



The Shareholders of Sinopec Yizheng Chemical Fibre Company Limited (“the Company”):

We have audited the Company's consolidated balance sheet and balance sheet as at 31 December 2005, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended on pages 104 to 149. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards for Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2005, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows of the Company for the year then ended.

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*Certified Public Accountants
Registered in The People's Republic of China*

Hu Qiong

Yu Xiaojun

31 March 2006

Consolidated Balance Sheet

As at 31 December 2005

(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000 (Note 36)
Assets			
Current assets			
Cash at bank and on hand	4	398,533	358,986
Bills receivable	5	820,731	310,550
Accounts receivable	6	189,407	175,537
Other receivables	7	111,881	39,812
Payments in advance	8	17,328	88,096
Inventories	9	1,287,936	1,637,794
Total current assets		2,825,816	2,610,775
Long-term investments			
Long-term equity investments (Including: equity investment difference (credit) of Rmb nil (2004: Rmb 29,341,000))	10	62,500	33,159
Fixed assets			
Cost		14,064,457	15,507,926
Less: Accumulated depreciation		7,152,305	7,246,334
Net book value before provision for impairment		6,912,152	8,261,592
Less: Provision for impairment of fixed assets		417,621	66,728
Net book value after provision for impairment	11	6,494,531	8,194,864
Construction in progress	12	270,963	253,963
Total fixed assets		6,765,494	8,448,827
Intangible assets and other assets			
Intangible assets	13	247,655	261,017
Long-term deferred expenses	14	–	220
Total intangible assets and other assets		247,655	261,237
Deferred taxation			
Deferred tax assets	3(e)	83,410	28,536
Total assets		9,984,875	11,382,534

The notes on pages 114 to 149 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000 (Note 36)
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	15	82,591	309,726
Bills payable	16	5,501	3,462
Accounts payable	16	507,729	450,369
Receipts in advance	16	343,802	205,171
Accrued payroll		164,279	152,697
Staff welfare payable		54,430	55,960
Taxes payable	3(d)	12,931	191,570
Other payables	17	22,799	24,798
Other creditors	16	354,590	276,883
Accrued expenses	18	279	1,214
Long-term liabilities due within one year	19	97,431	200,000
Total current liabilities		<u>1,646,362</u>	<u>1,871,850</u>
Long-term liabilities			
Long-term loans	20	50,000	190,000
Long-term payables	21	12,834	–
Total long-term liabilities		<u>62,834</u>	<u>190,000</u>
Total liabilities		<u>1,709,196</u>	<u>2,061,850</u>
Minority interests			
		<u>52,104</u>	<u>52,529</u>
Shareholders' funds			
Share capital	22	4,000,000	4,000,000
Capital reserve	23	3,103,537	3,093,838
Surplus reserves (Including statutory public welfare fund of Rmb 348,411,000 (2004: Rmb 348,411,000))	24	1,456,004	1,456,004
(Accumulated losses)/undistributed profits (Including cash dividends of Rmb nil (2004: Rmb 100,000,000) approved and appropriated after the balance sheet date)	25	(335,966)	718,313
Total shareholders' funds		<u>8,223,575</u>	<u>9,268,155</u>
Total liabilities and shareholders' funds		<u>9,984,875</u>	<u>11,382,534</u>

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing
Director

Xu Xiu-yun
Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Balance Sheet

As at 31 December 2005

(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000 (Note 36)
Assets			
Current assets			
Cash at bank and on hand	4	281,947	192,239
Bills receivable	5	748,856	261,719
Accounts receivable	6	171,848	126,707
Other receivables	7	319,226	156,512
Payments in advance	8	3,923	75,471
Inventories	9	1,157,898	1,439,269
Total current assets		<u>2,683,698</u>	<u>2,251,917</u>
Long-term investments			
Long-term equity investments (Including: equity investment difference (credit) of Rmb nil (2004: Rmb 29,341,000))	10	352,187	286,475
Receivables due after 1 year	10(e)	2,712	501,891
Total long-term investments		<u>354,899</u>	<u>788,366</u>
Fixed assets			
Cost		12,635,784	14,319,685
Less: Accumulated depreciation		6,536,333	6,690,231
Net book value before provision for impairment		6,099,451	7,629,454
Less: Provision for impairment of fixed assets		25,860	66,728
Net book value after provision for impairment	11	6,073,591	7,562,726
Construction in progress	12	269,215	252,356
Total fixed assets		<u>6,342,806</u>	<u>7,815,082</u>
Intangible assets and other assets			
Intangible assets	13	224,351	261,017
Long-term deferred expenses	14	–	220
Total intangible assets and other assets		<u>224,351</u>	<u>261,237</u>
Deferred taxation			
Deferred tax assets	3(e)	83,410	22,907
Total assets		<u>9,689,164</u>	<u>11,139,509</u>

The notes on pages 114 to 149 form part of these financial statements.

Balance Sheet

As at 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000 (Note 36)
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	15	–	213,878
Accounts payable	16	499,199	389,685
Receipts in advance	16	347,299	197,116
Accrued payroll		155,720	147,181
Staff welfare payable		47,165	46,878
Taxes payable	3(d)	4,638	185,058
Other payables	17	21,842	24,351
Other creditors	16	235,767	269,339
Accrued expenses	18	279	1,214
Long-term liabilities due within one year	19	90,000	200,000
Total current liabilities		1,401,909	1,674,700
Long-term liabilities			
Long-term loans	20	50,000	190,000
Total liabilities		1,451,909	1,864,700
Shareholders' funds			
Share capital	22	4,000,000	4,000,000
Capital reserve	23	3,113,182	3,093,838
Surplus reserves (Including: statutory public welfare fund of Rmb 348,411,000 (2004: Rmb 348,411,000))	24	1,456,004	1,456,004
(Accumulated losses)/undistributed profits (Including cash dividends of Rmb nil (2004: Rmb 100,000,000) approved and appropriated after the balance sheet date)	25	(331,931)	724,967
Total shareholders' funds		8,237,255	9,274,809
Total liabilities and shareholders' funds		9,689,164	11,139,509

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Xu Xiu-yun
Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Consolidated Income and Profit Appropriation Statement

For the year ended 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000
Sales from principal activities	26	15,798,665	13,348,471
Less: Cost of sales from principal activities	26	15,246,152	12,150,105
Business taxes and surcharges	3(c)	38,555	45,548
Profit from principal activities		513,958	1,152,818
Add: Profit from other operations		2,288	8,432
Less: Operating expenses		210,503	177,406
General and administrative expenses		394,391	468,805
Financial expenses	27	56,630	75,289
Operating (loss)/profit		(145,278)	439,750
Add: Investment income	28	36,491	3,000
Non-operating income		23,088	6,041
Less: Non-operating expenses	29	911,550	182,222
(Loss)/profit before income tax		(997,249)	266,569
Less: Income tax	3(b)	(42,485)	32,783
Minority interests		(485)	2,549
Net (loss)/profit for the year		(954,279)	231,237
Add: Retained profits at the beginning of the year		718,313	633,644
(Accumulated losses)/retained profits available for distribution		(235,966)	864,881
Less: Transfer to statutory surplus reserve	24	–	23,284
Transfer to statutory public welfare fund	24	–	23,284
(Accumulated losses)/retained profits available for distribution to shareholders		(235,966)	818,313
Less: Cash dividends appropriated to shareholders	25	100,000	100,000
(Accumulated losses)/retained profits at the end of the year (Including cash dividends of Rmb nil (2004: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date)		(335,966)	718,313

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

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Managing Director

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Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Income and Profit Appropriation Statement

For the year ended 31 December 2005

(Prepared in accordance with the PRC Accounting Rules and Regulations)

	Note	2005 Rmb'000	2004 Rmb'000
Sales from principal activities	26	14,797,740	12,494,765
Less: Cost of sales from principal activities	26	14,290,048	11,375,393
Business taxes and surcharges	3(c)	37,341	44,540
Profit from principal activities		470,351	1,074,832
Add: Profit from other operations		5,945	6,388
Less: Operating expenses		170,981	147,822
General and administrative expenses		343,036	428,506
Financial expenses	27	46,533	64,221
Operating (loss)/profit		(84,254)	440,671
Less: Investment loss	28	503,551	4,276
Add: Non-operating income		24,031	5,173
Less: Non-operating expenses	29	453,026	180,200
(Loss)/profit before income tax		(1,016,800)	261,368
Less: Income tax	3(b)	(59,902)	28,524
Net (loss)/profit for the year		(956,898)	232,844
Add: Retained profits at the beginning of the year		724,967	638,691
(Accumulated losses)/retained profits available for distribution		(231,931)	871,535
Less: Transfer to statutory surplus reserve	24	–	23,284
Transfer to statutory public welfare fund	24	–	23,284
(Accumulated losses)/retained profits available for distribution to shareholders		(231,931)	824,967
Less: Cash dividends appropriated to shareholders	25	100,000	100,000
(Accumulated losses)/retained profits at the end of the year (Including cash dividends of Rmb nil (2004: Rmb 100,000,000) approved and appropriated to shareholders after the balance sheet date)		(331,931)	724,967

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Xu Xiu-yun
Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the
cash flow statement

Cash flows from operating activities:

	2005 Rmb'000
Cash received from sale of goods and rendering of services	18,745,896
Refund of taxes	6,755
Other cash received relating to operating activities	23,785
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Sub-total of cash inflows	18,776,436
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Cash paid for goods and services	16,354,929
Cash paid to and for employees	625,675
Cash paid for all types of taxes	773,144
Other cash paid relating to operating activities	376,427
	<hr/>
Sub-total of cash outflows	18,130,175
	<hr/>
Net cash inflow from operating activities	646,261

(i)

Cash flows from investing activities:

Cash received from return on investments	3,500
Net cash received from disposal of fixed assets	134,962
Other cash received relating to investing activities	15,544
Proceeds from capital injection by a venturer	60,792
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Sub-total of cash inflows	214,798
	<hr/>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets	213,680
Other cash paid for acquisition of fixed assets, construction in progress and other long-term assets by a jointly controlled entity	16,316
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Sub-total of cash outflows	229,996
	<hr/>
Net cash outflow from investing activities	(15,198)

Cash flows from financing activities:

Cash received from bank loans	4,336,443
Cash received from bank loans of a jointly controlled entity	177,500
Cash received from borrowings by a jointly controlled entity from its foreign investor	60,658
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Sub-total of cash inflows	4,574,601
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Cash repayment of borrowings	4,991,078
Cash paid for dividends distribution or repayment of interest	163,681
Cash paid for interest by a jointly controlled entity	323
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Sub-total of cash outflows	5,155,082
	<hr/>
Net cash outflow from financing activities	(580,481)

Net increase in cash and cash equivalents

(ii)

50,582

The notes on pages 114 to 149 form part of these financial statements.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the cash flow statement

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

	2005 Rmb'000
Net loss	(954,279)
Add: Provision for bad and doubtful debts	6,749
Write-back of provision for inventories	(29,281)
Provision for inventories	52,849
Provision for impairment of fixed assets	783,621
Depreciation of fixed assets	818,083
Amortisation of intangible assets	39,017
Amortisation of long-term deferred expenses	220
Gains arising from investments	(36,491)
Financial expenses	55,620
Net losses on disposal of fixed assets	28,967
Deferred tax assets	(54,874)
Decrease in gross inventories	326,290
Increase in gross operating receivables	(472,773)
Increase in operating payables	83,028
Minority interests	(485)
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Net cash inflow from operating activities	646,261

(ii) Net increase in cash and cash equivalents:

Cash and cash equivalents at the end of the year (note 4)	398,533
Less: Cash and cash equivalents at the beginning of the year (note 4)	347,951
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Net increase in cash and cash equivalents	50,582

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

Xu Zheng-ning
Chairman
(Legal Representative)

Xiao Wei-zhen
Managing Director

Xu Xiu-yun
Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the
cash flow statement

Cash flows from operating activities:

Cash received from sale of goods and rendering of services		16,937,271
Refund of taxes		6,298
Other cash received relating to operating activities		23,727
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Sub-total of cash inflows		16,967,296
		<hr/>
Cash paid for goods and services		14,756,868
Cash paid to and for employees		575,092
Cash paid for all types of taxes		719,237
Other cash paid relating to operating activities		306,880
		<hr/>
Sub-total of cash outflows		16,358,077
		<hr/>
Net cash inflow from operating activities	(i)	609,219

Cash flows from investing activities:

Cash received from return on investments		51,500
Net cash received from disposal of fixed assets		249,636
Other cash received relating to investing activities		9,816
		<hr/>
Sub-total of cash inflows		310,952
		<hr/>
Cash paid for acquisition of fixed assets, construction in progress and other long-term assets		211,285
		<hr/>
Sub-total of cash outflow		211,285
		<hr/>
Net cash inflow from investing activities		99,667

Cash flows from financing activities:

Cash received from bank loans		4,025,153
		<hr/>
Sub-total of cash inflows		4,025,153
		<hr/>
Cash repayment of borrowings		4,489,031
Cash paid for dividends distribution or repayment of interest		155,300
		<hr/>
Sub-total of cash outflows		4,644,331
		<hr/>
Net cash outflow from financing activities		(619,178)
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Net increase in cash and cash equivalents	(iii)	89,708

The notes on pages 114 to 149 form part of these financial statements.

Notes to the Cash Flow Statement

For the year ended 31 December 2005
(Prepared in accordance with the PRC Accounting Rules and Regulations)

Notes to the cash flow statement

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

Net loss	(956,898)
Add: Provision for bad and doubtful debts	392
Write-back of provision for inventories	(27,681)
Provision for inventories	30,262
Provision for impairment of fixed assets	391,860
Depreciation of fixed assets	757,714
Amortisation of intangible assets	38,004
Amortisation of long-term deferred expenses	220
Losses arising from investments	503,551
Financial expenses	44,549
Net losses on disposal of fixed assets	28,788
Deferred tax assets	(60,503)
Decrease in gross inventories	278,790
Increase in gross operating receivables	(510,366)
Increase in operating payables	90,537

Net cash inflow from operating activities

609,219

(ii) Investing and financing activities not requiring the use of cash or cash equivalents:

Investing in a new jointly controlled entity with fixed assets

121,584

(iii) Net increase in cash and cash equivalents:

Cash and cash equivalents at the end of the year (note 4)

281,947

Less: Cash and cash equivalents at the beginning of the year (note 4)

192,239

Net increase in cash and cash equivalents

89,708

These financial statements have been approved by the Board of Directors of the Company on 31 March 2006.

Xu Zheng-ning

Chairman

(Legal Representative)

Xiao Wei-zhen

Managing Director

Xu Xiu-yun

Supervisor of the Asset and
Accounting Department

The notes on pages 114 to 149 form part of these financial statements.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

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 governmental authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited (“**CEUPEC**”) became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company’s issued share capital) previously held by Yihua. China International Trust and Investment Corporation (“**CITIC**”) continues to hold the 18% of the Company’s issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares.

Following the State Council’s approval of the reorganisation of China Petrochemical Corporation (“**CPC**”) on 21 July 1998, CEUPEC joined CPC. As a result of the reorganisation, Yihua replaced CEUPEC as the holder of the 42% of the Company’s issued share capital, and CEUPEC dissolved.

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation (“**Sinopec 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, its subsidiaries and its jointly controlled entity (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 financial statements conform to the Accounting Standards for Business Enterprises, the Accounting Regulations for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (“**MOF**”).

(a) Accounting year

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

(b) Basis of consolidation

The Group 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 and its jointly controlled entity. 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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(b) Basis of consolidation (Continued)

A jointly controlled entity is an entity over which the Group can exercise joint control with other ventures. Joint control is the contractually agreed sharing of control over an economic activity. Investments in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expense caption of the Group's income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of Group's balance sheet.

Where the accounting policies adopted by the subsidiaries and the jointly controlled entity are different from the policies adopted by the Company, the financial statements of the subsidiaries and the jointly controlled entity 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 and the jointly controlled entity 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) and below), are dealt with in the income statement.

Exchange differences which arise during the start-up period are aggregated in the long-term deferred expenses and are then fully charged to the income statement in the month of commencement of operations.

(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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(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. Spare parts and consumables are amortised in full when received for use.

The Group adopts a perpetual inventory system.

(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 year 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 amortisation 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 unamortised balance is included in long-term equity investments at the year 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)).

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(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%
Machinery and equipment	8 to 22 years	3%
Motor vehicles and other fixed assets	4 to 10 years	3%

(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 amortisation 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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(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.

(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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(o) Provisions and contingent liabilities (Continued)

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) 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.

(iii) Interest income

Interest income is recognised on a time proportion basis according to the principal outstanding and the applicable rate.

(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 are recognised in the income statement when incurred.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

2. Significant accounting policies (Continued)

(t) Environmental preservation expenses

Environmental preservation expenses relating to circumstances arising as a result of the current or past businesses are recognised 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) Profit appropriation

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

(w) 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.

(x) 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 sale 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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

3. Taxation (Continued)

(b) Income tax

Income tax in the income statement represents:

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Provision for income tax for the year	10,615	63,285	–	54,397
Under/(over) provision for income tax in respect of preceding year	1,774	(1,966)	601	(2,966)
Deferred tax assets	12,389 (54,874)	61,319 (28,536)	601 (60,503)	51,431 (22,907)
Total	(42,485)	32,783	(59,902)	28,524

Pursuant to the directive "Cai Shui Zi [1994] No. 17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the Company's applicable income tax rate is 15%. Up to the approval date of the financial statements, the Company did not receive any notice from the MOF or the State Administration of Taxation that the 15% tax rate would be revoked in 2005. Hence, the Company continued to apply the tax rate of 15% in 2005. It is possible that the Company's tax rate will be increased in the future.

The income tax rate applicable to the Group's jointly controlled entity, Yihua UNIFI Fibre Industry Company Limited ("Yihua UNIFI") (note 10(b)), is 27%. Pursuant to the PRC Foreign Investment Enterprises and Foreign Enterprises Income Tax, starting from the year in which a taxable income is made after the offset of deductible losses incurred in prior years, the jointly controlled entity is entitled to a tax holiday of a tax free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years.

Except for the following subsidiaries granted with tax concession, the income tax rate applicable to the Group's other principal subsidiaries is 33%.

The subsidiaries granted with tax concession are set out below:

Name of subsidiaries	Preferential tax rate	Reason for granting concession
Yizheng Chemical Fibre Wuhan Kangqi Technical Trading Co., Ltd.	15%	Enterprise in Wuhan high and new technology development zone
Yizheng Chemical Fibre Xiamen Kangqi Co., Ltd.	15%	Enterprise in Xiamen special economic zone

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

3. Taxation (Continued)

(c) Business taxes and surcharges

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
City development tax	24,536	28,985	23,763	28,344
Education surcharge	14,019	16,563	13,578	16,196
	<u>38,555</u>	<u>45,548</u>	<u>37,341</u>	<u>44,540</u>

(d) Taxes payable

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Income tax payable	9,785	52,163	2,112	46,412
City development tax payable	25,051	38,664	24,769	38,495
VAT (recoverable)/payable	(33,910)	83,231	(34,159)	82,561
Others	12,005	17,512	11,916	17,590
	<u>12,931</u>	<u>191,570</u>	<u>4,638</u>	<u>185,058</u>

(e) Deferred tax assets and liabilities

Deferred tax assets

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Provision for bad and doubtful debts	1,375	10,234	1,375	4,605
Provision for inventories	8,679	8,293	8,679	8,293
Provision for impairment of fixed assets	3,879	10,009	3,879	10,009
Difference in depreciation	4,942	–	4,942	–
Tax loss	64,535	–	64,535	–
	<u>83,410</u>	<u>28,536</u>	<u>83,410</u>	<u>22,907</u>

Deferred tax liabilities

The Group has no significant deferred tax liability.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

4. Cash at bank and on hand

	The Group 2005		Rmb/ Rmb equivalent '000
	Original currency '000	Exchange rate	
<i>Cash on hand</i>			
Renminbi			31
<i>Cash at bank</i>			
Renminbi			300,455
Hong Kong Dollars	2,738	1.040	2,848
US Dollars	365	8.070	2,946
			<hr/>
Cash at bank and on hand			306,280
Deposits with related companies			92,253
			<hr/>
Cash and cash equivalents			<u>398,533</u>

	The Group 2004		Rmb/ Rmb equivalent '000
	Original currency '000	Exchange rate	
<i>Cash on hand</i>			
Renminbi			149
<i>Cash at bank</i>			
Renminbi			284,365
Hong Kong Dollars	758	1.067	809
US Dollars	2,627	8.290	21,779
			<hr/>
Cash at bank and on hand			307,102
Deposits with related companies			51,884
			<hr/>
			358,986
Less: Pledged time deposits			(11,035)
			<hr/>
Cash and cash equivalents			<u>347,951</u>

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 31 December 2005, the time deposits held by the Group were not pledged as security.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

4. Cash at bank and on hand (Continued)

	The Company 2005		
	Original currency '000	Exchange rate	Rmb/ Rmb equivalent '000
<i>Cash on hand</i>			
Renminbi			15
<i>Cash at bank</i>			
Renminbi			191,813
Hong Kong Dollars	136	1.040	141
US Dollars	62	8.070	497
			<hr/>
Cash at bank and on hand			192,466
Deposits with related companies			89,481
			<hr/>
Cash and cash equivalents			281,947

	The Company 2004		
	Original currency '000	Exchange rate	Rmb/ Rmb equivalent '000
<i>Cash on hand</i>			
Renminbi			38
<i>Cash at bank</i>			
Renminbi			144,886
Hong Kong Dollars	135	1.067	144
US Dollars	2,375	8.290	19,689
			<hr/>
Cash at bank and on hand			164,757
Deposits with related companies			27,482
			<hr/>
Cash and cash equivalents			192,239

The deposits with related companies represent deposits with CITIC Industrial Bank and Sinopec Finance Company Limited ("Sinopec Finance"). Deposits interest is calculated at market rate. Details are set out in note 30.

5. Bills receivable

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Bank acceptance bills	820,731	296,932	748,856	246,369
Customer acceptance bills	–	13,618	–	15,350
	<hr/>	<hr/>	<hr/>	<hr/>
Total	820,731	310,550	748,856	261,719

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

5. Bills receivable (Continued)

As at 31 December 2005, the above bank and customer acceptance bills 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 2005, the Group and the Company reclassified the misappropriated bills of Rmb 51,300,000 from bills receivables to other receivables. Management considered that part of these bills receivable amounting to Rmb 25,000,000 cannot be recovered and recognised the loss in the current year's income statement.

6. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	The Group				The Company			
	2005 Rmb'000	%	2004 Rmb'000	%	2005 Rmb'000	%	2004 Rmb'000	%
Accounts receivable								
Within 1 year	184,730	85	182,997	90	169,692	98	125,751	92
Between 1 to 2 years	20,912	10	5,487	3	2,867	2	1,776	1
Between 2 to 3 years	3,819	2	2,912	1	371	–	–	–
Over 3 years	5,464	3	12,229	6	–	–	9,176	7
	<u>214,925</u>	<u>100</u>	<u>203,625</u>	<u>100</u>	<u>172,930</u>	<u>100</u>	<u>136,703</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Within 1 year	–	–	12,181	7	–	–	–	–
Between 1 to 2 years	17,023	81	1,933	35	859	30	820	46
Between 2 to 3 years	3,190	84	1,747	60	223	60	–	–
Over 3 years	5,305	97	12,227	100	–	–	9,176	100
	<u>25,518</u>	<u>12</u>	<u>28,088</u>	<u>14</u>	<u>1,082</u>	<u>1</u>	<u>9,996</u>	<u>7</u>
Accounts receivable, net	<u>189,407</u>		<u>175,537</u>		<u>171,848</u>		<u>126,707</u>	

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

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Opening balance as at 1 January	28,088	15,237	9,996	11,966
Add: Charge for the year	6,744	14,823	392	–
Less: Write-off during the year	9,314	1,972	9,306	1,970
	<u>25,518</u>	<u>28,088</u>	<u>1,082</u>	<u>9,996</u>

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

6. Accounts receivable (Continued)

During 2005, the Group made an additional bad debt provision of Rmb 3,940,000 for prudence purpose (2004: Rmb 12,000,000) against one of its customers due to the further deterioration of the customer's financial status, which were not pledged with equivalent assets. The gross balance due from the customer was Rmb 15,940,000 as at 31 December 2005 (2004: Rmb 15,884,000).

During 2005, the Group and the Company had no individually significant write off or write back of bad and doubtful debts which had been fully or substantially provided for in the prior years.

Accounts receivable due from shareholders who hold 5% or more of the voting share of the Company are disclosed in note 30.

As at 31 December 2005, the amount and proportion of the Group's five largest accounts receivable over the total accounts receivable were as follows:

	2005		2004	
	Rmb'000	%	Rmb'000	%
Total of the five largest accounts receivable	<u>110,928</u>	<u>52</u>	<u>90,057</u>	<u>44</u>

7. Other receivables

Ageing analysis of other receivables is as follows:

	The Group				The Company			
	2005		2004		2005		2004	
	Rmb'000	%	Rmb'000	%	Rmb'000	%	Rmb'000	%
Other receivables								
Within 1 year	101,096	73	31,016	46	310,767	80	151,906	67
Between 1 to 2 years	4,593	3	842	1	4,455	1	389	–
Between 2 to 3 years	238	–	675	1	238	–	190	–
Over 3 years	33,199	24	34,519	52	73,589	19	73,850	33
	<u>139,126</u>	<u>100</u>	<u>67,052</u>	<u>100</u>	<u>389,049</u>	<u>100</u>	<u>226,335</u>	<u>100</u>
Less: Provision for bad and doubtful debts								
Over 3 years	27,245	82	27,240	79	69,823	95	69,823	95
	<u>27,245</u>	<u>20</u>	<u>27,240</u>	<u>41</u>	<u>69,823</u>	<u>18</u>	<u>69,823</u>	<u>31</u>
Other receivables, net	<u>111,881</u>		<u>39,812</u>		<u>319,226</u>		<u>156,512</u>	

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

7. Other receivables (Continued)

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

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Opening balance as at 1 January	27,240	27,240	69,823	69,823
Add: Charge for the year	5	—	—	—
Closing balance as at 31 December	<u>27,245</u>	<u>27,240</u>	<u>69,823</u>	<u>69,823</u>

During the year ended 31 December 2005, the Group and the Company had no individually significant other receivable been fully or substantially provided for.

During the year ended 31 December 2005, the Group and the Company had no individually significant write off or write back of bad and doubtful debts which had been fully or substantially provided for in the prior years.

Other receivables due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 30.

As at 31 December 2005, the amount and proportion of the Group's five largest other receivables over the total other receivables were as follows:

	2005		2004	
	Rmb'000	%	Rmb'000	%
Total of the five largest other receivables	<u>93,961</u>	<u>68</u>	<u>22,715</u>	<u>34</u>

8. Payments in advance

All payments in advance aged within one year.

Balances due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 30.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

9. Inventories

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Raw materials	659,803	957,823	621,110	887,372
Work in progress	118,725	128,745	111,307	123,282
Finished goods	334,296	321,047	254,863	262,658
Goods in transit	23,301	52,782	23,301	11,230
Spare parts and consumables	232,261	234,279	205,180	210,009
	<u>1,368,386</u>	<u>1,694,676</u>	<u>1,215,761</u>	<u>1,494,551</u>
Less: Provision for diminution in value of inventories				
Raw materials	11,197	4,270	4,600	4,270
Finished goods	5,513	8,322	4,523	6,722
Spare parts and consumables	63,740	44,290	48,740	44,290
	<u>80,450</u>	<u>56,882</u>	<u>57,863</u>	<u>55,282</u>
	<u>1,287,936</u>	<u>1,637,794</u>	<u>1,157,898</u>	<u>1,439,269</u>

Provision for diminution in value of inventories:

	The Group			
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Total Rmb'000
As at 1 January 2005	4,270	8,322	44,290	56,882
Add: Provision made during the year	11,197	13,791	27,861	52,849
Less: Transfer out due to sales during the year	4,270	16,600	8,411	29,281
As at 31 December 2005	<u>11,197</u>	<u>5,513</u>	<u>63,740</u>	<u>80,450</u>

	The Company			
	Raw materials Rmb'000	Finished goods Rmb'000	Spare parts and consumables Rmb'000	Total Rmb'000
As at 1 January 2005	4,270	6,722	44,290	55,282
Add: Provision made during the year	4,600	12,801	12,861	30,262
Less: Transfer out due to sales during the year	4,270	15,000	8,411	27,681
As at 31 December 2005	<u>4,600</u>	<u>4,523</u>	<u>48,740</u>	<u>57,863</u>

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

During the year ended 31 December 2005, the Group and the Company recognised the cost of inventories as an expense, including cost of inventories sold, are Rmb 15,269,720,000 (2004: Rmb 12,176,215,000) and Rmb 14,292,629,000 (2004: Rmb 11,402,303,000) respectively.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

10. Long-term investments

Long-term equity investments

	The Group		Total Rmb'000
	Equity- investment difference Rmb'000	Other unlisted equity investment Rmb'000 note (c)	
As at 1 January 2005	(29,341)	62,500	33,159
Decrease during the year	29,341	–	29,341
As at 31 December 2005	–	62,500	62,500

Long-term equity investments

	The Company				Total Rmb'000
	Investments in subsidiaries Rmb'000 note (a)	Investments in a jointly controlled entity Rmb'000 note (b)	Equity- investment difference Rmb'000	Other unlisted equity investment Rmb'000 note (c)	
As at 1 January 2005	253,316	–	(29,341)	62,500	286,475
Increase in investment cost	–	121,584	–	–	121,584
Investment income accounted for under the equity method	(25,732)	(11,481)	–	–	(37,213)
Cash dividend received (note (d))	(48,000)	–	–	–	(48,000)
Decrease during the year	–	–	29,341	–	29,341
As at 31 December 2005	179,584	110,103	–	62,500	352,187

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

10. Long-term investments (Continued)

- (a) The particulars of subsidiaries and a jointly controlled entity, all of which are companies established and operating in the PRC, which principally affected the results or assets of the Group as at 31 December 2005 are as follows:

Name of company	Registered capital '000	Percentage of equity held		Types of legal entity	Principal activity	Registered place
		directly by the Company	by subsidiary			
Subsidiaries						
Foshan Chemical Fibre United Company Limited	Rmb 32,933	90%	10%	Limited company	Management and administration	Guangdong, PRC
Foshan Tianma Chemical Fibre Company Limited ("Tianma Chemical Fibre") (Original Yizheng Chemical Fibre Foshan Polyester Company Limited)	USD 85,427	59%	41%	Limited company	Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after-sales services	Guangdong, PRC
Yihua Kangqi Chemical Fibre Company Limited ("Yihua Kangqi") (i)	Rmb 60,000	95%	–	Limited company	Investment holding and trading of polyester chips and polyester fibre	Jiangsu, PRC
Jointly controlled entity						
Yihua UNIFI	USD 30,000	50%	–	Limited company	Manufacturing and processing of differentiated polyester textile filament products; conducting research in polyethylene textile products; sales of self-produced products; and provision of after-sales service	Jiangsu, PRC

- (i) Pursuant to the equity transfer agreement signed on 10 October 2005, Foshan Chemical Fibre United Company Limited, a subsidiary of the Company, sold 5% equity interest in Yihua Kangqi to Yizheng Chemical Fibre Investment Management Company Limited, a subsidiary of Yihua Group. As a result, a gain of Rmb 3,650,000 (note 28) on disposal of the investment was recognised. In addition, the percentage of equity interest in Yihua Kangqi by the Group was reduced from 100% to 95%.

- (b) In order to diversify 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"), Yihua UNIFI, in the PRC. The JV is a jointly controlled entity, which is 50% owned by the Company and 50% owned by UNIFI Asia. Yihua UNIFI commenced its operation on 3 August 2005.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

10. Long-term investments (Continued)

(c) Other unlisted equity investment

As at 31 December 2005, the Group's and the Company's other unlisted equity investment was as follows:

Name of investee	Investment period	Total investment Rmb'000	Percentage shareholdings %
Sinopec Finance	—	62,500	2

- (d) During 2005, one subsidiary of the Company (Yihua Kangqi) appropriated a cash dividend of Rmb 48,000,000 to the Company, pursuant to its General Meeting minutes approved on 17 March 2005. As at 31 December 2005, the Company received all the cash dividend as mentioned above.

(e) Receivables due after 1 year

	2005 Rmb'000	2004 Rmb'000
Amount due from a subsidiary	800,000	800,000
Less: Provision for impairment	797,288	298,109
	<u>2,712</u>	<u>501,891</u>

As the total investors' equity of Tianma Chemical Fibre, a wholly-owned subsidiary of the Company, became negative as at 31 December 2005, the book value of long-term investment has been reduced to zero accordingly. The Company has advanced Rmb 800 million to Tianma Chemical Fibre to support its operating working capital on a going concern basis. Management of the Company has made provision for this amount of Rmb 298,109,000 in total based on the assessment of recoverable amount in previous year.

In view of the current market condition of the polyester fibre industry, the Group's management made a decision on 28 October 2005 to dispose of its equity interest in Tianma Chemical Fibre together with the amount due from Tianma Chemical Fibre. Based on the assessment of recoverable amount, determined by reference to the selling price agreed with two independent third-party purchasers in the conditional sale and purchase agreement dated 24 March 2006 (note 34(b)), the Group recognised an additional provision for this amount of Rmb 499,179,000 in current year's income statement. The provision included employee reduction expense of Rmb 67,000,000, which should be paid to Tianma Chemical Fibre's employees. The relevant receivables due after 1 year will be settled in short-term period.

- (f) As at 31 December 2005, the Group's and the Company's proportion of the equity investments to the net assets were 0.8% (2004: 0.4%) and 4.3% (2004: 3.1%) respectively.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

11. Fixed assets

	The Group			Total Rmb'000
	Land and buildings Rmb'000	Machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	
Cost or valuation:				
As at 1 January 2005	2,588,731	12,320,249	598,946	15,507,926
Additions				
– attributable to a new jointly controlled entity	71,800	172,044	2,980	246,824
– others	696	–	–	696
Transferred from construction in progress (note 12)				
– attributable to a new jointly controlled entity	–	126	2,020	2,146
– others	37,202	111,747	15,331	164,280
Decrease during the year				
– transferred to a new jointly controlled entity	(151,367)	(1,560,927)	(28,383)	(1,740,677)
– disposals	(25,290)	(49,687)	(41,761)	(116,738)
As at 31 December 2005	2,521,772	10,993,552	549,133	14,064,457
Accumulated depreciation:				
As at 1 January 2005	776,179	5,968,610	501,545	7,246,334
Charge for the year	83,164	669,850	65,069	818,083
Written back on disposal				
– transferred to a jointly controlled entity	(29,049)	(787,931)	(17,557)	(834,537)
– disposals	(5,899)	(38,427)	(33,249)	(77,575)
As at 31 December 2005	824,395	5,812,102	515,808	7,152,305
Provision for impairment:				
As at 1 January 2005	453	65,530	745	66,728
Additions during the year (note(a),(b))	77,971	699,244	6,406	783,621
Decrease during the year	–	(427,592)	(5,136)	(432,728)
As at 31 December 2005	78,424	337,182	2,015	417,621
Net book value:				
As at 31 December 2005	1,618,953	4,844,268	31,310	6,494,531
As at 31 December 2004	1,812,099	6,286,109	96,656	8,194,864

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

11. Fixed assets (Continued)

	The Company			Total Rmb'000
	Land and buildings Rmb'000	Machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	
Cost or valuation:				
As at 1 January 2005	2,269,372	11,503,632	546,681	14,319,685
Transferred from construction in progress (note 12)	37,189	110,317	15,236	162,742
Decrease during the year				
– transferred to a new jointly controlled entity	(151,367)	(1,560,927)	(28,383)	(1,740,677)
– disposals	(14,887)	(49,687)	(41,392)	(105,966)
As at 31 December 2005	2,140,307	10,003,335	492,142	12,635,784
Accumulated depreciation:				
As at 1 January 2005	695,590	5,521,824	472,817	6,690,231
Charge for the year	74,427	621,591	61,696	757,714
Written back on disposal				
– transferred to a new jointly controlled entity	(29,049)	(787,931)	(17,557)	(834,537)
– disposals	(5,756)	(38,427)	(32,892)	(77,075)
As at 31 December 2005	735,212	5,317,057	484,064	6,536,333
Provision for impairment:				
As at 1 January 2005	453	65,530	745	66,728
Additions during the year	–	386,724	5,136	391,860
Decrease during the year	–	(427,592)	(5,136)	(432,728)
As at 31 December 2005	453	24,662	745	25,860
Net book value:				
As at 31 December 2005	1,404,642	4,661,616	7,333	6,073,591
As at 31 December 2004	1,573,329	5,916,278	73,119	7,562,726

- (a) As mentioned in note 10(b), the Company and UNIFI Asia established a JV, Yihua UNIFI, during 2005. Pursuant to the JV contract, the Company contributed certain equipment and relevant assets to the JV as its registered capital. Meanwhile, certain equipment and relevant assets were sold to the JV following its establishment.

As required by the relevant PRC rules and regulations and the relevant provisions in the JV Contract, a revaluation of the Company's assets contributed and sold to the JV was carried by an independent valuer registered in the PRC, and a revaluation report was issued by Beijing China Enterprise Appraisal Company Limited on 25 May 2005. The Company assessed the recoverable amount of those fixed assets contributed or sold, by reference to the revalued amount set out in the above revaluation report.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

11. Fixed assets (Continued)

(a) (Continued)

Immediately before the contribution or sale of these fixed assets, the Company assessed their recoverable amount and an impairment loss of Rmb 391,860,000 in total was recognised to write down the carrying amount of the sold fixed assets to their recoverable amount (included in "Non-operating expenses") during 2005. Following the commencement of the JV's business on 3 August 2005, these fixed assets were sold to the JV, and the related aggregated impairment losses amounting to Rmb 432,728,000, which was provided for in 2004 and 2005, were transferred out.

Pursuant to the relevant provisions in the JV contract, the Company transferred out fixed assets with carrying amounts of Rmb 121,584,000 as capital contribution to Yihua UNIFI in the amount of Rmb 140,873,000 based on the revalued amount. The difference between the net book value of these contributed fixed assets and the equity interest in Yihua UNIFI was Rmb 19,289,000, which was included in "Capital reserve - reserve for equity investment" (note 23(i)).

(b) As mentioned in note 10(e), the Group made a decision on 28 October 2005 to sell its equity interest in Tianma Chemical Fibre. Based on the assessment made by the Group on the recoverable amount of Tianma Chemical Fibre's fixed assets as at 31 December 2005, an impairment loss of Rmb 391,761,000 in total was recognised in current year's income statement (included in "Non-operating expenses") as at 31 December 2005. The estimate of recoverable amount was determined by reference to the selling price agreed with two independent third-party purchasers in the conditional sale and purchase agreement dated 24 March 2006 (note 34(b)).

(c) All the Group's buildings are located in the PRC.

(d) As at 31 December 2005, the original cost of fully depreciated fixed assets in use was Rmb 1,008,286,000 (2004: Rmb 747,992,000).

(e) The Group obtained land use rights through purchase and contribution from its shareholder.

(f) As at 31 December 2005 and 31 December 2004, no fixed assets of the Group were pledged.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

12. Construction in progress

As at 31 December 2005, the Group's and the Company's major construction in progress was as follows:

Project	Budgeted amount <i>Rmb'000</i>	Balance as at 1 January 2005 <i>Rmb'000</i>	Additions <i>Rmb'000</i>	Transferred to fixed assets <i>Rmb'000</i> <i>(Note 11)</i>	Transferred to intangible assets <i>Rmb'000</i>	Balance as at 31 December 2005 <i>Rmb'000</i>	Source of fund	Percentage of completion	Interest capitalised during the year
Specialised polyester chip project with an annual capacity of 160,000 tonnes	143,400	60,136	68,718	(128,854)	-	-	Own fund	90%	-
Bottle-grade chip project with an annual capacity of 200,000 tonnes	340,000	-	15,946	(15,946)	-	-	Own fund	100%	-
Improvements and expansion of existing plants	289,178	189,685	95,669	(16,483)	(1,338)	267,533	Own fund	93%	-
Other construction projects	3,775	2,535	606	(1,459)	-	1,682	Own fund	83%	-
Total for the Company		252,356	180,939	(162,742)	(1,338)	269,215			
Miscellaneous project of the subsidiaries		1,607	3,825	(3,684)	-	1,748	Own fund	-	-
Total for the Group		<u>253,963</u>	<u>184,764</u>	<u>(166,426)</u>	<u>(1,338)</u>	<u>270,963</u>			

None borrowing costs of the Group for the year has been capitalised in 2005 (average rate of capitalised borrowing costs in 2004: 4.9%).

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

13. Intangible assets

	Technology right <i>Rmb'000</i>	The Group Patent right <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost			
As at 1 January 2005	280,000	141,097	421,097
Transferred from construction in progress (note 12)	–	1,338	1,338
Addition in the year (i)	24,317	–	24,317
As at 31 December 2005	304,317	142,435	446,752
Accumulated amortisation			
As at 1 January 2005	35,000	125,080	160,080
Charge for the year	29,013	10,004	39,017
As at 31 December 2005	64,013	135,084	199,097
Net book value			
As at 31 December 2005	240,304	7,351	247,655
As at 1 January 2005	245,000	16,017	261,017

- (i) In 2005, the Group acquired technology licence for producing differentiated polyester filament products from UNIFI Manufacturing INC., and its amortisation period is 10 years.

	Technology right <i>Rmb'000</i>	The Company Patent right <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost			
As at 1 January 2005	280,000	141,097	421,097
Transferred from construction in progress (note 12)	–	1,338	1,338
As at 31 December 2005	280,000	142,435	422,435
Accumulated amortisation			
As at 1 January 2005	35,000	125,080	160,080
Charge for the year	28,000	10,004	38,004
As at 31 December 2005	63,000	135,084	198,084
Net book value			
As at 31 December 2005	217,000	7,351	224,351
As at 1 January 2005	245,000	16,017	261,017

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

13. Intangible assets (continued)

In 2004, the Company acquired technology licences to operate the 450,000 tonne PTA plant from third parties, and their average remaining amortisation period is eight years.

The Company acquired patent rights from third parties in 1995, 1996, 1999 and 2005 respectively, and their average remaining amortisation period is three years.

14. Long-term deferred expenses

	The Group and the Company	
	2005	2004
	Rmb'000	Rmb'000
Cost		
As at 1 January and as at 31 December	<u>31,560</u>	<u>31,560</u>
Accumulated amortisation		
As at 1 January	31,340	31,256
Charge for the year	<u>220</u>	<u>84</u>
As at 31 December	<u>31,560</u>	<u>31,340</u>
Net book value		
As at 31 December	<u>–</u>	<u>220</u>
As at 1 January	<u>220</u>	<u>304</u>

The amortisation period of long-term deferred expenses is ten years.

15. Short-term loans

The Group's and the Company's short-term loans were bank loans, which weighted average interest rates per annum were 4.1% (2004: 3.6%) and 3.4% (2004: 3.9%) respectively as at 31 December 2005. Except for the short-term loans of USD 4,349,000 (approximately Rmb 35,091,000), all the short-term bank loans are denominated in Renminbi. All the Group's and the Company's short-term bank loans are credit loans, unsecured and not guaranteed. As at 31 December 2005 and 31 December 2004, the Group and the Company had no significant overdue short-term bank loans.

Short-term bank loans from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 30.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

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

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

	The Group			
	2005 <i>Rmb'000</i>	Proportion %	2004 <i>Rmb'000</i>	Proportion %
Bills payable				
Bank acceptance bills	<u>5,501</u>	<u>100</u>	<u>3,462</u>	<u>100</u>

Bills payable aged within one year.

As at 31 December 2005, there was no individually significant balance aged over three years included in the Group's and the Company's accounts payable.

As at 31 December 2005, there was no individually significant balance aged over one year included in the Group's and the Company's receipts in advance.

As at 31 December 2005, there was Rmb 3,079,000 aged over three years included in the Group's and the Company's other creditors, which represent the retained payables for imported machinery.

In the accounts of accounts payable, receipts in advance and other creditors, balance due to shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 30.

17. Other payables

	<i>Charge rate</i>	The Group		The Company	
		2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Education surcharge	<i>note 3(a)</i>	<u>22,386</u>	24,268	<u>21,759</u>	24,268
Others		<u>413</u>	530	<u>83</u>	83
Total		<u>22,799</u>	<u>24,798</u>	<u>21,842</u>	<u>24,351</u>

18. Accrued expenses

Accrued expenses represent interest accrual.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

19. Long-term liabilities due within one year

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Bank loans				
– Rmb loans (note 20)	90,000	200,000	90,000	200,000
Other long-term payable (note 21)	7,431	–	–	–
Total	<u>97,431</u>	<u>200,000</u>	<u>90,000</u>	<u>200,000</u>

20. Long-term loans

Lender	Period	Interest rate	Interest type	The Group and the Company	
				2005 Rmb'000	2004 Rmb'000
Industrial and Commercial Bank of China	Due in 2005	4.94%	Fixed	–	200,000
Industrial and Commercial Bank of China	Due in 2006	4.94%~5.18%	Fixed	90,000	90,000
China Construction Bank	Due in 2007	4.94%~5.18%	Fixed	50,000	100,000
Total long-term bank loans				<u>140,000</u>	<u>390,000</u>
Less: Long-term bank loans (current portion) (note 19)				<u>90,000</u>	<u>200,000</u>
Long-term bank loans (long-term portion)				<u>50,000</u>	<u>190,000</u>

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	
	2005 Rmb'000	2004 Rmb'000
Due within 1 year	90,000	200,000
Due between 1 to 2 years	50,000	90,000
Due between 2 to 3 years	–	100,000
	<u>140,000</u>	<u>390,000</u>

As at 31 December 2005, the Group's and the Company's long-term bank loans were credit loans, unsecured and not guaranteed.

As at 31 December 2005, there were no long-term loans from shareholders who hold 5% or more of the voting shares of the Company.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

21. Long-term payables

	The Group Payable for technology right <i>Rmb'000</i>
As at 1 January 2005	–
Additions during the year (note 13)	24,317
Decrease during the year	<u>(4,052)</u>
	20,265
Less: Long-term payables due within 1 year (note 19)	<u>7,431</u>
As at 31 December 2005	<u>12,834</u>

According to the contract, the repayment terms of the above long-term payables are as follows:

	The Group Payable for technology right 2005 <i>Rmb'000</i>
Due within 1 year	7,431
Due between 1 to 2 years	6,079
Due between 2 to 3 years	4,728
Due between 3 to 4 years	<u>2,027</u>
	<u>20,265</u>

In the above balance, there is no amount due to shareholders who hold 5% or more of the voting shares of the Company.

22. Share capital

	The Group and the Company	
	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public 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
Total	<u>4,000,000</u>	<u>4,000,000</u>

All the "Domestic non-public legal person A", "Social public A" and "H" shares rank pari passu in all material respects.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

23. Capital reserve

		As at 1 January 2005	The Group Addition during the year	As at 31 December 2005
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Share premium		3,078,825	–	3,078,825
Reserve for equity investment	(i)	–	9,644	9,644
Other capital reserve	(ii)	15,013	55	15,068
Total		3,093,838	9,699	3,103,537

		As at 1 January 2005	The Company Addition during the year	As at 31 December 2005
		<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Share premium		3,078,825	–	3,078,825
Reserve for equity investment	(i)	–	19,289	19,289
Other capital reserve	(ii)	15,013	55	15,068
Total		3,093,838	19,344	3,113,182

(i) Reserve for equity investment represents the difference between the lower net book value of the contributed fixed assets over the Company's share of the equity investment of the jointly controlled entity, Yihua UNIFI (note 11(a)), when the Company contributed fixed assets to establish the jointly controlled entity.

(ii) Addition to other capital reserve during the year represents the refund of Social Protection Insurance Fund, received from the immediate holding company, used for the purchase of fixed assets.

24. Surplus reserves

	The Group and the Company			Total
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	
	<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 as at 31 December 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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

25. Cash dividends appropriated to investors

The General Meeting approved the appropriation of a cash dividend to shareholders with Rmb 0.25 per share (2004: Rmb 0.25 per share) totalling Rmb 100,000,000 (2004: Rmb 100,000,000) on 28 June 2005.

26. 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 segmental analysis is provided by the Group.

During the year ended 31 December 2005, revenue from sales to the top five customers are Rmb 1,565,000,000 (2004: Rmb 1,322,000,000) which accounts for 10% (2004: 10%) of the total sales from principal activities of the Group.

27. Financial expenses

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Interest expenses incurred	60,129	89,189	54,365	83,445
Less: Borrowing costs capitalised	–	3,342	–	3,342
Net interest expenses	60,129	85,847	54,365	80,103
Interest income	(4,509)	(11,497)	(9,816)	(16,228)
Net exchange gains	(1,356)	(3,126)	(67)	(3,524)
Other financial expenses	2,366	4,065	2,051	3,870
Total	<u>56,630</u>	<u>75,289</u>	<u>46,533</u>	<u>64,221</u>

28. Investment income/(loss)

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Investment income arising from subsidiaries and jointly controlled entity accounted for under the equity method (note 10)	–	–	(37,213)	7,676
Provision for impairment for receivable due after 1 year (note 10(e))	–	–	(499,179)	(14,952)
Investment disposal income (note 10(a))	3,650	–	–	–
Decrease in equity-investment difference (note 10)	29,341	–	29,341	–
Dividend from other equity investment	3,500	3,000	3,500	3,000
Total	<u>36,491</u>	<u>3,000</u>	<u>(503,551)</u>	<u>(4,276)</u>

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

29. Non-operating expenses

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Losses on disposal of fixed assets	29,272	68,445	29,093	68,445
Employee reduction expenses	90,939	21,694	23,939	21,694
Provision for impairment of fixed assets (note 11(a),(b))	783,621	66,728	391,860	66,728
Donations	500	3,860	500	3,860
Others	7,218	21,495	7,634	19,473
Total	<u>911,550</u>	<u>182,222</u>	<u>453,026</u>	<u>180,200</u>

In accordance with the Group's and the Company's employee reduction plan, the Group and the Company incurred Rmb 90,939,000 and Rmb 23,939,000 respectively (2004: Rmb 21,694,000 each) on the reduction of 1,814 and 490 respectively (2004: 343 each) employees for the year ended 31 December 2005.

30. Related party relationships and transactions

(a) Related party with controlling relationship

Name of Company:	Sinopec Corp
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 year.

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 2005	<u>1,680,000,000</u>	<u>42%</u>

The related parties controlled by the Company are disclosed in note 10(a).

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

30. Related party relationships and transactions (Continued)

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

Name of company	Relationship with the 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
Sinopec Zhenhai Refining & Chemical Company Limited ("Zhenhai")	With a common immediate holding company
Sinopec International Company Limited	With a common immediate holding company
Yihua UNIFI	Jointly controlled entity

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

	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Yangzi		
Purchase of raw materials	<u>3,364,716</u>	<u>2,768,827</u>
Zhenhai		
Purchase of raw materials	<u>2,637,487</u>	<u>1,771,026</u>
Yihua and its subsidiaries ("Yihua Group")		
Sales	385,778	658,276
Purchases	113,070	120,068
Miscellaneous service fee charges (see note below)	20,000	105,797
Miscellaneous service fee income (see note below)	–	20,059
Trademark licence fee (see note below)	–	10,000
Payments relating to the construction and maintenance work	–	41,329
Gains on disposal of investment (note 10(a))	<u>3,650</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, 27 November 2002, 1 July 2003 and 19 February 2005 signed between the Company and Yihua.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

30. Related party relationships and transactions (Continued)

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

	2005 Rmb'000	2004 Rmb'000
Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)		
Service charges for the purchase of raw materials	19,226	–
Purchase of equipment	–	10,053
Purchase of raw materials	<u>517,023</u>	<u>266,418</u>
CPC and its subsidiaries (excluding Yihua Group, Sinopec Corp and its subsidiaries, Sinopec Finance)		
Payments for construction work	–	15,860
Purchase of raw materials and spare parts	35,191	194,919
Insurance premium	25,730	34,152
Safety security compensation income	<u>19,652</u>	<u>–</u>
Sinopec Finance		
Interest income	79	4,339
Interest expense	<u>1,606</u>	<u>5,519</u>
CITIC Industrial Bank		
Interest income	32	957
Interest expense	10,938	16,871
Bills custody fee	<u>3,030</u>	<u>–</u>
Yihua UNIFI		
Sales of finished goods	232,098	–
Sales of fixed assets	<u>371,116</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

	2005 Rmb'000	2004 Rmb'000
Cash at bank	66,661	21,824
Short-term loan	<u>–</u>	<u>20,000</u>

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

30. Related party relationships and transactions (Continued)

(e) Deposits with and loan from CITIC Industrial Bank

	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Cash at bank	25,592	30,060
Short-term loan	<u>10,000</u>	<u>8,000</u>

(f) Details of amounts due from Yihua UNIFI are as follows:

	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Other receivables	60,792	–
Payments in advance	<u>1,260</u>	<u>–</u>

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

	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Payments in advance	6,533	6,694
Other receivables	1,747	1,312
Accounts payable	(30,633)	(50,024)
Other creditors	–	(2,042)
Receipts in advance	<u>(862)</u>	<u>–</u>
	<u>(23,215)</u>	<u>(44,060)</u>

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

	2005 <i>Rmb'000</i>	2004 <i>Rmb'000</i>
Accounts receivable	5,157	5,119
Other receivables	6,650	–
Accounts payable	(12,740)	(11,832)
Receipts in advance	(3,459)	(2,316)
Other creditors	<u>(10)</u>	<u>(442)</u>
	<u>(4,402)</u>	<u>(9,471)</u>

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

31. 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 31 December 2005 as follows:

	The Group		The Company	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Contracted for	–	–	121,584	–
Authorised but not contracted for	186,358	562,908	186,358	562,908
	186,358	562,908	307,942	562,908

32. Contingent liabilities

As at 31 December 2004, contingent liabilities in respect of guarantees given to banks by the Company in respect of banking credit facilities granted to a wholly owned subsidiary amounted to Rmb 147,968,000.

As at 31 December 2005, there was no material guarantee issue.

33. Retirement benefits

As stipulated by the regulations of the PRC, the Company, its subsidiaries and its jointly controlled entity 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, its principal subsidiary - Tianma Chemical Fibre, and its jointly controlled entity - Yihua UNIFI, are as follows:

Administrator	Beneficiary	Contribution rate	
		2005	2004
Yizheng Municipal Government Jiangsu Province	Employees of the Company	19%	18%
Foshan Municipal Government Guangdong Province	Employees of Tianma Chemical Fibre	10%	10%
Yizheng Municipal Government Jiangsu Province	Employees of Yihua UNIFI	19%	–

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.

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

34. Post balance sheet event

- (a) Pursuant to the equity transfer agreement signed on 20 March 2006, the Company sold all of its 2% equity interest in Sinopec Finance to CPC for a cash consideration of Rmb 82,000,000. The estimated gain on disposal of the investment is Rmb 19,500,000, which is to be recognised in 2006. After the equity transfer, the Group and the Company had no material unlisted equity investment.
- (b) Pursuant to the conditional sale and purchase agreement dated 24 March 2006 entered into with two independent third-party purchasers, the Group sold 100% equity interest in Tianma Chemical Fibre together with the amounts due from Tianma Chemical Fibre to the Group for an estimated net consideration of Rmb 177,860,000. The transaction will be validated upon the original PRC approving authorities and receipt of at least 80% of the consideration for the disposal. The directors expect that the sale is to be completed by the end of June 2006.

The asset impairment losses related to the above disposal were recognised in the relevant accounts in 2005. Apart from Tianma Chemical Fibre's operating loss to be incurred during the period from 1 January 2006 to the effective disposal date, the directors consider that no other significant gain or loss attributable to the Group on the disposal will be recognised upon completion of the transaction in 2006.

35. 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" (2005 Revised), the Group's non-recurring items are summarised as follows:

	The Group	
	2005 Rmb'000	2004 Rmb'000
Non-recurring items for the year		
Net losses on disposal of fixed assets	28,967	67,633
Employee reduction expenses	90,939	21,694
Non-operating expenses (excluding losses on disposal of fixed assets, employee reduction expenses and fixed assets impairment losses)	7,718	25,355
Non-operating income (excluding gains on disposal of fixed assets)	(22,786)	(5,229)
Assets provision written back	-	(800)
	<hr/>	<hr/>
	104,838	108,653
Less: Tax effect on above items	(15,726)	(16,298)
	<hr/>	<hr/>
Total	89,112	(92,355)

Notes to the Financial Statements

(Prepared in accordance with the PRC Accounting Rules and Regulations)

35. Non-recurring items (Continued)

	The Company	
	2005	2004
	Rmb'000	Rmb'000
Non-recurring items for the year		
Net losses on disposal of fixed assets	28,788	67,659
Employee reduction expenses	23,939	21,694
Non-operating expenses (excluding losses on disposal of fixed assets, employee reduction expenses and fixed assets impairment losses)	8,134	23,333
Non-operating income (excluding gains on disposal of fixed assets)	(23,726)	(4,387)
	37,135	108,299
Less: Tax effect on above items	(5,570)	(16,245)
Total	31,565	92,054

36. Comparative figures

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