



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 **2005**

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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 Asset and 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 2005. The interim financial report 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:

Place of listing of
H shares : The Stock Exchange of Hong Kong Limited (“HKSE”)
Stock name : Yizheng Chemical
Stock code : 1033

Place of listing of
A shares : Shanghai Stock Exchange (“SSE”)
Stock name : Yizheng Chemical
Stock code : 600871

2. FINANCIAL SUMMARY

1. Principal financial information 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	
	2005 RMB'000	2004 RMB'000
Turnover	7,663,928	5,936,961
(Loss)/profit before tax	(496,987)	242,199
Income tax expense	39,300	(39,932)
(Loss)/profit attributable to equity holders of the parent	(457,691)	198,770
Basic (loss)/earnings per share	RMB(0.114)	RMB0.050

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

	As at 30 June 2005 RMB'000	As at 31 December 2004 RMB'000	Increase/ (decrease) from last year (%)
Current assets	2,458,003	2,599,545	(5.4)
Current liabilities	1,542,773	1,871,850	(17.6)
Total assets	10,488,480	11,382,534	(7.9)
Shareholders' funds (excluding minority interests)	8,705,724	9,268,155	(6.1)
Net assets per share	RMB2.176	RMB2.317	(6.1)
Adjusted net assets per share	RMB2.175	RMB2.315	(6.1)

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

(Consolidated and unaudited) (continued)

	For the six months ended 30 June 2005 RMB'000	For the six months ended 30 June 2004 RMB'000	Increase/ (decrease) from corresponding period of last year (%)
Net (loss)/profit for the period	(462,431)	194,517	(337.7)
Net (loss)/profit before non-recurring items	(101,354)	197,806	(151.2)
Non-recurring items (after taxation)*	(361,077)	(3,289)	10,878.3
(Loss)/earnings per share	RMB(0.116)	RMB0.049	(337.7)
Return on net assets	(5.31%)	2.11%	Decreased by 7.4 percentage points
Net cash flow from operating activities	439,365	155,791	182.0

Notes*: Non-recurring items

Non-recurring items	Amount RMB'000
Provision for impairment of fixed assets	(391,860)
Net gains on disposal of fixed assets	67
Staff reduction expenses	(9,681)
Donations	(330)
Other non-operating income (excluding gains on disposal of fixed assets)	1,236
Other non-operating expenses	(4,817)
Effect of income tax	44,308
Total	<u>(361,077)</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
Loss for the period	462,431	466,238	457,687	461,498

Explanations for difference:

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 (figures are based on the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

(Consolidated and unaudited)

	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Income from principal operations	2.720	2.635	0.059	0.059
Operating loss	(1.116)	(1.081)	(0.024)	(0.024)
Net loss	(5.312)	(5.146)	(0.116)	(0.116)
Net loss before non-recurring items	(1.164)	(1.128)	(0.025)	(0.025)

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

(Consolidated and unaudited)

	The Group			
	At 1 January 2005 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	At 30 June 2005 RMB'000
1. Total provisions for bad and doubtful debts	55,328	–	8	55,320
Including: Trade receivables	28,088	–	8	28,080
Other receivables	27,240	–	–	27,240
2. Total provision for diminution in value of inventories	56,882	31,649	4,270	84,261
Including: Raw materials	4,270	4,997	4,270	4,997
Finished goods	8,322	13,791	–	22,113
Spare parts and consumables	44,290	12,861	–	57,151
3. Total provision for impairment of fixed assets	66,728	391,860	–	458,588
Including: Properties and buildings	453	–	–	453
Machinery, equipment and others	66,275	391,860	–	458,135
Total	178,938	423,509	4,278	598,169

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

The Company				
	At 1 January 2005 RMB'000	Increase for the period RMB'000	Decrease for the period RMB'000	At 30 June 2005 RMB'000
1. Total provisions for bad and doubtful debts	79,819	-	-	79,819
Including: Trade receivables	9,996	-	-	9,996
Other receivables	69,823	-	-	69,823
2. Total provision for diminution in value of inventories	55,282	25,662	4,270	76,674
Including: Raw materials	4,270	-	4,270	-
Finished goods	6,722	12,801	-	19,523
Spare parts and consumables	44,290	12,861	-	57,151
3. Total provision for long-term investments	298,109	45,138	-	343,247
Including: Long-term investments – other receivables due after one year	298,109	45,138	-	343,247
4. Total provision for impairment of fixed assets	66,728	391,860	-	458,588
Including: Properties and buildings	453	-	-	453
Machinery, equipment and others	66,275	391,860	-	458,135
Total	499,938	462,660	4,270	958,328

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

Item	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000	Change %	Reason for Change
Trade receivables	275,963	175,537	57	Increase in sales during the period
Other receivables	81,565	39,812	105	Increase in compensation receivables
Advance payments	20,692	88,096	(77)	Decrease in purchase of raw materials at the period end
Provision for impairment of fixed assets	458,588	66,728	587	Additional provision for impairment of fixed assets
Construction materials	5,531	11,230	(51)	Increase in consumption of the related materials for construction projects
Deferred tax assets	72,978	28,536	156	Recognizing deferred tax assets in respect of the provision for impairment of fixed assets at the end of the period
Short-term loans	83,421	309,726	(73)	Compressing the scale of loans during the period
Bills payable	128,584	3,462	3,614	Bills became due before the end of previous year
Taxes payable	65,805	191,570	(66)	No accrual of income tax because of the loss incurred during the current period
Current portion of long-term loans	100,000	200,000	(50)	Repayment of loans during the period

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

Item	For the six months ended 30 June		Change (%)	Reason for Change
	2005 RMB'000	2004 RMB'000		
Cost of sales from principal activities	7,415,604	5,303,591	40	Increase in price and consumption of major raw materials
Business taxes and surcharges	11,504	20,044	(43)	Decrease in tax base during the period
Profit from other operations	15,502	3,188	386	Realizing non-income tax refund during the period
Investment income	-	3,000	(100)	The invested enterprise did not distribute dividend during the period
Non-operating income	1,356	3,016	(55)	Decrease in other income during the period
Non-operating expenses	406,741	6,885	5,808	Additional provision for impairment of fixed assets
Income tax	(40,136)	39,450	(202)	Recognizing deferred tax assets in respect of the additional provision for impairment of fixed assets
Minority interests	4	3,497	(100)	Subsidiaries' incurred losses during the period

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 2005 are as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	82,515
"H" share	1,248
Total	83,765

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

As at 30 June 2005, the shareholdings of the top ten major shareholders and circulating shareholders of the Company are as follows:

Number of shareholders at the end of the reporting period 83,765

Details of the top ten major shareholders

Names of shareholders	Number of shares 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***	886,000	1,354,937,099	33.87	Circulating	N/A	Overseas capital shareholder
CITIC Group Corporation ("CITIC")**	Nil	720,000,000	18.00	Non-circulating	Nil	Domestic legal person shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-13***	Nil	1,800,000	0.045	Circulating	N/A	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-12***	Nil	1,200,000	0.03	Circulating	N/A	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited A/C BR-16***	Nil	1,200,000	0.03	Circulating	N/A	Overseas capital shareholder
HSBC Nominees (HONG KONG) Limited***	10,000	1,140,000	0.029	Circulating	N/A	Overseas capital shareholder
NG HON LAM	(1,000,000)	1,000,000	0.025	Circulating	N/A	Overseas capital shareholder
Xing-he Fund	Nil	986,113	0.025	Circulating	N/A	Domestic legal person shareholder
HSBC Nominees (HONG KONG) Limited***	50,000	650,000	0.016	Circulating	N/A	Overseas capital shareholder

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

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***	1,354,937,099	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***	1,140,000	H shares
NG HON LAM	1,000,000	H shares
Xing-he Fund	986,113	A shares
HSBC Nominees (HONG KONG) Limited***	650,000	H 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 concerted activities

The company is not aware of any activities in concert or connected relationship among the above shareholders.

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

On 9 March 2005, Mr. Tao Chun-shen was elected as Supervisor who represents the staff 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 2005 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
Tao Chun-shen	Supervisor	0	0	No Change
Chen Jian	Supervisor	0	0	No Change
Huang Zhi-wei	Independent Supervisor	0	0	No Change
Chu Su-hua	Independent Supervisor	0	0	No Change
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, 2005, none of the Directors, Supervisors or Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 of the Listing Rules.

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

4. Independent Director and Audit Committee

As at 30 June 2005, the Company has four Independent Directors, two of whom 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 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

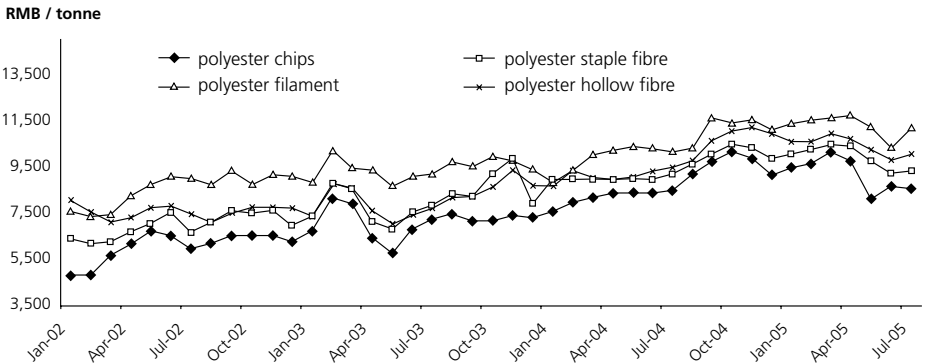
For the six months ended 30 June 2005, the Group's consolidated turnover amounted to RMB7,663,928,000, which increased by 29.1 per cent as compared with RMB5,936,961,000 for the corresponding period of last year. In view of the Group recorded a fixed asset impairment provision of RMB391,860,000 due to the establishment of a joint venture with UNIFI Asia Holding SRL (**UNIFI Asia**) by injecting the assets of the southern area of filament business department (former Polyester Plant No.5), and the intensifying operational circumstances of the polyester industry, the loss attributable to equity holders of the parent for the current period was RMB457,691,000, while the profit attributable to equity holders of the parent was RMB198,770,000 in the first half of 2004. Basic loss per share for the current period was RMB0.114, while basic earnings per share was RMB0.050 in the first half of 2004.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2005 (interim dividend for 2004: Nil).

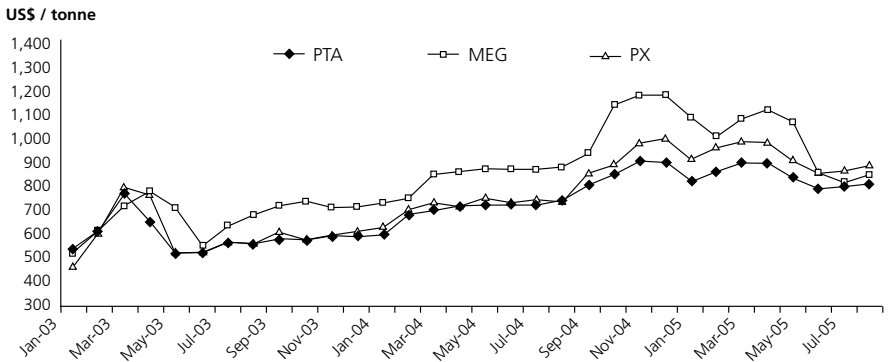
Market review

In the first half of 2005, the prices of domestic polyester raw materials and products greatly fluctuated, while the operational risks of polyester industry became more severe. In the first quarter, owing to the continuing high global oil prices and the limited supply of polyester raw materials, prices of principal polyester raw materials in Asia, such as purified terephthalic acid ("PTA"), mono-ethylene glycol ("MEG") and paraxylene ("PX"), continued to rise, driving up the prices of polyester products. However, the increase in the prices of polyester products was less than the increase in the prices of principal raw materials. As a result, the profit margin of polyester products was further compressed. Entering the last ten-day period of April, the prices of polyester raw materials and products declined owing to the continual decrease in operation rate of the polyester industry and the tough situation for downstream textile exports. So the operational risks of polyester industry became increasingly severe. Meanwhile, in the first half of 2005, European Union ("EU") and the United States ("US") trade authorities repeatedly set limits and erected trade barriers against textile imports from the PRC, which raised risks to the PRC textile exports, and hence exacerbated the fluctuation of forward prices for polyester products.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



Market review (continued)

In the first half of 2005, the total domestic polyester capacity increased almost by 3,300,000 tonnes. The excess domestic capacity was aggravated and competition in the polyester industry was further intensified. Total domestic supply volume of polyester fibre was 6,443,100 tonnes, increased by 7.8 per cent as compared with the corresponding period of last year, of which, the domestic production volume increased by 8.3 per cent as compared with the corresponding period of last year. Meanwhile, the relatively rapid growth of the PRC textile and clothes exports drove export volume to USD51.44 billion, which was 20.8 per cent higher than the first half of 2004. Total domestic consumption volume of polyester fibre reached 5,948,300 tonnes, increased by 6.0 per cent as compared with the corresponding period of last year. The domestic demand for polyester fibre continually steadily increased.

Domestic supply and demand of polyester fibre

	Polyester filament		+/- (%)	Polyester staple fibre		+/- (%)	Polyester fibre		+/- (%)
	First half of 2005	First half of 2004		First half of 2005	First half of 2004		First half of 2005	First half of 2004	
	'000 tonnes	'000 tonnes		'000 tonnes	'000 tonnes		'000 tonnes	'000 tonnes	
Production volume	3,555.6	3,284.1	8.3	2,199.6	2,029.9	8.4	5,755.2	5,314.0	8.3
Import volume	188.9	193.9	-2.6	186.6	263.1	-29.1	375.5	457.0	-17.8
Export volume	113.3	57.2	98.1	95.7	57.1	67.6	209.0	114.3	82.9
Net import	75.6	136.7	-44.7	90.9	206.0	-55.9	166.5	342.7	-51.4
Inventories at the beginning of the period	255.6	145.5	75.7	56.8	61.8	-8.1	312.4	207.3	50.7
Inventories at the end of the period	205.5	180.6	13.8	80.3	74.0	8.5	285.7	254.6	12.2
Total supply volume	4,000.1	3,623.5	10.4	2,443.0	2,354.8	3.7	6,443.1	5,978.3	7.8
Total consumption volume	3,681.3	3,385.7	8.7	2,267.0	2,223.7	2.0	5,948.3	5,609.4	6.0

Source: The Chemical Fibre Association of China

Result review

In the first half of 2005, under complicated and variable market conditions, the Group concentrated on profit-orientation to expand the market and improve internal management. By exerting efforts to promoting reform adjustment and reducing costs, the Group tried to offset unfavorable factors. Having withstood the test of market and natural disasters, the Group achieved progress in various fields.

Production and marketing

In the first half of 2005, the Group's production facilities maintained safe and stable operations. Production volume and sales volume of main products increased continuously. Meanwhile, to maximize profits, the Group adjusted the products mix and capacity utilisation rate dynamically according to market change, profit and cost. The total production volume of polyester products was 1,038,232 tonnes, an increase of 27.6 per cent as compared with 813,953 tonnes for the corresponding period of last year. The capacity utilisation rate of polyester utilities reached 93.9 per cent. The total production volume of PTA was 473,291 tonnes, an increase of 5.1 per cent as compared with 450,257 tonnes for the corresponding period of last year. In the first half of 2005, the Group strengthened coordination among production, raw materials procurement and sale. Every week an operation analysis meeting was held to improve market adaptability. As a result, the Group's total sales volume of polyester products reached 758,955 tonnes, an increase of 18.8 per cent as compared with 639,099 tonnes for the corresponding period of last year. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 99.7 per cent. In the first half of 2005, the Group took measures to expand the export of polyester products, with the result that the Group's export volume of polyester products rose dramatically to 31,859 tonnes, an increase of 25,174 tonnes over the 6,685 tonnes for the first half of 2004.

New product development and technological innovation

In the first half of 2005, the Group deepened the product structure adjustment and tried to increase the profit contributions from differential and specialized products according to the profit maximisation principle. Altogether, nine kinds of new polyester products were initiated, five products were in continual development and nine products were launched for market promotion. In the first half of 2005, the Group's total production volume of specialized polyester chips amounted to 341,595 tonnes and the specialized rate was 77.9 per cent, 17.0 percentage points higher than that of the corresponding period of last year. The total production volume of differential polyester fibre amounted to 198,389 tonnes and the differential rate of polyester fibre was 58.5 per cent, 3.7 percentage points higher than that of the corresponding period of last year.

Cost control

In the first half of 2005, the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, MEG, and PX, increased by 27.6 per cent as compared with the corresponding period of last year, while the weighted average prices (excluding VAT) of the Group's polyester product increased by 11.2 per cent as compared with the corresponding period of last year. As a result, the Group's profit margin was significantly compressed. The Group vigorously offset the influence of market by reducing costs and expenses and strictly strengthening controls over expenses in production processes. Eighteen measures drafted at the beginning of 2005 for reducing cost and increasing efficiency were implemented on the whole. The consumption of energy and raw materials was further reduced, the overall energy consumption per unit decreased by 4.0 per cent as compared with the corresponding period of last year. In the first half of 2005, due to the increase in sales volume, transportation costs and insurance premium, the Group's selling expenses were 19.4 per cent higher than that of the first half of 2004. Administrative expenses and net financing expenses decreased by 20.1 per cent and 15.0 per cent respectively from those of the first half of 2004, this occurred for several reasons: improvements to internal management, reductions in costs and expenses, a decrease in fixed assets depreciation as a result of a loss on disposal of the fixed assets at the end of 2004 and reduced interest expenses as a result of lowering bank loan. The total reduction in selling expenses, administrative expenses and net financing expenses was 10.2 per cent from that of the first half of 2004.

Internal reform and management

In the first half of 2005, the project to establish a joint venture between the Group and UNIFI Asia by injecting the assets of the southern area of filament business department (former Polyester Plant No.5) went smoothly. The two parties formally signed an agreement on 10 June 2005. The establishment of the joint venture is consistent with the Group's overall plan to optimize its assets this year, and is expected to make the Group more competitive and profitable in the future. In the first half of 2005, the Group continued to deepen the specialized restructure and flatten the management structure. Among the operational management employees, the method "compete for appointment" was carried out and the number of these employees was reduced by 33.1 per cent. Meanwhile, the Group evaluated and classified all positions, clarifying position responsibilities and business processes. The Group will further reform employee compensation according to market value so as to improve employees morale. Greater effort was made to reduce headcount. The Group signed voluntary resignation contracts with 274 employees during the first half of 2005.

Capital expenditure

In the first half of 2005, the Group's capital expenditure amounted to RMB 59,609,000. The specialized polyester chips project with an annual capacity of 160,000 was finished and activated in August. The project to increase the capacity of PTA line II was successfully completed in April. Presently, the equipment is fully operational.

Business prospects

In the second half of 2005, the Group will still be faced with a severe market environment. In view of present conditions in the raw material market, it is expected that the prices of international crude oil will continue to fluctuate concussively at a high level, driving the prices of polyester raw materials, and hence increasing the cost and operational risks of polyester enterprises. In the polyester products market, the excess of supply over demand will become more intense because 1,500,000 tonnes of polyester production capacity remain waiting for operation. Concerning downstream demand, the PRC textile exports have been obviously influenced by the limits set by EU and the US, which will restrain the increase in demand for polyester products.

At the same time, the Group retains some advantages. Firstly, commencing with July, the prices of polyester raw materials and products gradually returned to rationality, which may lessen the imbalance between the prices of raw materials and the prices of products. Secondly, the PTA production volume is expected to exceed the first half of 2005 owing to the fulfillment of the capacity enlargement project of the PTA line II, which will further reduce the raw materials cost. Thirdly, the specialized polyester chips project with an annual capacity of 160,000 tonnes will contribute to the Group's profit. Fourthly, the set up of the joint venture will help enhance the relevant filament assets and financial structure. The filament business results of the Group will then be greatly improved.

In the second half of 2005, the Group will stick to market-orientation, reduce costs and expenses and do well in production operation and reform adjustment, to maximize profit and efficiency. The following will be set as priorities in the second half of 2005:

1. Strengthen production management and meticulously maintain safe and stable operation of production facilities

The Group will further strengthen spot management, technology management and facility management, and implement strict measures and controls over key facilities and areas to ensure safe and stable operation of production facilities. Priorities will be given to the PTA facility to ensure safe and stable production, and to achieve the target of increasing PTA production volume. The Group will stabilize and improve product quality based on facility characteristics and do well in technology service for consumers to fulfill their needs. In the second half of 2005, the Group's projected production volume of polyester products is 1,131,000 tonnes. The projected 2005 annual production volume of polyester products is 2,169,000 tonnes, 28.9 per cent higher than production volume in 2004. The Group's production volume of PTA for the second half of 2005 is projected at 493,000 tonnes. The projected 2005 annual production volume of PTA is 966,000 tonnes, 3.5 per cent more than production volume in 2004.

2. Strengthen raw material purchase and marketing so as to expand profit margin and reduce operational risks

The Group will further enhance market research and adjust purchase plan in a timely manner based on the situation of cost, profit and production so as to keep a constant balance of raw material supply. Meanwhile, the Group will firmly negotiate with suppliers and give full play to its negotiating position regarding the pricing and contract price offered of raw material. As a result, the purchase cost will be reduced. The Group will closely follow the market trends, and maintain a balance between production and sales in order to sell at optimal prices. The Group will strengthen production and sales to manage storage levels. The debt collection will be speeded up and the capital occupied will be cut down. The pre-sales work of the specialized polyester chips project with an annual capacity of 160,000 tonnes will be well-executed so as to expand the market and make the investment yield well. The Group will fully explore the international market and enlarge exports of all kinds of polyester products. In the second half of 2005, the Group's projected sales volume of polyester products will be 852,000 tonnes. The projected sales volume of polyester products for the year of 2005 will be 1,611,000 tonnes, which is increased by 19.2 per cent as compared with the year of 2004. The ratio of sales to production is expected to reach 100 per cent in the second half of 2005.

3. Strengthen product development and technology improvement and make effort in increasing value-added and competitiveness of products

The Group will make full use of the coordination system of marketing, production and research (“MPR”), strengthen product development and try to improve the profit contribution from differential products. Firstly, the Group will exert more effort to expanding its market share by exploring the markets for new products. Secondly, quality improvement for new products will be enhanced so as to increase their competitiveness. Thirdly, the Group will elaborate its technological advantages and actively develop new application fields for polyester products so as to explore new markets. Fourthly, the Group will adjust the structure of differential products. In the second half of 2005, the Group’s projected production volume of differential fibre products and specialized polyester chips will be 201,000 tonnes and 391,000 tonnes, respectively, while differential rates are expected to be 57.5 per cent and specialized rates are expected to be 78.9 per cent.

4. Enforce management and reduce costs and expenses greatly

The Group will continually implement overall budget management, firmly reduce non-production expenses and strictly manage unplanned expenses so as to realize the target of reducing controllable expenses. The internal control system will be improved to further reinforce finance and capital management in order to reduce the fund occupation and lower the financial expenses. The emphasis is to strengthen bills receivable management and strictly control the bills settlement rate. Measures should be taken to reduce energy-consumption, an energy-saving program should be organized to reach the target of decreasing the overall energy consumption per unit by 4.0 per cent as compared with the corresponding period of last year.

5. Speed up reform adjustment and separating the core businesses from non-core ones

The Group will speed up the strategic adjustment in accordance with the principle of market and profit maximization. In July, the Group set up a joint venture with UNIFI Asia by injecting the assets of the southern area of filament business department (former Polyester Plant No.5), which will improve competitiveness and profitability in the future. The Group plans to restructure Yizheng Chemical Fibre Foshan Polyester Company Limited (“**Foshan Polyester**”) and Foshan Chemical Fibre United Company Limited (collectively “**Foshan Group**”) in the second half of 2005 and the work plan is being developed gradually. Meanwhile, the Group will separate its core businesses from non-core ones on the condition of market operation so as to increase the Group’s core competitiveness.

6. Accelerate effective development and enhance continual competitiveness and profitability

The Group will speed up effective development and enhance continuous competitiveness and profitability. Meticulous preparation will be made for the construction of PTA with an annual capacity of 1,000,000 tonnes. The Group will actively design the “Eleventh Five-year Plan” to promote sustainable development.

6. MANAGEMENT DISCUSSION & ANALYSIS

The following financial figures, except where specifically noted, 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 2005, the loss attributable to equity holders of the parent amounted to RMB457,691,000, while the profit attributable to equity holders of the parent amounted to RMB198,770,000 in the corresponding period of last year, of which, Foshan Group sustained a loss of RMB45,138,000, and Yihua Kangqi Chemical Fibre Company Limited and its subsidiaries ("Kangqi Group") recorded a loss of RMB634,000.

(1) Turnover

In the first half of 2005, under the condition of the overhaul of several polyester facilities and the PTA line II, 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 1,038,232 tonnes, representing an increase of 27.6 per cent as compared with 813,953 tonnes for the corresponding period of last year. Of this, the total production volumes of bottle-grade polyester chips increased by 113.4 per cent as compared with the corresponding period of last year. The increase was mainly due to the full operation of the co-polymer (CP) and solid-state-polymerization (SSP) project with an annual capacity of 200,000 tonnes completed in November 2004. Due to adjusting products mix and capacity utilization rate according to market changes, profit and cost, the total production volumes of polyester staple fibre and polyester filament decreased by 5.1 per cent and 3.3 per cent respectively as compared with the corresponding period of last year. In the first half of 2005, the Group's capacity utilization rate reached 93.9 per cent. The Group's total production volume of PTA was 473,291 tonnes, representing an increase of 5.1 per cent as compared with 450,257 tonnes for the corresponding period of last year.

Production volume

	For the six months ended 30 June			
	2005		2004	
	Production volume (tonnes)	Percentage of total production volume (%)	Production volume (tonnes)	Percentage of total production volume (%)
Polyester products				
– Chips	654,613	63.1	413,982	50.9
Of which:				
bottle-grade chips	215,917	20.8	101,176	12.4
– Staple fibre	216,161	20.8	227,822	28.0
– Hollow fibre	25,015	2.4	24,827	3.0
– Filament	142,443	13.7	147,322	18.1
Of which: draw twisted yarn ("DTY")	44,725	4.3	47,516	5.8
Total	1,038,232	100.0	813,953	100.0

Production volume *(continued)*

In the first half of 2005, the Group insisted in the market-oriented approach, and enhanced the coordination among production, raw materials procurement and sales. 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 758,955 tonnes, representing an increase of 18.8 per cent as compared with the 639,099 tonnes for the corresponding period of last year. Owing to taking measures to expand the export of polyester products, the Group's export volume of polyester products amounted to 31,859 tonnes, representing an increase of 25,174 tonnes as compared with the 6,685 tonnes for the corresponding period of last year.

Sales volume

	For the six months ended 30 June			
	2005	Percentage of total sales volume (%)	2004	Percentage of total sales volume (%)
Polyester products				
– Chips	421,072	55.5	291,541	45.6
Of which:				
bottle-grade chips	215,212	28.4	93,172	14.6
– Staple fibre	215,878	28.4	225,496	35.3
– Hollow fibre	24,301	3.2	23,585	3.7
– Filament	97,704	12.9	98,477	15.4
Of which: DTY	44,912	5.9	46,095	7.2
Total	758,955	100.0	639,099	100.0

Average Prices for Products (RMB/tonne excluding VAT)

	For the six months ended 30 June		
	2005	2004	Change (%)
Polyester products			
– Chips	9,475	8,329	13.8
– Staple fibre	10,073	8,983	12.1
– Hollow fibre	10,562	9,065	16.5
– Filament	11,347	10,507	8.0
Weighted average price	9,921	8,923	11.2

Turnover

	For the six months period ended 30 June			
	2005		2004	
	Turnover RMB'000	Percentage of turnover (%)	Turnover RMB'000	Percentage of turnover (%)
Polyester products				
– Chips	3,989,742	52.1	2,428,322	40.9
– Staple fibre	2,174,605	28.4	2,025,547	34.1
– Hollow fibre	256,663	3.3	213,806	3.6
– Filament	1,108,642	14.5	1,034,727	17.4
Others	134,276	1.7	234,559	4.0
Total	<u>7,663,928</u>	<u>100.0</u>	<u>5,936,961</u>	<u>100.0</u>

In the first half of 2005, the Group's turnover amounted to RMB7,663,928,000, representing an increase of 29.1 per cent as compared with RMB5,936,961,000 for the corresponding period of last year. The increase was mainly due to the increase in sales volume by 18.8 per cent as compared with the corresponding period of last year, and the increase in weighted average price of polyester products by 11.2 per cent as compared with the corresponding period of last year.

(2) Cost of sales

In the first half of 2005, the Group's cost of sales amounted to RMB7,455,094,000, which increased by RMB2,109,734,000 as compared with RMB5,345,360,000 for the corresponding period of last year, representing 97.3 per cent of turnover. In the first half of 2005, total costs of raw materials increased from RMB4,391,372,000 to RMB6,338,553,000, representing an increase of 44.3 per cent as compared with the corresponding period of last year, which accounted for 85.0 per cent of cost of sales. The increase was mainly due to the increase in sale 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 crude oil as compared with the corresponding period of last year. In the first half of 2005, the weighted average price of external purchased polyester raw materials increased by 27.6 per cent as compared with the corresponding period of last year, while the average purchase costs of PTA, MEG and PX increased by 17.3 per cent, 25.8 per cent and 34.9 per cent respectively as compared with the corresponding period of last year. To ease the increase in the cost of sale, the Group took measures to organize the safe and stable operation of facilities, reduce costs and expenses, increase PTA production volume and save energy consumption.

In the first half of 2005, although the turnover increased by 29.1 per cent as compared with the corresponding period of last year, the Group's gross profit decreased by RMB382,767,000 to RMB208,834,000 due to the increase in cost of sale by 39.5 per cent as compared with the corresponding period of last year. The Group's gross margin was 2.7 per cent, representing a decrease of 7.3 percentage points as compared with the corresponding period of last year.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		Change (%)
	2005 RMB'000	2004 RMB'000	
Selling expenses	98,953	82,876	19.4
Administrative expenses	179,785	225,077	(20.1)
Financial expenses, net	37,200	43,768	(15.0)
Total	315,938	351,721	(10.2)

In the first half of 2005, administrative expenses and net financing expenses decreased by 20.1 per cent and 15.0 per cent respectively as compared with the corresponding period of last year. These savings are attributed to improvements to the internal management, reductions in costs and expenses, lower fixed assets depreciation as a result of a loss on disposal of the fixed assets at the end of last year, and decreases in interest expenses as a result of lowering bank loan. Due to the increase in sales volume, transportation cost and insurance premium, selling expenses increased by 19.4 per cent as compared with the corresponding period of last year. The total decrease in selling expenses, administrative expenses and net financing expenses was 10.2 per cent as compared with the corresponding period of last year.

(4) Operating (loss)/profit, (loss)/profit before tax and (loss)/profit attributable to equity holders of the parent

	For the six months period ended 30 June		Change (%)
	2005 RMB'000	2004 RMB'000	
Operating (loss)/profit	(459,787)	285,967	(260.8)
(Loss)/profit before tax	(496,987)	242,199	(305.2)
Income tax expenses	39,300	(39,932)	(198.4)
(Loss)/profit attributable to equity holders of the parent	(457,691)	198,770	(330.3)
Basic (loss)/earnings per share (in RMB)	(0.114)	0.050	(330.3)

In the first half of 2005, despite the Group's enhanced efforts in uplifting production volume and sales volume and exercising better control over costs and expenses, the increase in polyester raw material prices was higher than in polyester products prices. As a result, the profit margin of polyester products was significantly compressed. Meanwhile, the Group recorded a non-cash impairment charge of RMB391,860,000 due to establishing a joint venture with UNIFI Asia by injecting the assets of the southern area of filament business department (former Polyester Plant No.5). Owing to the above factors, the Group's loss before tax and loss attributable to equity holders of the parent amounted to RMB496,987,000 and RMB457,691,000 respectively, representing a decrease of 305.2 per cent and 330.3 per cent as compared with the corresponding period of last year respectively.

(5) Statement of the principal operations by products

Polyester products contributed more than 10 per cent of the Group's income from principal operations and profit from principal operations. The following is the statement of principal operations by products for the six months ended 30 June 2005 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 (%)	Gross profit margin as compared with the corresponding period of last year
Polyester products	7,529,652	7,293,292	3.1	32.0	43.1	Decreased by 7.5 percentage points
Including: connected transactions	259,606	248,365	4.3	(15.0)	(9.0)	Decreased by 6.4 percentage points

During the reporting period, the Company did not sell any products to the controlling shareholder and its subsidiaries.

(6) Reasons for the significant changes in the gross profit margin as compared with the year of 2004 (figures based on the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations)

During the reporting period, the gross profit margin of the Group decreased by 5.8 percentage points as compared with the year of 2004. The decrease was mainly because the weighted average purchase price of principal raw materials of the Group increased by 14.3 per cent as compared with that of the whole year of 2004. Meanwhile, the weighted average price (excluding value-added tax) of the Group's polyester products increased by 4.8 per cent as compared with that of the whole year of 2004.

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

During the reporting period, the percentages of profit from principal operations, expenses for the period and net non-operating expenses to total profit showed significant variance as compared with last year. Major reasons for the significant variance were the loss in the Group's total profit as a result of the effect of recording the fixed assets impairment and variably domestic polyester market in the first half of 2005.

(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 (figures based on the interim financial report prepared in accordance with PRC Accounting Rules and Regulations).

It is estimated that the accumulated net result of the first three quarters of 2005 will record a loss, mainly because the accumulated loss of RMB462,431,000 during the first half of 2005.

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 2005 <i>RMB'000</i>	At 31 December 2004 <i>RMB'000</i>	Changes in amount <i>RMB'000</i>
Total assets	10,364,331	11,234,701	(870,370)
Current assets	2,458,181	2,599,765	(141,584)
Non-current assets	7,906,150	8,634,936	(728,786)
Total liabilities	1,732,773	2,061,850	(329,077)
Current liabilities	1,542,773	1,871,850	(329,077)
Non-current liabilities	190,000	190,000	0
Minority interests	49,983	52,529	(2,546)
Shareholders' equity (excluding minority interests)	8,581,575	9,120,322	(538,747)

As at 30 June 2005, the Group's total assets were RMB10,364,331,000, total liabilities were RMB1,732,773,000, and shareholders' equity (excluding minority interests) were RMB8,581,575,000. Compared with the assets and liabilities as at 31 December 2004 (hereinafter referred to as "as compared with the end of last year"), the variations and main causes of such changes are as follows:

Total assets were RMB10,364,331,000, a decrease of RMB870,370,000 as compared with the end of last year. Current assets were RMB2,458,181,000, a decrease of RMB141,584,000 as compared with the end of last year. It's mainly because the Group's inventories decreased by RMB202,820,000 as a result of enhancing the coordination between production, raw materials procurement and sales in the first half of 2005. Non-current assets were RMB7,906,150,000, a decrease of RMB728,786,000 as compared with the end of last year, which was mainly because the Group recorded a fixed assets impairment charge of RMB391,860,000 due to establishing a joint venture with UNIFI Asia. Meanwhile, such decrease was also due to ordinary depreciation and amortization.

(1) Assets, liabilities and shareholders' equity analysis *(continued)*

Total liabilities were RMB1,732,773,000, a decrease of RMB329,077,000 as compared with the end of last year. Current liabilities were RMB1,542,773,000, a decrease of RMB329,077,000 as compared with the end of last year, which was mainly due to the decrease of RMB195,069,000 in trade payables, other payables and accrued expenses, and the decrease of RMB100,000,000 in the long-term borrowing repayable within one year by the Group's effort on reducing short-term debts. Non-current liabilities were RMB190,000,000, no change as compared with the end of last year.

As at 30 June 2005, total liabilities to total assets ratio of the Group was 16.7 per cent, whereas it was 18.4 per cent as at 31 December 2004.

(2) Cash flow analysis

In the first half of 2005, cash and cash equivalents increased by RMB6,074,000 (increased from RMB228,152,000 as at 31 December 2004 to RMB234,226,000 as at 30 June 2005). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2005 and 2004.

Major items in cash flow statement	For the six months ended 30 June 2005 <i>RMB'000</i>	For the six months ended 30 June 2004 <i>RMB'000</i>	Changes <i>RMB'000</i>
Net cash generated from operating activities	400,129	108,392	291,737
Net cash used in investing activities	(65,200)	(284,512)	219,312
Net cash used in financing activities	(328,855)	(145,937)	(182,918)
Net increase/(decrease) in cash and cash equivalents	6,074	(322,057)	328,131
Cash and cash equivalents at 1 January	228,152	563,761	(335,609)
Cash and cash equivalents at 30 June	234,226	241,704	(7,478)

In the first half of 2005, the Group's net cash generated from operating activities was RMB400,129,000, representing an increase of RMB291,737,000 as compared with the corresponding period of last year. This was mainly due to: (1) Owing to enhancing the coordination between production, raw materials procurement and sales, inventories decreased by RMB202,820,000, whereas, there was an increase of inventories by RMB430,432,000 in the first half of 2004. As a result, the net cash flow from operating activities increased by RMB633,252,000. (2) Gross profit was RMB208,834,000 in the first half of 2005, whereas, it was RMB591,601,000 in the first half of 2004. As a result, the net cash flow from operating activities decreased by RMB382,767,000.

In the first half of 2005, the Group's net cash used in investing activities was RMB65,200,000, a decrease of cash outflow by RMB219,312,000 as compared with the corresponding period of last year. This was mainly due to the decrease in capital expenditure and time deposits with banks and other financial institutions in the first half of 2005 as compared with the corresponding period of last year respectively.

In the first half of 2005, the Group's net cash used in financing activities was RMB328,855,000, an increase of cash outflow by RMB182,918,000 as compared with the corresponding period of last year. This was mainly due to the reduction in bank loans in the first half of 2005.

(3) Bank borrowings

As at 30 June 2005, the Group's bank borrowings were RMB373,421,000, decreased by RMB326,305,000 compared with RMB699,726,000 as at 31 December 2004. The Group's major bank borrowings were denominated in renminbi 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.

(4) Contingent liabilities

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

(5) Debt-equity ratio

The debt-equity ratio of the Group was 2.2 per cent for the first half of 2005 (first half of 2004:3.1 per cent). The ratio is computed by long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

(6) Assets charges

For the period ended 30 June 2005, there was no charge on the Group's assets.

(7) Management of foreign exchange risk

The major receivables and payables items of the Group are dominated in renminbi. Foreign currency used in the Group's operation was dominated in US dollars and settled 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 2005, the Group's capital expenditure amounted to RMB59,609,000. The following table provided information on the amount invested in the Group's major construction projects during the reporting period:

Main projects	Amount invested in this reporting period RMB'000	Project status
The CP and SSP project with annual capacity of 200,000 tonnes	14,295	Completed in November 2004
The specialized polyester chip with an annual capacity of 160,000 tonnes	37,749	Completed in August 2005
The technological improvement project to increase capacity of PTA line II	792	Completed in April 2005
Others	6,773	—
Total	<u>59,609</u>	—

The Group's capital expenditure budget for 2005 is projected to be approximately RMB820,000,000. In the second half of 2005, in order to maximize investment return, the Group will arrange the schedule of capital expenditure in accordance with the prudential principle. It is expected the capital expenditure for the PTA project with an annual capacity of 1,000,000 tonnes to be RMB300,000,000. The planned capital expenditures will be funded by cash generated from operations and bank credit facilities.

7. SIGNIFICANT EVENTS

1. According to the prescriptions of "Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies", "Code of Corporate Governance for Listed Companies in PRC" and "Regulations on Strengthening the Protection of Shareholders' Rights and Interests of Circulating Shares", the Company revised and passed the new "Working System of Independent Directors".
2. On 25 July 2005, as approved by 2004 AGM held on 28 June 2005, the Company paid a final cash dividend of Rmb0.025 per share (including tax) for the year ended 31 December 2004. Details of dividend payments to domestic shareholders were disclosed in China Securities, Shanghai Securities News and Securities Times on 13 July 2005, while the details of dividend payments to overseas shareholders were included in the announcement of the resolutions passed in the 2004 AGM, which were disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 29 June 2005.

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 2005.

3. During the reporting period, the Group (including subsidiaries) was not involved in any material litigation or arbitration.
4. During the reporting period, the Group (including subsidiaries) did not have any material acquisition and disposal of assets as well as merger and acquisition.
5. The Company signed a Joint Venture Contract ("**JV Contract**") with UNIFI Asia on 10 June 2005 and a joint venture, Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**"), was established in Yizheng City Jiangsu Province majoring in producing polyester filament, by injecting into Yihua UNIFI with the assets of the southern area of filament business department (former Polyester Plant No.5). The registered capital of Yihua UNIFI is USD 30 million. The Company and UNIFI Asia will each own 50 per cent equity interest of Yihua UNIFI according to the JV Contract. Besides, the non-cash impairment charge related to the relevant assets concerning the transaction is RMB430,711,000 based on the assets evaluation assessment (excluding the provision for impairment of fixed assets recorded in the previous years and the depreciation charge recorded from the assessment date to the end of the reporting period, the Group recorded a non-cash impairment charge of RMB391,860,000 in the current period).

The 25th meeting of the fourth term of the Board held on 10 June 2005, and the EGM held on 28 July 2005 according to "Rules Governing the Listing of Stock on the SSE" respectively approved the above-mentioned transaction and the assets impairment thereof. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 13 June and 29 July 2005 respectively.

Yihua UNIFI commenced its operations on 3 August 2005 and all businesses have been developed comprehensively. The ownership transfers concerning the trading assets are in process according to the JV Contract.

6. Information on connected transactions

The Group's material connected transactions entered into during the six months ended 30 June 2005 were as follows:

- (a) The following are the significant connected transactions relating to sales and purchase of goods and provision of services during the reporting period.

Type of transaction	Transaction parties	Amount of	Proportion of the
		transaction	same type of
		RMB'000	transaction
			(%)
Purchase of raw materials	Sinopec Yangzi Petrochemical Company Limited	1,586,721	26
	Sinopec Zhenhai Refining & Chemical Company Limited	1,324,657	22
Sales	Yihua Group Company and its Subsidiaries ("Yihua Group")	269,592	4

The Group is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials, and that sales to Yihua Group ensure the Group maintaining certain sales channels and a certain level of turnover. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated at market price and settled mainly on cash-on-delivery basis. The 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.

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 agreements governing these transactions. The above applicable connected transactions are fully complied with the related regulations issued by the HKSE and the SSE and the waivers granted by the HKSE to the Company.

The amount of the ordinary connected transactions during the reporting period does not exceed the estimated annual level.

Details of connected transactions during the reporting period please refer to notes 28 of interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.

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

8. As 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 which are set out as follows:

External guarantee (excluding guarantee for controlled subsidiaries)

Total guaranteed amount during the reporting period	–
Remaining guaranteed amount at the end of the reporting period	–

Guarantee for controlled subsidiaries

Total guaranteed amount during the reporting period	RMB405,313,000
Remaining guaranteed amount at the end of the reporting period	RMB116,660,000

Total guarantee (including guarantee for controlled subsidiaries)

Total guaranteed amount	RMB116,660,000
The ratio of guaranteed amount to the net asset of the Company	1.36 per cent

The guarantee amount not conforming to the regulations

The guaranteed amount for controlling shareholders and other related parties which the Company held less than 50% share equity	–
The direct or indirect guaranteed amount for those whose total liability to total assets ratio is over 70%	RMB116,660,000
Whether the ratio of guaranteed amount to the net assets of the Company is over 50%	No
The guaranteed amount not conforming to the regulations*	RMB116,660,000

Note:* These guarantees were granted to Foshan Polyester, which is wholly-owned by the Company. Its total liability to total assets ratio is over 70 per cent. The above guarantee happened before the enforcement 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) promulgated by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council, and the Company has fulfilled the related ratified and disclosure responsibilities. Currently, there is no indication that the Company may undertake the liability under joint liability clause.

9. As at 30 June 2005, 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.
10. The company issued a clarifying announcement on 12 May 2005 to disclose the situation about the suspicion of an employee working in the sales department who was involved in the embezzlement of the Company's funds. Presently the amount concerning the case is about RMB51.3 million and of which RMB25.0 million may not be recoverable. The Company has recognised it as a loss in the current period.

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 2005. The Company has not received any notice from the tax authorities regarding changes to this rate.
12. According to "Protocol on the Accession of the PRC" 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 2005 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%*	6.5%*	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. Recently EU made the final conclusion about the anti-dumping case of imported textile products (made for the downstream producers) made from polyester filament exported to the EU from the PRC. Chinese companies are charged with 14.1- 56.2 per cent anti-dumping tax on textile products made from polyester filament. Since the exported volume of this kind of products is only 72,000 tonnes a year in 2003 according to EU's statement of charges, the influence of the case on China market is limited.
14. 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.
15. Save as those disclosed above, the Group did not have any major event, or disclosure matter referred to in the Article 62 of the Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and the 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 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 31 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 Institute of Certified Public 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 2005.

KPMG

Certified Public Accountants

Hong Kong, China
26 August 2005

Consolidated income statement

for the six months ended 30 June 2005 – unaudited

	Note	Six months ended 30 June	
		2005 Rmb'000	2004 Rmb'000
Turnover		7,663,928	5,936,961
Cost of sales		(7,455,094)	(5,345,360)
Gross profit		208,834	591,601
Other operating income		16,858	9,204
Selling expenses		(98,953)	(82,876)
Administrative expenses		(179,785)	(225,077)
Other operating expenses	8(b)	(406,741)	(6,885)
Operating (loss)/profit before financing costs		(459,787)	285,967
Financial income		2,273	8,783
Financial expenses		(39,473)	(52,551)
Net financing costs		(37,200)	(43,768)
(Loss)/profit before tax	4	(496,987)	242,199
Income tax expense	5	39,300	(39,932)
(Loss)/profit for the period		(457,687)	202,267
Attributable to:			
Equity holders of the parent		(457,691)	198,770
Minority interests		4	3,497
(Loss)/profit for the period		(457,687)	202,267
Basic (loss)/earnings per share (in Rmb)	7(a)	(0.114)	0.050

The notes on pages 35 to 43 form part of this interim financial report.

Consolidated Balance Sheet
as at 30 June 2005 – unaudited

	Note	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Non-current assets			
Property, plant and equipment	8	7,257,046	8,044,113
Construction in progress		285,473	268,306
Lease prepayments		201,066	203,558
Unlisted investment		62,500	62,500
Deferred tax assets		100,065	56,459
		7,906,150	8,634,936
Current assets			
Inventories		1,423,744	1,626,564
Trade and other receivables	9	728,151	614,215
Deposits with banks and other financial institutions	10	72,060	130,834
Cash and cash equivalents	11	234,226	228,152
		2,458,181	2,599,765
Current liabilities			
Trade and other payables	12	1,239,710	1,309,961
Bank loans		183,421	509,726
Income tax payable		19,642	52,163
Dividend payable	6	100,000	–
		1,542,773	1,871,850
Net current assets		915,408	727,915
Total assets less current liabilities		8,821,558	9,362,851
Non-current liabilities			
Bank loans		190,000	190,000
		8,631,558	9,172,851
Equity			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves	13	1,246,617	1,246,617
Retained earnings		816,125	1,354,872
Total equity attributable to equity holders of the parent		8,581,575	9,120,322
Minority interests		49,983	52,529
Total equity		8,631,558	9,172,851

Approved and authorised for issue by the Board of Directors on 26 August 2005.

Xu Zheng-ning
Chairman

Xiao Wei-zhen
Managing Director

The notes on pages 35 to 43 form part of this interim financial report.

Consolidated Statement of Changes in Equity
for the six months ended 30 June 2005 – unaudited

	Note	Attributable to equity holders of the parent				Total Rmb'000	Minority interests Rmb'000	Total equity Rmb'000
		Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained earnings Rmb'000			
As at 1 January 2004								
– as previously reported		4,000,000	2,518,833	1,188,963	1,261,057	8,968,853	–	8,968,853
– as previously presented separately from liabilities and equity	2(b)	–	–	–	–	–	53,455	53,455
– as restated		4,000,000	2,518,833	1,188,963	1,261,057	8,968,853	53,455	9,022,308
Profit for the period								
– attributable to equity holders of the parent		–	–	–	198,770	198,770	–	198,770
– minority interests	2(b)	–	–	–	–	–	3,497	3,497
Dividends	6	–	–	–	(100,000)	(100,000)	–	(100,000)
Distributions to minority interests		–	–	–	–	–	(1,820)	(1,820)
As 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>	<u>55,132</u>	<u>9,122,755</u>
As at 1 January 2005								
– as previously reported		4,000,000	2,518,833	1,246,617	1,354,872	9,120,322	–	9,120,322
– as previously presented separately from liabilities and equity	2(b)	–	–	–	–	–	52,529	52,529
– as restated, before opening balance adjustment in respect of negative goodwill	18	4,000,000	2,518,833	1,246,617	1,354,872	9,120,322	52,529	9,172,851
– opening balance adjustment in respect of negative goodwill	2(a)	–	–	–	18,944	18,944	–	18,944
– as restated, after opening balance adjustment, carried forward		4,000,000	2,518,833	1,246,617	1,373,816	9,139,266	52,529	9,191,795
(Loss)/profit for the period								
– attributable to equity holders of the parent		–	–	–	(457,691)	(457,691)	–	(457,691)
– minority interests	2(b)	–	–	–	–	–	4	4
Dividends	6	–	–	–	(100,000)	(100,000)	–	(100,000)
Distributions to minority interests		–	–	–	–	–	(2,550)	(2,550)
As at 30 June 2005		<u>4,000,000</u>	<u>2,518,833</u>	<u>1,246,617</u>	<u>816,125</u>	<u>8,581,575</u>	<u>49,983</u>	<u>8,631,558</u>

The notes on pages 35 to 43 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2005 – unaudited

	Six months ended 30 June	
	2005	2004
	Rmb'000	<i>Rmb'000</i>
Cash generated from operations	436,956	147,047
Income tax paid	(36,827)	(38,655)
Net cash generated from operating activities	400,129	108,392
Net cash used in investing activities	(65,200)	(284,512)
Net cash used in financing activities	(328,855)	(145,937)
Net increase/(decrease) in cash and cash equivalents	6,074	(322,057)
Cash and cash equivalents at 1 January	228,152	563,761
Cash and cash equivalents at 30 June	234,226	241,704

The notes on pages 35 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**”) are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People’s Republic of China (“**the PRC**”). China Petroleum & Chemical Corporation (“**Sinopec Corp**”) is the Company’s immediate parent company and China Petrochemical Corporation (“**CPC**”) is the Company’s ultimate parent company.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting*, adopted by the International Accounting Standards Board (“**IASB**”). This interim financial report was authorized for issuance on 26 August 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The 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 Institute of Certified Public Accountants. KPMG’s independent review report to the Board of Directors is included on page 30.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the Company’s annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2004 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2005. The 2004 annual financial statements have been prepared in accordance with IFRSs.

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 IFRSs are summarised in section C.

2. Changes in accounting policies

The IASB has issued a number of new and revised IFRSs (which term collectively includes IASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of IFRSs currently in use.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following set out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report:

(a) *Amortisation of negative goodwill (IFRS 3, Business combinations)*

In prior periods, negative goodwill was amortised over the weighted average useful life of the depreciable or amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005 and in accordance with IFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises.

In accordance with the transitional arrangements under IFRS 3, the carrying amount of negative goodwill as at 1 January 2005 that arose from a business combination for which the agreement date was before 31 March 2004 was derecognized as at that date with a corresponding adjustment to the opening balance of retained earnings as at 1 January 2005. Comparative amounts have not been restated.

As a result of adopting this new accounting policy, the carrying amount of negative goodwill of Rmb 18,944,000 as at 1 January 2005 in respect of the amounts previously credited to those non-monetary assets that are depreciable or amortisable (i.e. property, plant and equipment) has been credited to the opening balance of retained earnings as at 1 January 2005.

In addition, the loss before tax of the Group for the six months ended 30 June 2005 has increased by Rmb 1,522,000.

(b) *Minority interests (IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements)*

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly.

3. Segment reporting

The Group's results 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.

4. (Loss)/profit before tax

(Loss)/profit before tax is arrived at after charging/(crediting):

		Six months ended 30 June	
		2005	2004
	Note	Rmb'000	Rmb'000
Interest on borrowings		42,504	46,940
Less: Borrowing costs capitalised into construction in progress		(3,543)	(1,180)
Interest expense, net		38,961	45,760
Depreciation		452,883	475,259
Impairment loss of property, plant and equipment	8(b)	391,860	-
Amortisation of lease prepayments		2,492	2,304
Write-down of inventory		27,379	22,640
Loss of bills receivable		25,000	-
Staff reduction expenses		9,681	-
Interest income		(2,165)	(7,905)
Dividend income from unlisted investment		-	(3,000)

5. Income tax expense

		Six months ended 30 June	
		2005	2004
		Rmb'000	Rmb'000
Current tax expense			
– Current period		2,533	41,409
– Under/(over)-provision in respect of prior years		1,773	(1,959)
		4,306	39,450
Deferred taxation		(43,606)	482
		(39,300)	39,932

The charge for PRC income tax of the Company is calculated at the rate of 15% (2004: 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 and the State Administration of Taxation that the 15% tax rate will be revoked in 2005. 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% (2004: 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 Rmb100,000,000 in respect of the financial year 2004 was approved during the period (financial year 2003: Rmb2.5 cents per share totalling Rmb100,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Rmb nil).

7. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the parent of Rmb 457,691,000 for the six months ended 30 June 2005 (six months ended 30 June 2004: profit of Rmb 198,770,000) and the weighted average number of ordinary shares of 4,000,000,000 (2004: 4,000,000,000) in issue during the period.

(b) Diluted (loss)/earnings per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2005.

8. Property, plant and equipment

(a) Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2005 are as follows:

	Six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Cost of acquisitions and transfer from construction in progress	42,441	190,233
Disposals (net carrying amount)	3,709	340

(b) Impairment loss

In order to enhance the diversification of the Company's filament products and improve the relevant manufacturing processes, the Company entered into an equity joint venture contract ("the JV Contract") with Unifi Asia Holding SRL ("Unifi Asia") on 10 June 2005 to establish a joint venture ("JV") in the PRC to undertake the manufacture of polyester filament products in the PRC. The JV will be a jointly controlled entity, which is 50% owned by the Company and 50% owned by Unifi Asia. The name of the JV shall be Yihua Unifi Fibre Industry Company Limited ("Yihua Unifi") and its registered capital will be USD 30,000,000.

As required by the relevant PRC rules and regulations and the relevant provisions in the JV Contract, a revaluation of the Company's assets to be contributed or sold to the JV was carried out as of 31 March 2005 by an independent valuer registered in the PRC. Based on the revaluation report issued by Beijing China Enterprise Appraisal Company Limited dated 25 May 2005, which was based on the depreciated replacement costs method, an impairment loss of Rmb 391,860,000 was recognized in the income statement (included in "Other operating expenses") during the six months ended 30 June 2005. The gross carrying amount of the relevant property, plant and equipment as of 30 June 2005 was Rmb 1,773,938,000.

9. Trade and other receivables

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Trade receivables	270,610	170,411
Bills receivable	349,753	310,550
Amounts due from parent company and fellow subsidiaries (trade)	5,594	11,820
	625,957	492,781
Amounts due from parent companies and fellow subsidiaries (non-trade)	2,783	1,312
Other receivables, deposits and prepayments	99,411	120,122
	728,151	614,215

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.

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

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Within one year	617,447	488,060
Between one and two years	7,079	3,554
Between two and three years	1,431	1,165
Over three years	–	2
	625,957	492,781

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

10. Deposits with banks and other financial institutions

As at 31 December 2004, time deposits of a subsidiary amounting to Rmb 11,035,000 were pledged as security for short-term bank loans of Rmb 8,000,000 borrowed by a sub-subsidiary. There was no pledge in connection with the time deposits held by the Group as at 30 June 2005.

11. Cash and cash equivalents

	At 30 June 2005 <i>Rmb'000</i>	At 31 December 2004 <i>Rmb'000</i>
Cash on hand	41	149
Balances with banks and other financial institutions with an initial term of less than three months	<u>234,185</u>	<u>228,003</u>
	<u>234,226</u>	<u>228,152</u>

12. Trade and other payables

	At 30 June 2005 <i>Rmb'000</i>	At 31 December 2004 <i>Rmb'000</i>
Trade payables	596,141	591,368
Bills payable	8,584	3,462
Amounts due to parent companies and fellow subsidiaries (trade)	<u>204,149</u>	<u>64,172</u>
	808,874	659,002
Amounts due to parent companies and fellow subsidiaries (non-trade)	1,211	21,492
Other payables and accrued expenses	<u>429,625</u>	<u>629,467</u>
	<u>1,239,710</u>	<u>1,309,961</u>

The maturity analysis of trade payables, bills payable and amounts due to parent companies and fellow subsidiaries (trade) is as follows:

	At 30 June 2005 <i>Rmb'000</i>	At 31 December 2004 <i>Rmb'000</i>
Due within one month or on demand	778,037	659,002
Due after one month but within six months	<u>30,837</u>	<u>–</u>
	<u>808,874</u>	<u>659,002</u>

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

13. Reserves

For the six months ended 30 June 2005, no transfers were made to the statutory surplus reserve, the statutory public welfare fund or the discretionary surplus reserve (2004: Rmb nil).

14. Related party transactions

Sinopec Corp, CPC and China International Trust and Investment Corporation (“**CITIC**”) are considered to be related parties as they have the ability to exercise significant influence over the Group in making financial and operating decisions.

Yihua Group Corporation (“**Yihua**”), Sinopec Yangzi Petrochemical Company Limited (“**Yangzi**”), Sinopec Zhenhai Refining & Chemical Company Limited (“**Zhenhai**”), Sinopec Finance Company Limited (“**Sinopec Finance**”), CITIC Industrial Bank, Nanjing Chemical Industrial Group Limited, China Petrochemical International Company Limited and other subsidiaries of Sinopec Corp, CPC or CITIC are considered to be related parties as they are subject to the common significant influence of Sinopec Corp, CPC or CITIC.

Transactions with other state-controlled entities in the PRC

The Group operates in an economic regime currently predominated by state-controlled entities. Apart from transactions with CPC and its fellow subsidiaries, the Group conducts certain business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as “**state-controlled entities**”) in the ordinary course of business. These transactions, include sales and purchase of goods, rendering and receiving services and obtaining finance, are carried out at terms similar to those that would be entered into non-state-controlled entities.

Although the Group’s certain business activities are with PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in note (a) and (b) below.

14. Related party transactions (continued)

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

	Six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Yangzi		
– Purchases of raw materials	<u>1,586,721</u>	<u>1,382,121</u>
Zhenhai		
– Purchases of raw materials	<u>1,324,657</u>	<u>799,444</u>
Yihua and its subsidiaries (“Yihua Group”)		
– Sales	269,592	357,243
– Purchases	56,201	52,654
– Miscellaneous service fee charges (see note below)	44,300	66,151
– Miscellaneous service fee income (see note below)	9,000	9,162
– Trademark licence fee (see note below)	–	5,000
– Payments relating to the construction and maintenance work	–	19,992
	<u>–</u>	<u>19,992</u>
Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)		
– Service charges for the purchase of raw materials	12,071	–
– Purchase of equipment	–	8,725
– Purchase of raw materials	<u>127,296</u>	<u>115,919</u>
CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries and Sinopec Finance)		
– Payments for construction work	–	9,711
– Purchase of raw materials	56,301	33,597
– Insurance premium	<u>17,076</u>	<u>17,090</u>
Sinopec Finance		
– Interest income	257	3,672
– Interest expense	<u>509</u>	<u>253</u>
CITIC Industrial Bank		
– Interest income	167	270
– Interest expense	<u>–</u>	<u>17</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.

14. Related party transactions (continued)

(b) Deposits with and loan from related parties:

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Sinopec Finance		
– Bank deposits	13,301	21,825
– Short-term loans	–	20,000
	<u> </u>	<u> </u>
CITIC Industrial Bank		
– Bank deposits	54,783	30,059
– Short-term loans	–	8,000
	<u> </u>	<u> </u>

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

15. Contingent liabilities

At 30 June 2005, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank credit facilities granted to a wholly-owned subsidiary totalling Rmb 116,660,000 (at 31 December 2004: Rmb 147,968,000).

16. Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group had capital commitments outstanding at 30 June 2005 not provided for in the interim financial report as follows:

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Contracted for	–	–
Authorised but not contracted for	166,698	562,908
	<u> </u>	<u> </u>
	<u>166,698</u>	<u>562,908</u>

17. Post balance sheet event

As mentioned in note 8(b), the Company entered into the JV Contract with Unifi Asia on 10 June 2005 to establish a joint venture, Yihua Unifi, in China. Yihua Unifi has obtained the relevant approvals from the PRC government. According to the JV Contract, Yihua Unifi's period of operations is 40 years and its principal activities are manufacturing, processing and marketing high value-added differential polyester filament products. Yihua Unifi commenced operations on 3 August 2005.

18. Comparative figures

Certain comparative figures have been adjusted as a result of the changes in accounting policies, details of which are set out in note 2.

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

Balance sheets (unaudited)

	Note	The Group		The Company	
		At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Assets					
Current assets					
Cash at bank and on hand	4	306,286	358,986	200,372	192,239
Bills receivable	5	349,753	310,550	293,569	261,719
Accounts receivable	6	275,963	175,537	228,590	126,707
Other receivables	7	81,565	39,812	237,341	156,512
Payments in advance	8	20,692	88,096	10,572	75,471
Inventories	9	1,423,744	1,626,564	1,255,334	1,428,039
Total current assets		2,458,003	2,599,545	2,225,778	2,240,687
Long-term investments					
Long-term equity investments (including: equity-investment difference (credit) of Rmb 29,341,000 (2004: Rmb 29,341,000))	10	33,159	33,159	237,840	286,475
Receivables due after one year	10	–	–	456,753	501,891
Total long-term investments		33,159	33,159	694,593	788,366
Fixed assets					
Cost		15,541,939	15,507,926	14,353,542	14,319,685
Less: Accumulated depreciation		7,677,968	7,246,334	7,090,906	6,690,231
Net book value before provision for impairment		7,863,971	8,261,592	7,262,636	7,629,454
Less: Provision for impairment of fixed assets		458,588	66,728	458,588	66,728
Net book value after provision for impairment	11	7,405,383	8,194,864	6,804,048	7,562,726
Construction materials	13	5,531	11,230	5,531	11,230
Construction in progress	12	273,286	253,963	271,914	252,356
Total fixed assets		7,684,200	8,460,057	7,081,493	7,826,312
Intangible assets and other assets					
Intangible assets	14	239,962	261,017	239,962	261,017
Long-term deferred expenses	15	178	220	178	220
Total intangible assets and other assets		240,140	261,237	240,140	261,237
Deferred taxation					
Deferred tax assets	3(e)	72,978	28,536	72,978	22,907
Total assets		10,488,480	11,382,534	10,314,982	11,139,509

The notes on pages 50 to 79 form part of this interim financial report.

Balance sheets (unaudited) (continued)

	Note	The Group		The Company	
		At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Liabilities and shareholders' funds					
Current liabilities					
Short-term loans	16(a)	83,421	309,726	20,000	213,878
Bills payable	17	128,584	3,462	120,000	-
Accounts payable	17	491,957	450,369	474,520	389,685
Receipts in advance	17	188,333	205,171	166,221	197,116
Accrued payroll		100,061	152,697	96,623	147,181
Staff welfare payable		55,178	55,960	45,863	46,878
Dividend payable	18	100,000	-	100,000	-
Taxes payable	3(d)	65,805	191,570	65,549	185,058
Other payables	19	22,103	24,798	21,838	24,351
Other creditors	17	206,392	276,883	204,858	269,339
Accrued expenses	20	939	1,214	939	1,214
Current portion of long-term loans	16(b)	100,000	200,000	100,000	200,000
Total current liabilities		1,542,773	1,871,850	1,416,411	1,674,700
Long-term liabilities					
Long-term loans	16(b)	190,000	190,000	190,000	190,000
Total liabilities		1,732,773	2,061,850	1,606,411	1,864,700
Minority interests					
		49,983	52,529	-	-
Shareholders' funds					
Share capital	21	4,000,000	4,000,000	4,000,000	4,000,000
Capital reserve	22	3,093,838	3,093,838	3,093,838	3,093,838
Surplus reserves (Including statutory public welfare fund of Rmb 348,411,000 (2004: Rmb 348,411,000))	23	1,456,004	1,456,004	1,456,004	1,456,004
Undistributed profits (Including cash dividend of Rmb nil (2004: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date)		155,882	718,313	158,729	724,967
Total shareholders' funds		8,705,724	9,268,155	8,708,571	9,274,809
Total liabilities and shareholders' funds		10,488,480	11,382,534	10,314,982	11,139,509

The interim financial report has been approved by the Board of Directors of the Company on 26 August 2005.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Zhou Xin-hua
Chief Financial Officer

Yin Jia-dong
Supervisor of the Asset and
Accounting Department

The notes on pages 50 to 79 form part of this interim financial report.

Income and profit appropriation statement (unaudited)

	Note	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
		2005	2004	2005	2004
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Sales from principal activities	24	7,663,928	5,936,961	7,249,128	5,595,245
Less: Cost of sales from principal activities	24	7,415,604	5,303,591	7,008,560	4,999,039
Business taxes and surcharges	3(c)	11,504	20,044	11,181	19,401
Profit from principal activities		236,820	613,326	229,387	576,805
Less: (Profit)/loss from other operations		(15,502)	(3,188)	(13,207)	1,683
Operating expenses		98,953	82,876	81,592	67,917
General and administrative expenses		209,804	250,357	191,566	236,540
Financial expenses	25	40,743	44,948	34,589	39,264
Operating (loss)/profit		(97,178)	238,333	(65,153)	231,401
Add: Investment income/(loss)	26	–	3,000	(45,773)	5,925
Non-operating income		1,356	3,016	850	2,772
Less: Non-operating expenses	27	406,741	6,885	405,633	6,478
(Loss)/profit before income tax		(502,563)	237,464	(515,709)	233,620
Less: Income tax	3(b)	(40,136)	39,450	(49,471)	34,584
Minority interests		4	3,497	–	–
Net (loss)/profit for the period		(462,431)	194,517	(466,238)	199,036
Add: Retained profits at the beginning of the period		718,313	633,644	724,967	638,691
Profits available for distribution to shareholders		255,882	828,161	258,729	837,727
Less: Cash dividends appropriated to shareholders		100,000	100,000	100,000	100,000
Retained profits at the end of the period (Including cash dividend of Rmb nil (2004: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date)		155,882	728,161	158,729	737,727

The interim financial report has been approved by the Board of Directors of the Company on 26 August 2005.

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Accounting Department

The notes on pages 50 to 79 form part of this interim financial report.

Cash flow statements (*unaudited*)

	<i>Notes to the cash flow statement</i>	The Group For the six months ended 30 June 2005 Rmb'000	The Company For the six months ended 30 June 2005 Rmb'000
(i) Cash flows from operating activities			
Cash received from sale of goods and rendering of services		9,124,990	8,321,195
Refund of taxes		4,148	1,770
Other cash received relating to operating activities		779	731
		<hr/>	<hr/>
Sub-total of cash inflows		9,129,917	8,323,696
		<hr/>	<hr/>
Cash paid for goods and services		(7,740,824)	(6,991,644)
Cash paid to and for employees		(330,508)	(309,709)
Cash paid for all types of taxes		(401,266)	(383,574)
Other cash paid relating to operating activities		(217,954)	(189,071)
		<hr/>	<hr/>
Sub-total of cash outflows		(8,690,552)	(7,873,998)
		<hr/>	<hr/>
Net cash inflow from operating activities	<i>(a)</i>	439,365	449,698
		<hr/>	<hr/>

The notes on pages 50 to 79 form part of this interim financial report.

Cash flow statements (*unaudited*) (continued)

	<i>Notes to the cash flow statement</i>	The Group For the six months ended 30 June 2005 Rmb'000	The Company For the six months ended 30 June 2005 Rmb'000
(ii) Cash flows from investing activities			
Cash received from return on investments		–	48,000
Net cash received from disposal of fixed assets		3,776	3,160
Other cash received relating to investing activities		13,200	5,285
		<u>16,976</u>	<u>56,445</u>
Sub-total of cash inflows		16,976	56,445
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		(126,372)	(125,458)
Other cash paid relating to investing activities		–	(38,555)
		<u>(126,372)</u>	<u>(164,013)</u>
Sub-total of cash outflows		(126,372)	(164,013)
Net cash outflow from investing activities		<u>(109,396)</u>	<u>(107,568)</u>
(iii) Cash flows from financing activities			
Cash received from borrowings		3,419,037	3,240,153
		<u>3,419,037</u>	<u>3,240,153</u>
Sub-total of cash inflows		3,419,037	3,240,153
Cash repayment of borrowings		(3,745,342)	(3,534,031)
Cash paid for dividends distribution or repayment of interest		(45,329)	(40,119)
		<u>(3,790,671)</u>	<u>(3,574,150)</u>
Sub-total of cash outflows		(3,790,671)	(3,574,150)
Net cash outflow from financing activities		<u>(371,634)</u>	<u>(333,997)</u>
Net (decrease)/increase in cash and cash equivalents	<i>(b)</i>	<u>(41,665)</u>	<u>8,133</u>

The notes on pages 50 to 79 form part of this interim financial report.

Cash flow statements (*unaudited*) (continued)

Notes to the cash flow statements

(a) Reconciliation of net loss to net cash inflow from operating activities:

	The Group For the six months ended 30 June 2005 <i>Rmb'000</i>	The Company For the six months ended 30 June 2005 <i>Rmb'000</i>
Net loss	(462,431)	(466,238)
<i>Add:</i> Transfer out of provision for inventories due to sales	(4,270)	(4,270)
Provision for inventories	31,649	25,662
Provision for impairment of fixed assets	391,860	391,860
Depreciation of fixed assets	436,353	405,042
Amortisation of intangible assets	21,055	21,055
Amortisation of long-term deferred expenses	42	42
Loss arising from investments	–	45,773
Financial expenses	40,339	34,390
Net gain on disposal of fixed assets	(67)	(73)
Deferred tax assets	(44,442)	(50,071)
Decrease in gross inventories	175,441	151,313
Increase in gross operating receivables	(112,087)	(109,216)
(Decrease)/increase in operating payables	(34,081)	4,429
Minority interests	4	–
Net cash inflow from operating activities	439,365	449,698
(b) Net (decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at the end of the period (<i>note 4</i>)	306,286	200,372
<i>Less:</i> Cash and cash equivalents at the beginning of the period (<i>note 4</i>)	347,951	192,239
Net (decrease)/increase in cash and cash equivalents	(41,665)	8,133

The interim financial report has been approved by the Board of Directors of the Company on 26 August 2005.

Xu Zheng-ning
Chairman
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Xiao Wei-zhen
Managing Director

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Chief Financial Officer

Yin Jia-dong
Supervisor of the Asset and
Accounting Department

The notes on pages 50 to 79 form part of this interim financial report.

Notes to the interim financial report (unaudited)

1. Company status

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 Corp**”), 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 Corp and Sinopec Corp 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 other relevant regulations issued by the Ministry of Finance (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 Company’s consolidated financial statements are prepared in accordance with the Accounting Regulations for Business Enterprises and Cai Kuai Zi [1995] No.11 “Temporary regulations on consolidated financial statements” issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. Subsidiaries are those entities in which the Company directly or indirectly, holds more than 50% (50% not inclusive) 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 by the Company is equal to or less than 50%, are included in the consolidated income statement of the Company. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements.

2. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

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

Details of the Company's principal subsidiaries are disclosed in Note 10(a).

(c) Basis of preparation and measurement basis

The financial statements of the Group have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

(d) Reporting currency

The Group's reporting currency is the Renminbi.

(e) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates quoted by the People's Bank of China ruling at the balance sheet date. Exchange gains and losses on foreign currency translation, except for the exchange gains and losses directly relating to the construction of fixed assets (see note 2(k)), are dealt with in the income statement.

(f) 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.

(g) Provision for bad and doubtful debts

The provision for bad debt losses is estimated based on individual accounts receivable which show signs of uncollectibility and an aging analysis. Provision for other receivables is determined based on their specific nature and management's estimate of their collectibility.

(h) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value.

Costs 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 costs and an appropriate allocation of manufacturing overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

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

The Group adopts a perpetual inventory system.

2. Significant accounting policies (continued)

(i) Long-term equity investments

Where the Company has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment 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 the investors' equity in the investee enterprise.

Equity-investment difference, which is the difference between the initial investment cost and the Company's share of investors' equity in the investee enterprises, is accounted for as follows:

- Any excess of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.
- Any shortfall of the initial investment cost over the Company's share of the investors' equity in the investee enterprise is amortised on a straight-line basis if the investment was acquired before the MOF's issuance of the "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" (Cai Kuai [2003] No.10). The amortization period is determined according to the investment period as stipulated in the relevant agreement, or 15 years if the investment period is not specified in the agreement. The unamortized balance is included in long-term equity investments at the period end. Such shortfalls are recognised in the "Capital reserve – reserve for equity investment" if the investment was acquired after the issuance of the Cai Kuai [2003] No.10.

Where the Company does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

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

The Group makes provision for impairment losses on long-term equity investments (see note 2(m)).

(j) Fixed assets

Fixed assets are assets with comparatively high unit values held by the Group for use in the production of goods, rendering of services 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 (see note 2(m)). The revalued amount refers to the fixed assets value, which have been adjusted to the revalued amounts according to the fixed assets valuation carried out in accordance with the relevant rules and regulations.

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

	Estimated useful life	Estimated rate of residual value
Land and buildings	25 to 50 years	0%-3%
Plant, machinery and equipment	8 to 22 years	3%
Motor vehicles and other fixed assets	4 to 10 years	3%

2. Significant accounting policies (continued)

(k) Construction in progress

Construction in progress is stated in the balance sheet at cost less impairment losses (see note 2(m)). All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

(l) Intangible assets and long-term deferred expenses

(i) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(m)). The cost of the intangible assets is amortised on a straight-line basis. The amortization period is determined according to the shorter of the contracted beneficial period and the effective period stipulated by law, or 10 years if the period is not specified in the contract or law.

(ii) Long-term deferred expenses

Long-term deferred expenses are amortised on a straight-line basis over their beneficial periods.

(m) Provision for impairment

The carrying amounts of assets (including long-term investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly at each balance sheet date to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Company's share of the investors' equity of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

2. Significant accounting policies (continued)

(n) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises current tax paid and payable and movement of deferred tax assets and liabilities.

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

Deferred tax is provided using the liability method for the differences between the accounting profits and the taxable profits arising from the timing differences in recognising income, expenses or losses between the accounting and tax regulations. When the tax rate changes or a new type of tax is levied, adjustments are made to the amounts originally recognised for the timing differences under the liability method. The current tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from tax losses, which are expected to be utilised against future taxable profits, are set off against the deferred tax liabilities (only for the same taxpayer within the same jurisdiction). When it is not probable that the tax benefits of deferred tax assets will be realised, the deferred tax assets are reduced to the extent that the related tax benefits are expected to be realised.

(o) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

(p) Revenue recognition

When it is probable that the economic benefits will flow to the Group and the revenue and cost can be measured reliably, revenue is recognised in the income statement according to the following methods:

(i) Sales of goods

Sales revenue 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 the receipt of the consideration and the return of goods, or when the 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 proportion basis according to the principal outstanding and the applicable rate.

(iii) Rendering of services

When the provision of service is started and completed within the same accounting year, revenue from the rendering of services is recognised in the income statement at the time of completion of the services. When the provision of service is started and completed in different accounting years, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the progress of work performed, to the extent that the outcome of a transaction involving the rendering of service can be estimated reliably. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of cost incurred that are expected to be recoverable.

2. Significant accounting policies (continued)

(q) **Research and development costs**

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

(r) **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 until the fixed assets are ready for their intended uses.

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

(s) **Repairs and maintenance expenses**

Repairs and maintenance expenses (including major overhaul expenses) are recognised in the income statement when incurred.

(t) **Environmental preservation expenses**

Environmental preservation expenses relating to circumstances arising as a result of the current or past businesses are recognized in the income statement when incurred.

(u) **Dividends appropriated to shareholders**

Cash dividends appropriated to the shareholders are recognised in the income and profit appropriation statement when approved. Cash dividends approved after the balance sheet date, but before the date on which the financial statements are authorised for issue, are separately disclosed in the shareholders' fund in the balance sheet.

(v) **Retirement benefits**

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rates based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement when they are due.

(w) **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 types of tax applicable to the Group's sales of goods and rendering of services include value-added tax ("VAT"), business tax, city development tax and education surcharge.

The VAT rate is 17%.

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

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

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

3. Taxation (continued)

(b) Income tax

Income tax in the income statement represents:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Provision for income tax for the period	2,533	41,409	–	37,550
Underprovision/(overprovision) for income tax in respect of prior periods	1,773	(1,959)	600	(2,966)
	4,306	39,450	600	34,584
Deferred taxation	(44,442)	–	(50,071)	–
	(40,136)	39,450	(49,471)	34,584

Pursuant to the directive “Cai Shui Zi [1994] No. 17” issued by the MOF and the State Administration of Taxation (“SAT”) of the PRC on 18 April 1994, the Company’s income tax is calculated at 15%. The MOF and the SAT have not notified the Company whether this tax rate is still applicable in future periods. The Company’s applicable tax rate may increase in future periods.

Except for the following subsidiaries which enjoy preferential tax rate, the income tax rate applicable to the Group’s other major subsidiaries is 33%.

The names of subsidiaries which enjoy preferential tax rate are set out below:

Name of subsidiary	Preferential tax rate	Reason
Yizheng Chemical Fibre Wuhan Kangqi Technical Trading Co., Ltd.	15%	Enterprise established in Wuhan high and new technology development zone
Yizheng Chemical Fibre Xiamen Kangqi Co., Ltd.	15%	Enterprise established in Xiamen special economic zone
Yizheng Chemical Fibre Foshan Polyester Co., Ltd.	27%	Foreign investment enterprise established in off-shore opening zone

3. Taxation (continued)

(c) Business tax and surcharges

	The Group For the six months ended 30 June 2005		The Company For the six months ended 30 June 2005	
	Rmb'000	2004 Rmb'000	Rmb'000	2004 Rmb'000
City development tax	7,320	12,829	7,115	12,346
Education surcharge	4,184	7,215	4,066	7,055
Total	<u>11,504</u>	<u>20,044</u>	<u>11,181</u>	<u>19,401</u>

(d) Taxes payable

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Income tax payable	19,642	52,163	16,412	46,412
City development tax payable	14,137	38,664	14,096	38,495
VAT payable	24,292	83,231	27,290	82,561
Others	7,734	17,512	7,751	17,590
Total	<u>65,805</u>	<u>191,570</u>	<u>65,549</u>	<u>185,058</u>

(e) Deferred tax assets and liabilities

Deferred tax assets

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Provision for bad and doubtful debts	–	10,234	–	4,605
Provision for inventories	11,501	8,293	11,501	8,293
Provision for impairment of fixed assets	52,288	10,009	52,288	10,009
Depreciation variance arising from the different residual value of fixed assets between accounting policy and tax regulation	3,851	–	3,851	–
Tax losses	5,338	–	5,338	–
Total	<u>72,978</u>	<u>28,536</u>	<u>72,978</u>	<u>22,907</u>

Deferred tax liabilities

The Group has no significant deferred tax liability.

4. Cash at bank and on hand

	The Group			At 31 December 2004 Renminbi equivalent ('000)
	At 30 June 2005			
	Original currency ('000)	Exchange rate	Renminbi equivalent ('000)	
Cash on hand				
– Renminbi			41	149
Cash at bank				
– Renminbi			237,209	284,365
– Hong Kong Dollars	651	1.0649	693	809
– US Dollars	31	8.2765	259	21,779
Cash at bank and on hand			238,202	307,102
Deposits with related companies				
– Renminbi			68,084	51,884
Total			306,286	358,986
Less: Pledged time deposits			–	11,035
Cash and cash equivalents			306,286	347,951

As at 31 December 2004, time deposits of a subsidiary amounting to Rmb 11,035,000 were pledged as security for short-term bank loans of Rmb 8,000,000 borrowed by a sub-subsidiary. As at 30 June 2005, the time deposits held by the Group were not pledged as security.

	The Company			At 31 December 2004 Renminbi equivalent ('000)
	At 30 June 2005			
	Original currency ('000)	Exchange rate	Renminbi equivalent ('000)	
Cash on hand				
– Renminbi			26	38
Cash at bank				
– Renminbi			150,022	144,886
– Hong Kong Dollars	135	1.0649	144	144
– US Dollars	25	8.2765	209	19,689
Cash at bank and on hand			150,401	164,757
Deposits with related companies				
– Renminbi			49,971	27,482
Cash and cash equivalents			200,372	192,239

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited (“Sinopec Finance”), which interest is calculated at market rates. Details are set out in note 28.

5. Bills receivable

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Bank acceptance bills	291,727	296,932	235,543	246,369
Customer acceptance bills	58,026	13,618	58,026	15,350
Total	<u>349,753</u>	<u>310,550</u>	<u>293,569</u>	<u>261,719</u>

As at 30 June 2005, the above bills receivable were not pledged.

Included in the above balances, there were no bills receivable due from shareholders who hold 5% or more of the voting shares of the Company.

During the six months ended 30 June 2005, the Group and the Company have reclassified the misappropriated bills receivable of Rmb 51,300,000 to other receivables. Management estimated part of these bills receivable amounting to Rmb25,000,000 cannot be recovered and recognized the loss in the current period's income statement.

6. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	The Group				The Company			
	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%
Accounts receivable								
Within one year	267,625	88	182,997	90	227,734	95	125,751	92
Between one to two years	20,992	7	5,487	3	1,392	1	1,776	1
Between two to three years	4,030	1	2,912	1	284	-	-	-
Over three years	11,396	4	12,229	6	9,176	4	9,176	7
	<u>304,043</u>	<u>100</u>	<u>203,625</u>	<u>100</u>	<u>238,586</u>	<u>100</u>	<u>136,703</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Within one year	172	-	12,181	7	-	-	-	-
Between one and two years	13,913	66	1,933	35	820	59	820	46
Between two and three years	2,599	64	1,747	60	-	-	-	-
Over three years	11,396	100	12,227	100	9,176	100	9,176	100
	<u>28,080</u>	<u>9</u>	<u>28,088</u>	<u>14</u>	<u>9,996</u>	<u>4</u>	<u>9,996</u>	<u>7</u>
Accounts receivable, net	<u>275,963</u>		<u>175,537</u>		<u>228,590</u>		<u>126,707</u>	

6. Accounts receivable (continued)

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

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Opening balance	28,088	15,237	9,996	11,966
Add: Charge for the period/year	–	14,823	–	–
Less: Write-off during the period/year	8	1,972	–	1,970
Closing balance	<u>28,080</u>	<u>28,088</u>	<u>9,996</u>	<u>9,996</u>

During the six months ended 30 June 2005, the Group and the Company did not make a full or substantial provision against any individually significant accounts receivable.

During the six months ended 30 June 2005, the Group and the Company had no individually significant write-off or write-back of bad and doubtful debts which were fully or substantially provided for in the prior years.

Accounts receivable due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 28.

As at 30 June 2005, the amount and proportion of the Group's five largest accounts receivable over the total accounts receivable are as follows:

	At 30 June 2005		At 31 December 2004	
	Rmb'000	%	Rmb'000	%
Total of the five largest accounts receivable	<u>144,950</u>	<u>48</u>	<u>90,057</u>	<u>44</u>

7. Other receivables

Ageing analysis of other receivables is as follows:

	The Group				The Company			
	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%
Other receivables								
Within one year	72,979	67	31,016	46	232,737	76	151,906	67
Between one to two years	496	–	842	1	295	–	389	–
Between two to three years	761	1	675	1	283	–	190	–
Over three years	34,569	32	34,519	52	73,849	24	73,850	33
	<u>108,805</u>	<u>100</u>	<u>67,052</u>	<u>100</u>	<u>307,164</u>	<u>100</u>	<u>226,335</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Over three years	27,240	79	27,240	79	69,823	95	69,823	95
	<u>27,240</u>	<u>25</u>	<u>27,240</u>	<u>41</u>	<u>69,823</u>	<u>23</u>	<u>69,823</u>	<u>31</u>
Other receivables, net	<u>81,565</u>		<u>39,812</u>		<u>237,341</u>		<u>156,512</u>	

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

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Opening balance	27,240	27,240	69,823	69,823
Add: Charge for the period/year	–	–	–	–
Less: Write-off during the period/year	–	–	–	–
Closing balance	<u>27,240</u>	<u>27,240</u>	<u>69,823</u>	<u>69,823</u>

During the six months ended 30 June 2005, the Group and the Company did not make a full or substantial provision against any individually significant other receivables.

During the six months ended 30 June 2005, the Group and the Company had no individually significant write-off or write-back of bad and doubtful debts which were fully or substantially provided for in the prior years.

7. Other receivables (continued)

Other receivables due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 28.

As at 30 June 2005, the amount and proportion of the Group's five largest other receivables over the total net other receivables are as follows:

	At 30 June 2005		At 31 December 2004	
	Rmb'000	%	Rmb'000	%
Total of the five largest other receivables	30,660	28	22,715	34

8. Payments in advance

All payments in advance were aged within one year.

Payments in advance to shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 28.

9. Inventories

	The Group		The Company	
	At 30 June 2005	At 31 December 2004	At 30 June 2005	At 31 December 2004
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Raw materials	770,623	957,823	721,397	887,372
Work in progress	109,876	128,745	104,088	123,282
Finished goods	359,471	321,047	262,179	262,658
Goods in transit	34,038	41,552	34,038	–
Spare parts and consumables	233,997	234,279	210,306	210,009
	1,508,005	1,683,446	1,332,008	1,483,321
Less: Provision for diminution in value of inventories				
Raw materials	4,997	4,270	–	4,270
Finished goods	22,113	8,322	19,523	6,722
Spare parts and consumables	57,151	44,290	57,151	44,290
	84,261	56,882	76,674	55,282
	1,423,744	1,626,564	1,255,334	1,428,039

9. Inventories (continued)

Provision for diminution in value of inventories:

	The Group			The Company		
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000
As at 1 January 2004	-	9,122	21,650	-	6,722	21,650
Add: Provision made during the year	4,270	-	22,640	4,270	-	22,640
Less: Transfer out due to sales during the year	-	800	-	-	-	-
As at 31 December 2004	<u>4,270</u>	<u>8,322</u>	<u>44,290</u>	<u>4,270</u>	<u>6,722</u>	<u>44,290</u>
As at 1 January 2005	4,270	8,322	44,290	4,270	6,722	44,290
Add: Provision made during the period	4,997	13,791	12,861	-	12,801	12,861
Less: Transfer out due to sales during the period	4,270	-	-	4,270	-	-
As at 30 June 2005	<u>4,997</u>	<u>22,113</u>	<u>57,151</u>	<u>-</u>	<u>19,523</u>	<u>57,151</u>

All the above inventories are purchased from others or self-produced.

During the six months ended 30 June 2005, the Group and the Company recognised the cost of inventories as an expense, including cost of inventories sold, are Rmb 7,442,983,000 (2004: Rmb 5,326,231,000) and Rmb 7,029,952,000 (2004: Rmb 5,021,679,000) respectively.

10. Long-term investments

Long-term equity investments

	The Group			Total Rmb'000
	Equity- investment difference Rmb'000 note (b)	Other unlisted equity investment Rmb'000 note (c)		
As at 1 January 2005 and 30 June 2005	(29,341)	62,500		33,159
The Company				
	Investments in subsidiaries Rmb'000 note (a)	Equity- investment difference Rmb'000 note (b)	Other unlisted equity investment Rmb'000 note (c)	Total Rmb'000
As at 1 January 2005	253,316	(29,341)	62,500	286,475
Add: Investment income accounted for under the equity method (note 26)	(635)	–	–	(635)
Less: Cash dividend received (note (d))	(48,000)	–	–	(48,000)
As at 30 June 2005	204,681	(29,341)	62,500	237,840

(a) The particulars of subsidiaries, all of which are companies established and operating in the PRC, which principally affected the results or assets of the Group as at 30 June 2005 are as follows:

Name of company	Registered capital (‘000)	Percentage of equity held		Type of legal entity	Principal activity
		directly by the Company	by subsidiary		
Foshan Chemical Fibre United Company Limited	Rmb 32,933	90%	10%	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 ("Yihua Kangqi")	Rmb 60,000	95%	5%	Limited company	Investment holding and trading of polyester chips and polyester fibre

10. Long-term 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 amortization was currently suspended as those subsidiaries with accumulated losses had caused the carrying amounts of the relevant long-term equity investments reduced to zero. The remaining period of amortisation is approximately 9 years.
- (c) Other unlisted equity investment

As at 30 June 2005, the Group's and the Company's other unlisted equity investment is as follows:

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

- (d) During the six months ended 30 June 2005, one subsidiary of the Company (Yihua Kangqi) appropriated a cash dividend of Rmb 48,000,000 to the Company, pursuant to its shareholders' board minutes approved on 17 March 2005. At 30 June 2005, the Company received all the cash dividend as mentioned above.
- (e) Receivables due after one year

	The Company	
	At 30 June 2005 <i>Rmb'000</i>	At 31 December 2004 <i>Rmb'000</i>
Amount due from a subsidiary	800,000	800,000
Less: Provision for impairment	343,247	298,109
	456,753	501,891

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. The Company has made a provision for this amount based on the subsidiary's financial position.

- (f) As at 30 June 2005, the Group's and the Company's proportion of the equity investments to the net assets were 0.4% (2004: 0.4%) and 2.7% (2004: 3.1%) respectively.

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 or valuation:				
As at 1 January 2005	2,588,731	12,320,249	598,946	15,507,926
Additions	13	–	17	30
Transfer from construction in progress (<i>note 12</i>)	–	36,584	5,827	42,411
Disposals	(3,920)	(12)	(4,496)	(8,428)
As at 30 June 2005	2,584,824	12,356,821	600,294	15,541,939
Accumulated depreciation:				
As at 1 January 2005	776,179	5,968,610	501,545	7,246,334
Charge for the period	39,832	362,707	33,814	436,353
Written back on disposal	(1,362)	(12)	(3,345)	(4,719)
As at 30 June 2005	814,649	6,331,305	532,014	7,677,968
Provision for impairment:				
As at 1 January 2005	453	65,530	745	66,728
Provision made during the period (<i>note (a)</i>)	–	386,725	5,135	391,860
As at 30 June 2005	453	452,255	5,880	458,588
Net book value:				
As at 30 June 2005	1,769,722	5,573,261	62,400	7,405,383
As at 31 December 2004	1,812,099	6,286,109	96,656	8,194,864

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 or valuation:				
As at 1 January 2005	2,269,372	11,503,632	546,681	14,319,685
Transfer from construction in progress (note 12)	–	35,578	5,733	41,311
Disposals	(3,161)	(11)	(4,282)	(7,454)
As at 30 June 2005	2,266,211	11,539,199	548,132	14,353,542
Accumulated depreciation:				
As at 1 January 2005	695,590	5,521,824	472,817	6,690,231
Charge for the period	37,384	335,196	32,462	405,042
Written back on disposal	(1,219)	(11)	(3,137)	(4,367)
As at 30 June 2005	731,755	5,857,009	502,142	7,090,906
Provision for impairment:				
As at 1 January 2005	453	65,530	745	66,728
Provision made during the period (note (a))	–	386,725	5,135	391,860
As at 30 June 2005	453	452,255	5,880	458,588
Net book value:				
As at 30 June 2005	1,534,003	5,229,935	40,110	6,804,048
As at 31 December 2004	1,573,329	5,916,278	73,119	7,562,726

- (a) In order to enhance the diversification of the Company's filament products and improve the relevant manufacturing processes, the Company entered into an equity joint venture contract ("the JV Contract") with Unifi Asia Holding SRL ("Unifi Asia") on 10 June 2005 to establish a joint venture ("JV") in the PRC to undertake the manufacture of polyester filament products in the PRC. The JV will be a jointly controlled entity, which is 50% owned by the Company and 50% owned by Unifi Asia. The name of the JV shall be Yihua Unifi Fibre Industry Company Limited ("Yihua Unifi") and its registered capital will be USD 30,000,000.

As required by the relevant PRC rules and regulations and the relevant provisions in the JV Contract, a revaluation of the Company's assets to be contributed or sold to the JV was carried out as of 31 March 2005 by an independent valuer registered in the PRC. Based on the revaluation report issued by Beijing China Enterprise Appraisal Company Limited dated 25 May 2005, which was based on the depreciated replacement costs method, an impairment loss of Rmb 391,860,000 was recognized in the income statement (included in "Non-operating expenses") during the six months ended 30 June 2005. The gross carrying amount of the relevant fixed assets as of 30 June 2005 was Rmb 1,773,938,000.

11. Fixed assets (continued)

- (b) All the Group's buildings are located in the PRC.
- (c) As at 30 June 2005, the original cost of fully depreciated fixed assets in use was Rmb 877,420,000 (2004: Rmb 747,992,000).
- (d) The Group obtained land use rights through purchase and contribution from its shareholder.

12. Construction in progress

As at 30 June 2005, the Group's and the Company's major construction in progress is as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance	Additions for the period <i>Rmb'000</i>	Transfer	Balance	Source of fund	Percentage of completion	Interest capitalised during the period <i>Rmb'000</i>
		as at 1 January 2005 <i>Rmb'000</i>		to fixed assets for the period <i>Rmb'000</i> (note 11)	as at 30 June 2005 <i>Rmb'000</i>			
Specialised polyester chip project with an annual capacity of 160,000 tonnes	143,400	60,136	34,206	-	94,342	Own fund	66%	-
Improvements and expansion of existing plants	214,164	189,685	26,465	(41,311)	174,839	Own fund	82%	-
Other construction projects	3,775	2,535	198	-	2,733	Own fund	72%	-
Total for the Company		252,356	60,869	(41,311)	271,914			
Miscellaneous projects of the subsidiaries		1,607	865	(1,100)	1,372	Own fund		
Total for the Group		<u>253,963</u>	<u>61,734</u>	<u>(42,411)</u>	<u>273,286</u>			

For the six months ended 30 June 2005, there was no capitalized borrowing costs (2004: Rmb 3,342,000).

13. Construction materials

	The Group and the Company	
	At 30 June 2005 <i>Rmb'000</i>	At 31 December 2004 <i>Rmb'000</i>
Equipment and accessories	<u>5,531</u>	<u>11,230</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:			
As at 1 January 2005 and as at 30 June 2005	280,000	141,097	421,097
Accumulated amortisation:			
As at 1 January 2005	35,000	125,080	160,080
Charge for the period	14,000	7,055	21,055
As at 30 June 2005	49,000	132,135	181,135
Net book value:			
As at 30 June 2005	231,000	8,962	239,962
As at 31 December 2004	245,000	16,017	261,017

The Company acquired patent rights from third parties in 1995, 1996 and 1999 respectively, which costs are amortised over ten years.

In 2003, the Company acquired technology licences to operate the 450,000-tonne PTA plant from third parties, which cost is amortised over ten years.

15. Long-term deferred expenses

	The Group and the Company	
	At	At
	30 June	31 December
	2005	2004
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cost:		
Opening and closing balance	31,560	31,560
Accumulated amortisation:		
Opening balance	31,340	31,256
Charge for the period/year	42	84
Closing balance	31,382	31,340
Net book value:		
Closing balance	178	220
Opening balance	220	304

The amortisation period of long-term deferred expenses is ten 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 3.85% (2004: 3.6%) and 3.84% (2004: 3.9%) respectively as at 30 June 2005. Except for short-term loans totalling USD 7,662,000 (approximately Rmb 63,421,000), the other short-term bank loans are denominated in Renminbi. Except for the short-term loans disclosed in note 4 & 29, the Group's other short-term bank loans are credit loans, unsecured and not guaranteed. As at 30 June 2005, the Group and the Company had no significant overdue short-term bank loan (2004: Rmb nil).

Short-term bank loans from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 28.

(b) Long-term bank loans

Lender	Period	The Group and the Company		At	At
		Interest rate per annum	Interest type	30 June 2005 Rmb'000	31 December 2004 Rmb'000
Industrial and Commercial Bank of China	Due in 2005	5.184%	Fixed	100,000	200,000
Industrial and Commercial Bank of China	Due in 2006	5.184%	Fixed	90,000	90,000
China Construction Bank	Due in 2007	5.184%	Fixed	100,000	100,000
Total long-term bank loans				290,000	390,000
Less: Long-term bank loans (current portion)				100,000	200,000
Long-term bank loans (long-term portion)				190,000	190,000

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 2005 Rmb'000	At 31 December 2004 Rmb'000
Due within one year	100,000	200,000
Due between one to two years	90,000	90,000
Between two to three years	100,000	100,000
	290,000	390,000

As at 30 June 2005, the Group's and the Company's long-term bank loans are credit loans, unsecured and not guaranteed.

As at 30 June 2005, there were no long-term loans from shareholders who hold 5% or more of the voting shares of the Company.

17. Bills payable, accounts payable, receipts in advance and other creditors

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

	The Group				The Company			
	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%	At 30 June 2005 Rmb'000	%	At 31 December 2004 Rmb'000	%
Bills payable								
Bank acceptance bills	8,584	7	3,462	100	-	-	-	-
Customer acceptance bills	120,000	93	-	-	120,000	100	-	-
Total	128,584	100	3,462	100	120,000	100	-	-

Bills payable were aged within one year.

As at 30 June 2005, no individually significant balance, aged over three years, was included in the Group's and the Company's accounts payable and other creditors.

As at 30 June 2005, no individually significant balance, aged over one year, was included in the Group's and the Company's receipts in advance.

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

18. Dividend payable

Name of investors	The Group and the Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Sinopec Corp	42,000	-
CITIC	18,000	-
"A" shares (circulating shares)	5,000	-
"H" shares	35,000	-
Total	100,000	-

19. Other payables

	Charge rate	The Group		The Company	
		At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Education surcharge	note 3(a)	21,806	24,268	21,754	24,268
Others		297	530	84	83
Total		22,103	24,798	21,838	24,351

20. Accrued expenses

Accrued expenses mainly represent interest accrual.

21. Share capital

	The Group and the Company	
	At	At
	30 June	31 December
	2005	2004
	Rmb'000	Rmb'000
Registered, issued and paid up capital:		
2,400,000,000 "Legal person A" shares of Rmb 1.00 each	2,400,000	2,400,000
200,000,000 "Social public A" shares of Rmb 1.00 each	200,000	200,000
1,400,000,000 "H" shares of Rmb 1.00 each	1,400,000	1,400,000
	4,000,000	4,000,000

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

22. Capital reserve

	The Group and the Company	
	At	At
	30 June	31 December
	2005	2004
	Rmb'000	Rmb'000
Share premium	3,078,825	3,078,825
Other capital reserve	15,013	15,013
Total	3,093,838	3,093,838

23. Surplus reserves

	The Group and the Company			
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
As at 1 January 2004	489,762	325,127	594,547	1,409,436
Transfer from distributable profits	23,284	23,284	-	46,568
As at 31 December 2004 and 30 June 2005	513,046	348,411	594,547	1,456,004

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

No transfers were made for the statutory surplus reserve, the statutory public welfare fund or the discretionary surplus reserve for the six months ended 30 June 2005.

24. Sales and cost of sales from principal activities

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

The Group's profits are primarily attributable to the production and sales of chemical fibre and chemical fibre raw materials in the PRC. Accordingly, no segment analysis is provided by the Group.

For the six months ended 30 June 2005, revenue from sales to the top five customers was Rmb 1,216,000,000 (2004: Rmb 967,000,000) which accounted for 16% (2004: 16%) of the total sales from principal activities of the Group.

25. Financial expenses

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Interest expenses incurred	42,504	46,940	39,675	44,638
Less: Borrowing costs capitalised	–	–	–	–
Net interest expenses	42,504	46,940	39,675	44,638
Interest income	(2,165)	(7,905)	(5,285)	(11,160)
Net exchange gains	(108)	(878)	(164)	(912)
Other financial expenses	512	6,791	363	6,698
Total	<u>40,743</u>	<u>44,948</u>	<u>34,589</u>	<u>39,264</u>

26. Investment income/(loss)

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Accounted for the investment (loss)/profit of subsidiaries under the equity method (note 10)	–	–	(635)	6,769
Provision for impairment for receivable due after one year (note 10(e))	–	–	(45,138)	(3,844)
Amortisation of equity investment difference (note 10(b))	–	–	–	–
Dividend from other equity investment	–	3,000	–	3,000
Total	<u>–</u>	<u>3,000</u>	<u>(45,773)</u>	<u>5,925</u>

27. Non-operating expenses

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Provision for impairment of fixed assets	391,860	–	391,860	–
Loss on disposal of fixed assets	53	159	47	159
Staff reduction expenses	9,681	–	9,681	–
Others	5,147	6,726	4,045	6,319
Total	<u>406,741</u>	<u>6,885</u>	<u>405,633</u>	<u>6,478</u>

28. 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 activities	:	Exploring for, extracting and selling crude oil and natural gas, oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Relationship with the Company	:	The immediate holding company
Types of legal entity	:	Joint stock limited company
Legal 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 2004 and 30 June 2005	<u>1,680,000,000</u>	<u>42%</u>

(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	With a common ultimate holding company
Sinopec Zhenhai Refining and Chemical Company Limited (“ Zhenhai ”)	With a common immediate holding company
Sinopec International Company Limited	With a common immediate holding company

28. Related parties and related party transactions (continued)

(c) Significant transactions between the Group and the related parties are summarised as follows:

	For the six months ended 30 June	
	2005 Rmb'000	2004 Rmb'000
Yangzi		
– Purchase of raw materials	<u>1,586,721</u>	<u>1,382,121</u>
Zhenhai		
– Purchase of raw materials	<u>1,324,657</u>	<u>799,444</u>
Yihua and its subsidiaries (“Yihua Group”)		
– Sales	269,592	357,243
– Purchases	56,201	52,654
– Miscellaneous service fee charges (see note below)	44,300	66,151
– Miscellaneous service fee income (see note below)	9,000	9,162
– Trademark licence fee (see note below)	–	5,000
– Payments relating to the construction and maintenance work	–	19,992
	<u>–</u>	<u>–</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	
	2005 Rmb'000	2004 Rmb'000
Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)		
– Service charges for the purchase of raw materials	12,071	–
– Purchase of equipment	–	8,725
– Purchase of raw materials	<u>127,296</u>	<u>115,919</u>
CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries, Sinopec Finance)		
– Payments for construction work	–	9,711
– Purchase of raw materials	56,301	33,597
– Insurance premium	<u>17,076</u>	<u>17,090</u>

28. Related parties and related party transactions (continued)

- (c) Significant transactions between the Group and the related parties are summarised as follows:
(continued)

	For the six months ended 30 June	
	2005	2004
	Rmb'000	<i>Rmb'000</i>
Sinopec Finance		
– Interest income	257	3,672
– Interest expense	509	253
	<u> </u>	<u> </u>
CITIC Industrial Bank		
– Interest income	167	270
– Interest expense	–	17
	<u> </u>	<u> </u>

The Directors of the Company are of the opinion that the above transactions were carried out in the normal course of business and on normal commercial term.

- (d) Deposits with and loan from Sinopec Finance

	At	At
	30 June	31 December
	2005	2004
	Rmb'000	<i>Rmb'000</i>
Cash at bank	13,301	21,825
Short-term loan	–	20,000
	<u> </u>	<u> </u>

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

	At	At
	30 June	31 December
	2005	2004
	Rmb'000	<i>Rmb'000</i>
Cash at bank	54,783	30,059
Short-term loan	–	8,000
	<u> </u>	<u> </u>

28. Related parties and related party transactions (continued)

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

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Payments in advance	241	6,694
Other receivables	2,783	1,312
Accounts payables	(70,162)	(50,024)
Other creditors	-	(2,042)
Bills payable	(120,000)	-
Dividend payable	(42,000)	-
	(229,138)	(44,060)

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

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Accounts receivable	5,353	5,119
Accounts payable	(12,314)	(11,832)
Receipts in advance	(1,673)	(2,316)
Other creditors	(1,211)	(442)
	(9,845)	(9,471)

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

	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Dividend payable	(18,000)	-

29. Contingent liabilities

As at 30 June 2005, contingent liabilities in respect of guarantees given to banks by the Company in respect of banking credit facilities granted to a wholly-owned subsidiary amounted to Rmb 116,660,000 (at 31 December 2004: Rmb 147,968,000).

30. Capital commitments

Capital commitments relate primarily to construction of building, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding as at 30 June 2005 as follows:

	The Group		The Company	
	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000	At 30 June 2005 Rmb'000	At 31 December 2004 Rmb'000
Authorised but not contracted for	166,698	562,908	166,698	562,908

31. 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 2005	At 31 December 2004
Yizheng Municipal Government Jiangsu Province	Employees of the Company	18%	18%
Foshan Municipal Government Guangdong Province	Employees of Foshan Polyester	10%	10%

All employees are entitled to retirement benefits equal to a fixed proportion of their salaries and benefits in kind prevailing at their normal retirement ages.

Other than the above, pursuant to a document "Lao Bu Fa [1995] No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. 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 2005 was 9% (2004: 9%).

The Group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees as described above.

32. Post balance sheet events

As mentioned in note 11 (a), the Company entered into the JV Contract with Unifi Asia on 10 June 2005 to establish a joint venture, Yihua Unifi, in China. Yihua Unifi has obtained the relevant approvals from the PRC government. According to the JV Contract, Yihua Unifi's period of operations is 40 years and its principal activities are manufacturing, processing and marketing high value-added differential polyester filament products. Yihua Unifi commenced operations on 3 August 2005.

33. Non-recurring items

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 and the Company's non-recurring items are summarised as follows:

	The Group	
	For the six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Non-recurring items for the period		
Provision for impairment of fixed assets	391,860	–
Net gains on disposal of fixed assets	(67)	(201)
Staff reduction expenses	9,681	–
Donations	330	420
Non-operating income (excluding gains on disposal of fixed assets)	(1,236)	(2,656)
Other non-operating expenses	4,817	6,306
	405,385	3,869
Less: Tax effect on above items	(44,308)	(580)
Total	361,077	3,289

	The Company	
	For the six months ended 30 June	
	2005	2004
	Rmb'000	Rmb'000
Non-recurring items for the period		
Provision for impairment of fixed assets	391,860	–
Net gains on disposal of fixed assets	(73)	(201)
Staff reduction expenses	9,681	–
Donations	330	420
Non-operating income (excluding gains on disposal of fixed assets)	(730)	(2,412)
Other non-operating expenses	3,715	5,899
	404,783	3,706
Less: Tax effect on above items	(44,217)	(556)
Total	360,566	3,150

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

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 IFRSs. A summary of the major differences is as follows:

- (i) Under IFRSs, land use rights are carried at historical cost less accumulated amortisation and impairment losses. Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount less accumulated amortisation and impairment losses.
- (ii) Under IFRSs, 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. 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.
- (iii) Under IFRSs, the carrying amount of negative goodwill as at 1 January 2005 that arose from a business combination for which the agreement date was before 31 March 2004 was derecognized as at that date with a corresponding adjustment to the opening balance of retained earnings as at 1 January 2005. Under the PRC Accounting Rules and Regulations, for negative goodwill arising from acquisition of subsidiaries before the issuance of Cai Kuai [2003] No. 10, it was carried forward in an “Equity-investment difference” account and no amortisation was allowed until 1 January 1998. However, the amortisation was suspended in 2004 and 2005 as the Company’s relevant subsidiaries had incurred accumulated losses which caused the carrying amounts of the relevant long-term equity investments reduced to zero.
- (iv) Under IFRSs, with effect from 1 January 2005, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent. Under the PRC Accounting Rules and Regulations, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from liabilities and shareholders’ funds. Minority interests in the results of the Group for the period were also separately presented in the consolidated income statement as a deduction before arriving at the net loss/profit for the period.

(C) Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs: (continued)

Reconciliation of the (loss)/profit for the period and total equity of the Group in the interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs are summarised below:

		For the six months ended 30 June	
		2005	2004
		Rmb'000	Rmb'000
	<i>Note</i>		
(Loss)/profit for the period under the PRC Accounting Rules and Regulations		(462,431)	194,517
Adjustments:			
– Reversal of amortisation of revaluation of land use rights	<i>(i)</i>	2,640	2,640
– Capitalisation of general borrowing costs	<i>(ii)</i>	2,936	573
– Negative goodwill	<i>(iii)</i>	–	1,522
– Minority interests	<i>(iv)</i>	4	3,497
– Effects of the above adjustments on taxation		(836)	(482)
(Loss)/profit for the period under IFRSs		(457,687)	202,267
		At	At
		30 June	31 December
		2005	2004
	<i>Note</i>	Rmb'000	Rmb'000
Total equity under the PRC Accounting Rules and Regulations		8,705,724	9,268,155
Adjustments:			
– Revaluation of land use rights	<i>(i)</i>	(202,400)	(205,040)
– Capitalisation of general borrowing costs	<i>(ii)</i>	21,823	18,887
– Negative goodwill	<i>(iii)</i>	29,341	10,397
– Minority interests	<i>(iv)</i>	49,983	52,529
– Effects of the above adjustments on taxation		27,087	27,923
Total equity under IFRSs		8,631,558	9,172,851

9. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE 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 on Corporate Governance Practices as set out by the HKSE in Appendix 14 to the Listing Rules during the reporting period.

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 29 August 2005 (Monday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and the relevant regulations during normal office hours:

1. The original copy of the interim report for the six months ended 30 June 2005 signed by the Chairman and the General Manager of the Company;
2. The interim financial report of the Company for the six months ended 30 June 2005 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 reporting period.

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