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Trade receivables	10,361	9,675
Bills receivable	45,481	38,035
Advance payments	4,397	—
Other receivables	5,472	466
Trade payables	(6,940)	—
Receipts in advance	(8,643)	(14,631)
Other creditors	(11,256)	(36,549)
	<u>38,872</u>	<u>(3,004)</u>

- (h) Details of amount due to CITIC are as follows:

	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Dividend payable	<u>(18,000)</u>	<u>—</u>

27. Contingent liabilities

At 30 June 2004, contingent liabilities in respect of guarantees given to banks by the Company in respect of banking credit facilities granted to a wholly-owned subsidiary of the Group totalling Rmb 175,395,700 (at 31 December 2003: Rmb 181,311,000).



28. Capital commitments

At 30 June 2004, the Group and the Company had capital commitments as follows:

	The Group		The Company	
	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000	At 30 June 2004 Rmb'000	At 31 December 2003 Rmb'000
Authorised and contracted for	1,787	17,520	-	-
Authorised but not contracted for	766,886	991,461	766,886	991,461
	768,673	1,008,981	766,886	991,461

These capital commitments are for construction of 160,000 tonnes specialised polyester materials plant, 100,000 tonnes staple fibre plant and 200,000 tonnes per annum solid-state polymerisation for bottle grade polyester chip plant and improvements of existing plants.

29. 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:

Administrator	Beneficiary	Contribution rate	
		At 30 June 2004	At 31 December 2003
Yizheng Municipal Government Jiangsu Province	Employees of the Company	18%	17%
Foshan Municipal Government Guangdong Province	Employees of Foshan Polyester	15%	15%

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 basic 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 2004 was 9% (2003: 9%).



30. Post balance sheet events

Up to the approval date of this interim financial report, the Group has no significant events after the balance sheet date that need to be disclosed.

31. Net profit before non-operating losses

In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No. 1 – Non-recurring items" (2004 Revised), the Group's net profit excluding non-recurring items is set up as below:

	The Group For the six months ended 30 June 2004 Rmb'000
Net profit	194,517

<i>Add:</i> Non-operating expenses	6,726
<i>Less:</i> Non-operating income	(2,656)
Net gain on disposal of fixed assets	(201)
Tax effect of non-operating losses	(580)

Total effect of non-operating losses	3,289

Net profit before non-operating losses	<u>197,806</u>

32. Comparative figures

Certain comparative figures in the cash flow statements have been reclassified to conform with the current period's presentation to facilitate comparison.



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

Other than the differences in the classifications 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. A summary of the major differences is as follows:

- (i) 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.
- (ii) Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as property, plant and equipment. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs could be capitalised as part of the cost of that asset.

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:

		For the six months ended 30 June	
		2004	2003
		Rmb'000	Rmb'000
	<i>Note</i>		
Net profit under the PRC Accounting Rules and Regulations		194,517	4,603
Differences:			
– Reversal of amortisation of revaluation of land use rights	<i>(i)</i>	2,640	2,640
– Capitalisation of general borrowing costs	<i>(ii)</i>	573	–
– Others		1,522	–
– Effects of the above adjustments on taxation		(482)	(396)
Net profit under IFRS		198,770	6,847
		At	At
		30 June	31 December
		2004	2003
		Rmb'000	Rmb'000
	<i>Note</i>		
Shareholders' funds under the PRC Accounting Rules and Regulations		9,220,349	9,125,832
Differences:			
– Reversal of amortisation of revaluation of land use rights	<i>(i)</i>	(207,680)	(210,320)
– Capitalisation of general borrowing costs	<i>(ii)</i>	17,560	16,987
– Others		8,876	7,354
– Effects of the above adjustments on taxation		28,518	29,000
Shareholders' funds under IFRS		9,067,623	8,968,853



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 4th meeting of the Audit Committee of the Board of the Company was held on 27 August 2004, and mainly reviewed the Interim Financial Report of the Group during the report period.

By order of the Board

Xu Zheng-ning

Chairman

27 August 2004, Nanjing

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 30 August 2004 (Monday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2004 signed by the Chairman and the General Manager of the Company;
2. The financial report of the Company for the six months ended 30 June 2004 signed by the Chairman, Chief Financial Officer and the person in charge of the accounts;
3. The Articles of Association of the Company;
4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by CSRC during the report period;
5. The interim report disclosed by the Company in HKSE.

* *This interim report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with IAS 34, the Chinese version will prevail.*