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)

STOCK CODE: 1033

Interim Report 2006

    

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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 and Financial Executive, and Ms. Xu Xiu-yun, 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, its subsidiaries and its jointly controlled entity ("**the Group**") for the six months ended 30 June 2006. The interim financial report therein is unaudited.

1. COMPANY PROFILE

1.	Legal name	:	Sinopec Yizheng Chemical Fibre Company Limited 中國石化儀征化纖股份有限公司
	Abbreviation	:	YCF 儀征化纖
2.	Legal representative	:	Mr. Xu Zheng-ning
3.	Registered and office address	:	Yizheng City, Jiangsu Province the People's Republic of China ("**the PRC**")
	Postal code	:	211900
	Telephone	:	86-514-3232235
	Fax	:	86-514-3233880
	Internet website	:	http://www.ycfc.com
	E-mail address	:	cso@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	:	cso@ycfc.com
5.	Newspapers disclosing information	:	China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times, South China Morning Post (English)
	Internet website designated by the China Securities Regulatory Commission ("**CSRC**") to publish the interim report	:	http://www.sse.com.cn
	Place where the interim report available for inspection	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited

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

H share
– The Stock Exchange of Hong Kong Limited ("**HKSE**")
– Stock name: Yizheng Chemical
– Stock code: 1033

A share
– Shanghai Stock Exchange ("**SSE**")
– Stock name: Yizheng Chemical
– Stock code: 600871

2. FINANCIAL SUMMARY

1. Principal financial 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	
	2006	2005
	Rmb'000	*Rmb'000*
Turnover	**8,051,557**	7,663,928
Profit/(loss)before taxation	**57,111**	(496,987)
Income tax expense/(credit)	**15,665**	(39,300)
Profit/(loss) attributable to equity shareholders of the Company	**43,498**	(457,691)
Basic earnings/(loss) per share	**Rmb 0.011**	Rmb (0.114)

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 2006	As at 31 December 2005	Increase from last year
	Rmb'000	*Rmb'000*	*(%)*
Current assets	**3,406,438**	2,825,816	20.5
Current liabilities	**1,829,802**	1,646,362	11.1
Total assets	**10,159,661**	9,984,875	1.8
Shareholders' funds (excluding minority interests)	**8,270,672**	8,223,575	0.6
Net assets per share	**Rmb 2.068**	Rmb 2.056	0.6
Adjusted net assets per share	**Rmb 2.066**	Rmb 2.054	0.6

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 2006 Rmb'000	For the six months ended 30 June 2005 Rmb'000	Increase from corresponding period of last year (%)
Net profit/(loss)	**42,689**	(462,431)	109.2
Net profit/(loss) before non-recurring items	**20,994**	(101,354)	120.7
Non-recurring items (after taxation)*	**21,695**	(361,077)	106.0
Earnings/(loss) per share	**Rmb 0.011**	Rmb (0.116)	109.2
Return on net assets	**0.52%**	(5.31%)	Increased by 5.83 percentage points
Net cash flow from operating activities	**524,246**	439,365	19.3

Note: Non-recurring items*

Non-recurring items	Amount Rmb'000
Proceeds from forfeited deposit	14,950
Written back of employee reduction expenses over-accrued in prior period	14,076
Net loss on disposal of fixed assets	(2,064)
Employee reduction expenses	(5,037)
Other non-operating income excluding proceeds from forfeited deposit, written back of employee reduction expenses over-accrued in prior period and gains from disposal of fixed assets	9,388
Other non-operating expenses excluding loss on disposal of fixed assets and employee reduction expenses	(5,789)
Effect of income tax	(3,829)
Total	21,695

1.3 Significant differences between the interim financial report of the Group and the Company prepared in accordance with the PRC Accounting Rules and Regulations and International Financial Report Standards ("IFRSs")

(Consolidated and unaudited)

	PRC Accounting Rules and Regulations		IFRSs	
	The Group	The Company	The Group	The Company
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Profit for the period	42,689	43,980	41,446	51,421

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 IFRSs" 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)	
Profit during the reporting period	**Fully diluted**	**Weighted average**	**Fully diluted**	**Weighted average**
Income from principal operations	3.259	3.268	0.067	0.067
Operating profit	0.127	0.127	0.003	0.003
Net profit	0.516	0.518	0.011	0.011
Net profit before non-recurring items	0.254	0.255	0.005	0.005

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

(Consolidated and unaudited)

	At 1 January 2006 *Rmb'000*	Increase for the period *Rmb'000*	Decrease for the period *Rmb'000*	At 30 June 2006 *Rmb'000*
1. Total provisions for bad and doubtful debts	**52,763**	569	3,052	**50,280**
Including: Trade receivables	**25,518**	–	3,047	**22,471**
Other receivables	**27,245**	569	5	**27,809**
2. Total provision for diminution in value of inventories	**80,450**	13,187	11,388	**82,249**
Including: Raw materials	**11,197**	5,187	7,505	**8,879**
Finished goods	**5,513**	4,000	3,883	**5,630**
Spare parts and consumables	**63,740**	4,000	–	**67,740**
3. Total provision for impairment of fixed assets	**417,621**	–	3	**417,618**
Including: Properties and buildings	**78,424**	–	–	**78,424**
Machinery, equipment and others	**339,197**	–	3	**339,194**
Total	**550,834**	13,756	14,443	**550,147**

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

(Consolidated and unaudited) (continued)

Statement of impairment of assets of the Company

	At 1 January 2006 Rmb'000	Increase for the period Rmb'000	Decrease for the period Rmb'000	At 30 June 2006 Rmb'000
1. Total provisions for bad and doubtful debts	**70,905**	–	–	**70,905**
Including: Trade receivables	**1,082**	–	–	**1,082**
Other receivables	**69,823**	–	–	**69,823**
2. Total provision for diminution in value of inventories	**57,863**	–	–	**57,863**
Including: Raw materials	**4,600**	–	–	**4,600**
Finished goods	**4,523**	–	–	**4,523**
Spare parts and consumables	**48,740**	–	–	**48,740**
3. Total provision for long-term investments	**797,288**	25,488	67,000	**755,776**
Including: Long-term investments – other receivables due after one year	**797,288**	25,488	67,000	**755,776**
4. Total provision for impairment of fixed assets	**25,860**	–	3	**25,857**
Including: Properties and buildings	**453**	–	–	**453**
Machinery, equipment and others	**25,407**	–	3	**25,404**
Total	**951,916**	25,488	67,003	**910,401**

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

(Consolidated and unaudited)

Item	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*	Change (%)	Reason for Change
Cash at bank and on hand	**961,212**	398,533	141	Decrease in repayment of bank loans during the period
Trade receivables	**314,733**	189,407	66	Increase in sales during the period
Advance payments	**25,382**	17,328	46	Increase in purchasing price of raw materials at the period end
Long-term equity investment	**–**	62,500	(100)	Disposal of the equity of Sinopec Finance Company Limited ("**Sinopec Finance**") during the period
Bills payable	**–**	5,501	(100)	All settled at the period end
Accounts payable	**819,343**	507,729	61	Extended credit term given by suppliers during the period
Taxes payable	**54,641**	12,931	323	Increase in the balance of VAT payable as a result of decrease in purchasing amount at the period end
Long-term liabilities due within one year	**146,756**	97,431	51	Transfer from long-term loans during the period
Long-term loans	**–**	50,000	(100)	Transfer to long-term liabilities due within one year during the period
Other payables	**4,133**	22,799	(82)	Education surcharge paid at the period end

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

(Consolidated and unaudited) (continued)

Item	For the six months ended 30 June 2006 Rmb'000	2005 Rmb'000	Change (%)	Reason for Change
Business taxes and surcharges	**20,687**	11,504	80	Increase in city construction tax during the period
(Loss)/profit from other operations	**(5,125)**	15,502	(133)	No refund income of city construction tax during the period
Financial expenses	**4,382**	40,743	(89)	Decease in bank loans and bills discount during the period
Non-operating income	**40,512**	1,356	2,888	Proceeds from forfeited deposit during the period
Non-operating expenses	**14,988**	406,741	(96)	No significant provision for impairment of fixed assets
Income tax	**15,523**	(40,136)	139	Profit during the period
Minority interests	**(2,052)**	4	(51,400)	Subsidiaries of Yihua Kangqi Chemical Fibre Company Limited ("**Kangqi Company**") revised the profits allocation ratio and adjusted minority interests income pursuant to a resolution passed in its shareholders' meeting

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Changes in share capital

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

2. Shareholdings of major shareholders

(1) Number of shareholders

The number of shareholders of the Company as at 30 June 2006 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	66,205
"H" share	995
Total	67,202

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

As at 30 June 2006, the shareholdings of the top ten shareholders and circulating shareholders of the Company are respectively as follows:

Number of shareholders at the end of the reporting period 67,202

Details of the top ten major shareholders

Names of shareholders	**Nature of shareholders**	**Number of shares held at the end of the reporting period** *(shares)*	**Percentage to total share capital** *(%)*	**Number of non-circulating shares** *(shares)*	**Number of pledged or frozen share***
China Petroleum & Chemical Corporation ("**Sinopec**")	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited***	Overseas capital shareholder	1,361,427,305	34.04	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") **	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Zhao Yi-hui	Domestic circulating shares	5,760,000	0.14	Circulating shares	Not applicable
Ximeng Assets Holding Company Limited	Domestic circulating shares	2,100,000	0.05	Circulating shares	Not applicable
Zhang Yu-fu	Domestic circulating shares	2,020,000	0.05	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited***	Overseas capital shareholder	2,008,000	0.05	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-13***	Overseas capital shareholder	1,800,000	0.045	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-12***	Overseas capital shareholder	1,200,000	0.03	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-16***	Overseas capital shareholder	1,200,000	0.03	Circulating shares	Not applicable

(2) *The shareholdings of the top ten 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 (Nominees) Limited***	1,361,427,305	"H" shares
Zhao Yi-hui	5,760,000	Circulating "A" shares
Ximeng Assets Holding Company Limited	2,100,000	Circulating "A" shares
Zhang Yu-fu	2,020,000	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited***	2,008,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13***	1,800,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-12***	1,200,000	"H" shares
HSBC Nominees (HONG KONG) Limited A/C BR-16***	1,200,000	"H" shares
Xue Jian-qing	1,169,500	Circulating "A" shares
Xing-he Fund	986,113	Circulating "A" shares

Explanation of connected relationship or activities in concert among the top ten circulating shareholders	The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders.

Notes: * *It represents the number of pledged or frozen shares held by shareholders who held more than 5 per cent of the Company's shares during the reporting period.*

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

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

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

As at 30 June 2006, (according to the shareholders' register and related application documents received by the Company), so far as the Directors, Supervisors and Senior Management of the Company are aware, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**"):

Names of shareholder	Number of share held *(shares)*	Percentage of shareholding in the Company's total issued share capital *(%)*	Percentage of shareholding in the Company's total issued domestic shares *(%)*	Percentage of shareholding in the Company's total issued H shares *(%)*	Short position *(shares)*
Sinopec*	1,680,000,000	42.00	64.62	N/A	–
CITIC	720,000,000	18.00	27.69	N/A	–
Brandes Investment Partners, LP**	86,420,000	2.16	N/A	6.17	–
The Northern Trust Company (ALA)**	73,396,000	1.83	N/A	5.24	–

* *As at 30 June 2006, China Petrochemical Corporation ("**CPC**") holds 71.23% of the equity interest in Sinopec.*

** *Such shares were held through relevant Nominees or other ways.*

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 30 June 2006, no substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rules**")) of the Company or other person held any interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 Part XV of the SFO.

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

There was no change in Directors, Supervisors and Senior Management during the reporting period.

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 2006 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 Diao-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
Shi Gang	Independent Supervisor	0	0	No Change
Wang Bing	Independent Supervisor	0	0	No Change
Zhang Zhong-an	Deputy General Manager	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 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 2006, 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) of which the Company and the HKSE were 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 has taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or of which the Company and the HKSE were required to be informed the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

4. Independent Director and Audit Committee

As at 30 June 2006, the Company has four Independent Directors, two of whom are professionals in the accounting field and have experience in financial management.

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

5. BUSINESS REVIEW AND 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

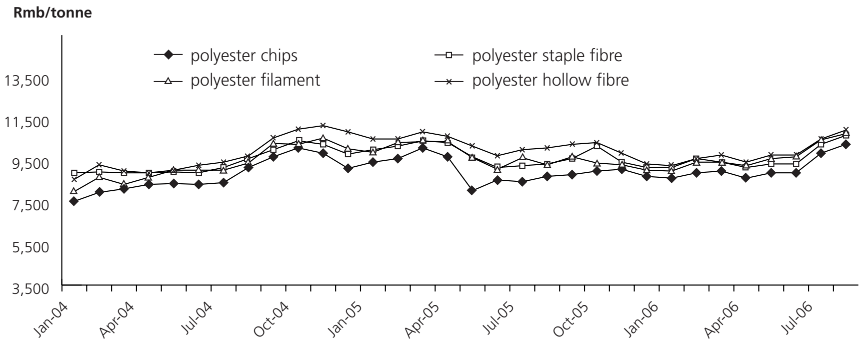
For the six months ended 30 June 2006, the Group's consolidated turnover amounted to Rmb 8,051,557,000, increased by 5.1 per cent as compared with Rmb 7,663,928,000 for the corresponding period of last year. Although the operational circumstances of the domestic polyester industry had not distinctly changed in the first half of 2006, the profit attributable to equity shareholders of the Company was Rmb 43,498,000 and basic earnings per share was Rmb 0.011, achieved by exerting efforts to reduce costs and expenses and optimize the product mix. In view of the Group having recorded a fixed asset impairment provision of Rmb 391,860,000 due to the establishment of a joint venture with UNIFI Asia Holding SRL by injecting the assets of the southern area of filament business department (former Polyester Plant No.5), the loss attributable to equity shareholders of the Company was Rmb 457,691,000 and basic loss per share was Rmb 0.114 in the first half of 2005.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2006 (interim dividend for 2005: Nil).

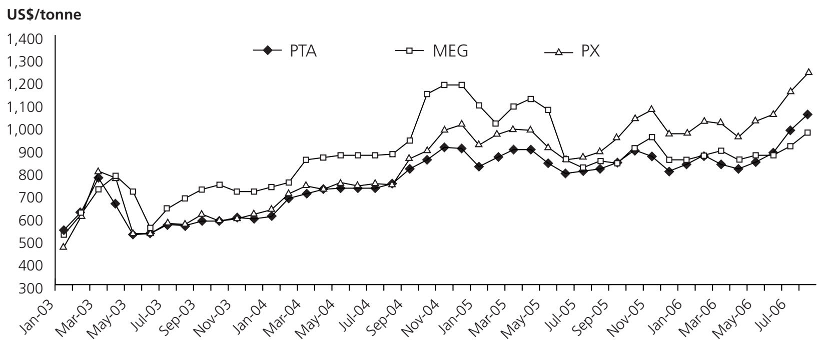
Market review

In the first half of 2006, the domestic polyester industrial chain fluctuated up on the whole. However, because the supply of domestic polyester production capacity exceeded demand and prices of parxylene ("**PX**") remained high, the profit margin of polyester products became narrower and the operational environment for the polyester industry was increasingly tough. In the first quarter, the prices of domestic polyester raw materials such as purified terephthalic acid ("**PTA**"), mono-ethylene glycol ("**MEG**") and polyester products declined owing to the decrease in operation rate of polyester industry and the slowdown in downstream textile demand. Entering the second quarter, due to the cost drive of crude oil and polyester raw materials and the influence of downstream textile demand growth acceleration, prices of domestic polyester products increased.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



Market review *(continued)*

In the first half of 2006, the total domestic polyester capacity increased almost by 880,000 tonnes. The speed of polyester capacity expansion was distinctly slowdown, but the excessive supply of domestic polyester production capacity over demand was unchanged and competition in the polyester industry was also intensified. Total domestic supply volume of polyester fibre was 8,187,200 tonnes, increased by 13.6 per cent as compared with the corresponding period of last year, of which, the domestic production volume increased by 15.4 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 64.03 billion dollars, which was 24.5 per cent higher than the first half of 2005. Total domestic consumption volume of polyester fibre reached 7,544,000 tonnes, increased by 12.4 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 2006	First half of 2005	+/–	**First half of 2006**	First half of 2005	+/–	**First half of 2006**	First half of 2005	+/–
	'000 tonnes	*'000 tonnes*	*(%)*	***'000 tonnes***	*'000 tonnes*	*(%)*	***'000 tonnes***	*'000 tonnes*	*(%)*
Production volume	**4,694.0**	4,067.9	15.4	**2,903.9**	2,515.5	15.4	**7,597.9**	6,583.4	15.4
Import volume	**124.9**	138.8	(10.0)	**137.8**	186.6	(26.2)	**262.7**	325.4	(19.3)
Export volume	**192.2**	113.4	69.5	**137.0**	95.7	43.2	**329.2**	209.1	57.4
Net import	**(67.3)**	25.4	(365.0)	**0.8**	90.9	(99.1)	**(66.5)**	116.3	(157.2)
Inventories at the beginning of the period	**255.7**	226.4	12.9	**70.9**	71.9	(1.4)	**326.6**	298.3	9.5
Inventories at the end of the period	**246.9**	205.5	20.1	**67.1**	80.1	(16.2)	**314.0**	285.6	9.9
Total supply volume	**5,074.6**	4,433.1	14.5	**3,112.6**	2,774.0	12.2	**8,187.2**	7,207.1	13.6
Total consumption volume	**4,635.5**	4,114.2	12.7	**2,908.5**	2,598.2	11.9	**7,544.0**	6,712.4	12.4

Source: The Chemical Fibre Association of China

Result review

In the first half of 2006, faced with a difficult operating environment, the Group continued to extend reform adjustments and strengthened internal management. By exerting efforts to expand market and reduce costs and expenses, positive progress was achieved in various fields concerning production and operation. Meanwhile, the Group successfully erased the deficits and earned surpluses in its operational results.

Production and marketing

In the first half of 2006, the Group's production facilities maintained safe and stable operations. Production volume and sales volume of main products continuously increased. The total production volume of polyester products was 1,097,059 tonnes, an increase of 5.7 per cent as compared with 1,038,232 tonnes for the corresponding period of last year. The capacity utilisation rate of polyester utilities reached 94.3 per cent. The total production volume of PTA was 497,962 tonnes, an increase of 5.2 per cent as compared with 473,291 tonnes for the corresponding period of last year. In the first half of 2006, the Group increased its sales promotion in response to the increase in production volume. The Group's total sales volume of polyester products reached 857,681 tonnes, an increase of 13.0 per cent as compared with 758,955 tonnes for the corresponding period of last year. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 99.6 per cent. In the first half of 2006, 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 50,848 tonnes, an increase of 59.6 percent as compared with 31,859 tonnes for the corresponding period of last year.

New product development and technological innovation

In the first half of 2006, the Group further optimized its products mix and tried to increase the profit contributions from differential and specialized products according to the profit maximisation principle. Altogether, six kinds of new polyester products were initiated, five products were in continual development and seven products were launched for market promotion. In the first half of 2006, the Group's total production volume of specialized polyester chips amounted to 396,357 tonnes and the specialized rate was 76.6 per cent, 1.3 percentage points lower than that of the corresponding period of last year. The total production volume of differential polyester fibre amounted to 232,898 tonnes and the differential rate of polyester fibre was 68.0 per cent, 9.5 percentage points higher than that of the corresponding period of last year.

Cost control

In the first half of 2006, the weighted average prices (excluding VAT) of the Group's polyester product decreased by 7.2 per cent as compared with the corresponding period of last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, MEG, and PX, also decreased by 7.2 per cent as compared with the corresponding period of last year. The Group vigorously offset the influence of market by reducing costs and expenses and strictly strengthening controls over production processes. Sixteen measures drafted at the beginning of 2006 for reducing cost and increasing efficiency were implemented all together. The consumption of energy and raw materials was further reduced, the overall energy consumption per unit decreased by 4.0 per cent as compared by the corresponding period of last year. In the first half of 2006, due to the increase in sales volume, the Group's selling expenses were 0.2 per cent higher than those of the first half of 2005. Administrative expenses and net financing expenses decreased by 19.9 per cent and 88.2 per cent respectively from those of the first half of 2005. This occurred for several reasons: improvements to internal management, reductions in costs and expenses, a decrease in fixed assets depreciation as a result of recording a fixed assets impairment provision last year and decrease in bank loans and discounted bills. The total reduction in selling expenses, administrative expenses and net financing expenses was 21.7 per cent from that of the first half of 2005.

Internal reform and management

In the first half of 2006, the Group continually extended restructuring based on department specialization, further optimized operating processes and the division of labor to improve management efficiency. "Compete for Appointment" was carried out for operations and service positions. The overhaul and maintenance center has simulated market-independent operations at the beginning of 2006 and the reform of other particular items has also been steadily advanced. The equity transfer of Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**") achieved positive progress and is to be completed during the year of 2006. Details of the equity transfer of Tianma Chemical Fibre are set forth in item 5 of "Significant Events" of the interim report.

Capital expenditure

In the first half of 2006, the Group's total capital expenditure amounted to Rmb 16,820,000. In order to maximize investment contribution, the Group strengthened investment management in accordance with the prudence principle. Projects such as saving energy consumption, safety and environment, and reducing costs and expenses, which increase profit contribution from existing assets, were completed in succession.

Business prospects

In the second half of 2006, the Group continues to face with a severe operation situation. Firstly, the newly-increased PTA facilities will be finished and activated in Asia, which will further enlarge the PX supply gap. Hence the profit contributions of the Group's in-house PTA will be affected. Secondly, the global market price of crude oil is still high and the prices of PX will also remain high, so the profits of polyester industry chain will further move upwards and the profit margin of polyester products will become narrower.

At the same time, the Group retains some advantages. Firstly, PRC's economy maintains relatively fast growth which will expand the domestic textile demand. Based on the analysis of the first half of 2006, the volume of production and sales and the profits of PRC's textile industry have obviously increased. The total amount of social consumable retail increased 13.3 per cent as compared with the corresponding period of last year. Secondly, the export of PRC's textile and clothes will still keep relatively fast growth which will drive the steadily increasing of domestic demand for polyester products.

Business prospects *(continued)*

In the second half of 2006, faced with a difficult operation environment, the Group will continue to advance reform, extend adjustments, strengthen management and reduce costs and expenses so as to achieve better operating results. The following will be set as priorities in the second half of 2006:

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

The Group will further strengthen spot management, implement strict measures and controls over key facilities and areas and reduce unplanned production cessation to ensure safe and stable operation of production facilities. Priorities will be given to the PTA facility to maintain safe, stable and full operation, and to achieve the target of increasing PTA production volume. The Group will monitor market change and the running status of facilities in order to choose proper overhaul time and do better preparation work in advance. In the second half of 2006, the Group's projected production volume of polyester products is 1,069,000 tonnes, and the projected 2006 annual production volume of polyester products is 2,166,000 tonnes, 0.5 per cent higher than production volume in 2005. The Group's production volume of PTA for the second half of 2006 is projected at 480,000 tonnes. The projected 2006 annual production volume of PTA is 978,000 tonnes, 0.8 per cent more than production volume in 2005.

2. Strengthen risk control and better balance between production and sales

The Group will further enhance market research, closely follow market trends and maintain a balance between production and sales in order to sell at optimal prices. The Group will strengthen organization and adjustment of production processes and keep low storage level operation of raw materials and products so as to keep away market diminution risk. Export will be increased, emphasizing will be put on products with high added value. As to the export structure, the Group will try to achieve a breakthrough on export of filament and stable fibre. In the second half of 2006, the Group's projected sales volume of polyester products will be 855,000 tonnes. The 2006 projected sales volume of polyester products will be 1,713,000 tonnes, an increase of 5.2 per cent from that of the year 2005. The ratio of sales to production is expected to reach 100 per cent in the second half of 2006.

3. Deepen product structure adjustment and improve the profit contribution from differential products

The Group will stick to market orientation, take profit as a center, strengthen product development and try to improve the profit contribution from differential products. Firstly, the Group will optimize product structure and produce and sell more products with better profit contribution according to market change. Secondly, by making the most of technology and human resources, the Group will strive to develop new products, increase differential products and do a good job of market promotion. In the second half of 2006, the Group's projected production volume of specialized polyester chips and differential fibre products will be 416,000 tonnes and 223,000 tonnes respectively, while specialized rates are expected to be 80.1 percent and differential rates are expected to be 66.3 percent.

Business prospects *(continued)*

4. Reduce cost and expenses greatly and strive to exploit external operation of public utility facilities

The Group will continue to carry out the 16 measures drafted at the beginning of 2006 for reducing costs and expenses. The Group will further implement overall budget management and strictly manage unplanned expenses so as to realize the target of expense control. Measures should be taken to reduce energy-consumption so as to realize the target of decreasing the overall energy consumption per unit by 3.0 per cent as compared with the corresponding period of last year. Based on the margin of public utility facilities capacity, the Group will actively exploit external operation in order to increase profits.

5. Advance reform adjustment and market operation

In accordance with market principles and to maximize profits, the Group will continue to advance reform adjustments and market operations. Firstly, the Group will actively advance reform adjustments, refine the core business and reduce costs so as to enhance the competitive capacity of the main business, polyester production. Secondly, by the mechanisms of assessment, evaluation and comparison, an awareness of market competition will be transmitted to staff, and their understanding of market operations will be enhanced so as to further promote the initiative and creative spirit to reduce costs and increase efficiency. Thirdly, with the reform implement process the Group will further optimize and adjust management processes to provide uninterrupted production and operations.

6. MANAGEMENT DISCUSSION AND 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 2006, the profit attributable to equity shareholders of the Company amounted to Rmb 43,498,000, while the loss attributable to equity shareholders of the Company amounted to Rmb 457,691,000 in the corresponding period of last year, of which, Tianma Chemical Fibre and Foshan Chemical Fibre Company Group (collectively "**Foshan Group**") sustained a loss of Rmb 25,488,000, Kangqi Company and its subsidiaries ("**Kangqi Group**") recorded a profit of Rmb 8,828,000, and Yihua UNIFI Fibre Industry Company Limited sustained a loss of Rmb 15,019,000.

(1) Turnover

In the first half of 2006, under the condition of the overhaul of several polyester facilities and the PTA line I, the production volume of polyester products and PTA continued to increase. The Group's total production volume of polyester products was 1,097,059 tonnes, representing an increase of 5.7 per cent as compared with 1,038,232 tonnes for the corresponding period of last year. The Group's total production volume of PTA was 497,962 tonnes, representing an increase of 5.2 per cent as compared with 473,291 tonnes for the corresponding period of last year. The Group's capacity utilization rate reached 94.3 per cent. Due to adjusting products mix and capacity utilization rate according to market changes, profit and cost, the total production volume of polyester filament decreased by 16.8 per cent as compared with the corresponding period of last year.

Production volume

	For the six months ended 30 June			
	2006		2005	
	Production volume *(tonnes)*	**Percentage of total production volume *(%)***	Production volume *(tonnes)*	Percentage of total production volume *(%)*
Polyester products				
Chips	**729,311**	**66.5**	654,613	63.1
Including:				
bottle-grade chips	**212,789**	**19.4**	215,917	20.8
Staple fibre	**224,510**	**20.5**	216,161	20.8
Hollow fibre	**24,657**	**2.2**	25,015	2.4
Filament	**118,581**	**10.8**	142,443	13.7
Total	**1,097,059**	**100.0**	1,038,232	100.0

Production volume *(continued)*

In the first half of 2006, 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 857,681 tonnes, representing an increase of 13.0 per cent as compared with 758,955 tonnes for the corresponding period of last year. The ratio of sales to production reached 99.6 per cent. The Group's export volume of polyester products amounted to 50,848 tonnes, representing an increase of 59.6 per cent as compared with 31,859 tonnes for the corresponding period of last year.

Sales volume

	For the six months ended 30 June			
	2006		2005	
	Sales volume *(tonnes)*	**Percentage of total sales volume *(%)***	Sales volume *(tonnes)*	Percentage of total sales volume *(%)*
Polyester products				
Chips	**502,327**	**58.6**	421,072	55.5
Including:				
bottle-grade chips	**208,415**	**24.3**	215,212	28.4
Staple fibre	**232,632**	**27.1**	215,878	28.4
Hollow fibre	**25,730**	**3.0**	24,301	3.2
Filament	**96,992**	**11.3**	97,704	12.9
Total	**857,681**	**100.0**	758,955	100.0

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

	For the six months ended 30 June		
	2006	2005	Change *(%)*
Polyester products			
Chips	**8,880**	9,475	(6.3)
Staple fibre	**9,329**	10,073	(7.4)
Hollow fibre	**9,737**	10,562	(7.8)
Filament	**10,485**	11,347	(7.6)
Weighted average price	**9,209**	9,921	(7.2)

Turnover

	For the six months ended 30 June			
	2006		2005	
	Turnover *Rmb'000*	**Percentage of turnover** *(%)*	Turnover *Rmb'000*	Percentage of turnover *(%)*
Polyester products				
Chips	**4,460,593**	**55.4**	3,989,742	52.1
Staple fibre	**2,170,313**	**27.0**	2,174,605	28.4
Hollow fibre	**250,538**	**3.1**	256,663	3.3
Filament	**1,016,948**	**12.6**	1,108,642	14.5
Others	**153,165**	**1.9**	134,276	1.7
Total	**8,051,557**	**100.0**	7,663,928	100.0

In the first half of 2006, despite the increase in sales volume by 13.0 per cent as compared with the corresponding period of last year, the Group's turnover only amounted to Rmb 8,051,557,000, representing an increase of 5.1 per cent as compared with Rmb 7,663,928,000 for the corresponding period of last year. This was due to the decrease in weighted average price of polyester products by 7.2 per cent as compared with the corresponding period of last year.

(2) Cost of sales

In the first half of 2006, the Group's cost of sales amounted to Rmb 7,777,098,000, which increased by Rmb 322,004,000 as compared with Rmb 7,455,094,000 for the corresponding period of last year, representing 96.6 per cent of turnover. In the first half of 2006, total costs of raw materials increased from Rmb 6,338,553,000 to Rmb 6,524,855,000, representing an increase of 2.9 per cent as compared with the corresponding period of last year, which accounted for 83.9 per cent of cost of sales. The increase was mainly due to the increase in sale volume and the increase in the prices of PX and crude oil. In the first half of 2006, the weighted average price of external purchased polyester raw materials decreased by 7.2 per cent as compared with the corresponding period of last year. Of which, the average purchase costs of PTA and MEG decreased by 4.7 per cent and 19.2 per cent respectively as compared with the corresponding period of last year. In the same period, the average purchase costs of PX increased by 3.2 per cent 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 2006, mainly due to the increase in turnover and PTA production volume by 5.1 per cent and 5.2 per cent respectively as compared with the corresponding period of last year, the Group's gross profit increased by Rmb 65,625,000 to Rmb 274,459,000 as compared with the corresponding period of last year. The Group's gross margin was 3.4 per cent, representing a slight increase of 0.7 percentage points as compared with the corresponding period of last year.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		
	2006	2005	Change
	Rmb'000	*Rmb'000*	*(%)*
Selling expenses	**99,190**	98,953	0.2
Administrative expenses	**143,930**	179,785	(19.9)
Financial expenses, net	**4,382**	37,200	(88.2)
Total	**247,502**	315,938	(21.7)

In the first half of 2006, administrative expenses and net financing expenses decreased by 19.9 per cent and 88.2 per cent respectively as compared with the corresponding period of last year. These saving are attributed to improvements to the internal management, reductions in costs and expenses, lower fixed assets depreciation as a result of provision for impairment of the fixed assets last year, and decreases in bank loans and bills discount. Due to the increase in sales volume, selling expenses slightly increased by 0.2 per cent as compared with the corresponding period of last year. The total decrease in selling expenses, administrative expenses and net financing expenses was 21.7 per cent as compared with the corresponding period of last year.

(4) Operating profit/(loss), profit/(loss) before taxation and profit/(loss) attributable to equity shareholders of the Company

	For the six months ended 30 June		
	2006	2005	Change
	Rmb'000	*Rmb'000*	*(%)*
Operating profit/(loss)	**61,493**	(459,787)	113.4
Profit/(loss) before taxation	**57,111**	(496,987)	111.5
Income tax expense/(credit)	**15,665**	(39,300)	139.9
Profit/(loss) attributable to equity shareholders of the Company	**43,498**	(457,691)	109.5
Basic earnings/(loss) per share *(in Rmb)*	**0.011**	(0.114)	109.5

In the first half of 2006, due to the Group's enhanced efforts in raising production volume and sales volume, exercising better control over costs and expenses, increasing PTA production volume and optimizing products mix, the Group's profit before taxation and profit attributable to equity shareholders of the Company amounted to Rmb 57,111,000 and Rmb 43,498,000 respectively, representing an increase of 111.5 per cent and 109.5 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 2006 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	7,898,392	7,636,850	3.3	4.9	4.7	Increased by 0.2 percentage points
Including: connected transactions	120,549	114,156	5.3	(53.6)	(54.0)	Increased by 1.0 percentage points

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

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 2006 ***Rmb'000***	At 31 December 2005 *Rmb'000*	Changes *Rmb'000*
Total assets	**10,008,708**	9,833,113	175,595
Current assets	**3,550,863**	2,980,642	570,221
Non-current assets	**6,457,845**	6,852,471	(394,626)
Total liabilities	**1,839,258**	1,709,196	130,062
Current liabilities	**1,839,258**	1,659,196	180,062
Non-Current liabilities	**0**	50,000	(50,000)
Minority interests	**49,731**	52,104	(2,373)
Shareholders' equity (excluding minority interests)	**8,119,719**	8,071,813	47,906

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

As at 30 June 2006, the Group's total assets were Rmb 10,008,708,000, total liabilities were Rmb 1,839,258,000, and shareholders' equity (excluding minority interests) were Rmb 8,119,719,000. Compared with the assets and liabilities as at 31 December 2005 (hereinafter referred to as "as compared with the end of last year"), the variations and main causes of such changes are described as follows:

Total assets were Rmb 10,008,708,000, an increase of Rmb 175,595,000 as compared with the end of last year. Current assets were Rmb 3,550,863,000, an increase of Rmb 570,221,000 as compared with the end of last year. It's mainly because the Group's cash and cash equivalents increased by Rmb 536,677,000 owing to abundant cash as a result of the rise in net cash inflow in the first half of 2006. Non-current assets were Rmb 6,457,845,000, a decrease of Rmb 394,626,000 as compared with the end of last year, which was mainly due to ordinary depreciation and amortization.

Total liabilities were Rmb 1,839,258,000, an increase of Rmb 130,062,000 as compared with the end of last year. Current liabilities were Rmb 1,839,258,000, an increase of Rmb 180,062,000 as compared with the end of last year, which was mainly due to the increase of Rmb 153,125,000 in trade and other payables as a result of extending credit term given by suppliers. Meanwhile, this increase was also due to the increase of Rmb 50,000,000 in long-term bank loans within one year owing to transferring from long-term bank loans. Non-current liabilities were zero, a decrease of Rmb 50,000,000 as compared with the end of last year, which was mainly because long-term bank loans will be due within one year and these bank loans were classified as current liabilities.

At 30 June 2006, total liabilities to total assets ratio was 18.4 per cent, whereas 17.4 per cent as at 31 December 2005.

(2) Cash flow analysis

In the first half of 2006, cash and cash equivalents (including cash and cash equivalents in the assets classified as held for sale) increased by Rmb 536,677,000 (increased from Rmb 372,535,000 as at 31 December 2005 to Rmb 909,212,000 as at 30 June 2006). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2006 and 2005.

Major items in cash flow statement	For the six months ended 30 June **2006** *Rmb'000*	2005 *Rmb'000*	Change *Rmb'000*
Net cash flow from operating activities	**515,482**	400,129	115,353
Net cash flow from investing activities	**44,957**	(65,200)	110,157
Net cash flow from financing activities	**(23,762)**	(328,855)	305,093
Net increase in cash and cash equivalents	**536,677**	6,074	530,603
Cash and cash equivalents at the beginning of the period	**372,535**	228,152	144,383
Cash and cash equivalents at the end of the period	**909,212**	234,226	674,986

In the first half of 2006, the Group's net cash inflow from operating activities was Rmb 515,482,000, representing an increase of Rmb 115,353,000 as compared with the corresponding period of last year. This was mainly due to: (1) The net cash inflow from operating activities increased by Rmb 65,625,000 due to the increase in gross profit in the first half of 2006. (2) Owing to the reduction in interest paid and income tax paid in the first half of 2006, the net cash inflow from operating activities increased by Rmb 55,457,000.

In the first half of 2006, the Group's net inflow from investing activities was Rmb 44,957,000, a decrease of cash outflow by Rmb 110,157,000 as compared with the corresponding period of last year. This was mainly due to proceeds Rmb 82,000,000 from disposal of long-term equity investment and the decrease in capital expenditure in the first half of 2006.

In the first half of 2006, the Group's net outflow from financing activities was Rmb 23,762,000, a decrease of cash outflow by Rmb 305,093,000 as compared with the corresponding period of last year. This was mainly because the reduction in the amount of repayment exceeded borrowing in the first half of 2006.

(3) Bank borrowings

At 30 June 2006, the Group's bank loans were Rmb 200,000,000, increased by Rmb 12,500,000 compared with Rmb 187,500,000 as at 31 December 2005. The Group's major bank loans were denominated in Renminbi and all of the bank loans were charged at the fixed interest rate. The borrowing requirements of the Group were not subject to seasonal changes.

(4) Debt-equity ratio

The debt-equity ratio of the Group was zero for the first half of 2006 (first half of 2005:2.2 per cent). The ratio is computed by long-term debt divided by the sum of long-term debt and shareholders' equity.

(5) Assets charges

As at 30 June 2006, there was not any charge on the Group's assets.

(6) 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 2006, the Group's capital expenditure amounted to Rmb 16,820,000, which was mainly invested the projects that increase profit contribution from existing assets such as saving energy consumption, safety and environment, and reducing costs and expenses.

The Group's capital expenditure budget for 2006 is projected to be approximately Rmb 540,000,000. In the second half of 2006, in order to maximize investment contributions, the Group will arrange the schedule of capital expenditure in accordance with the prudential principle. It is expected to Rmb 400,000,000 for the PTA project with an annual capacity of 1,000,000 tonnes. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

7. SIGNIFICANT EVENTS

1. On 1 January 2005, the Company formally implemented internal control system, which covers the Company's production and operational chain and key business sectors. In light of the regulatory requirements both locally and overseas, the system was examined by the 4th meeting of the Board of the fifth term held on 31 March 2006.

2. Sinopec, the controlling shareholder of the Company, is studying the split share structure reform of listed subsidiaries (including the Company) according to relevant regulations. But there is no concrete plan on the split share structure reform of the Company at present.

3. As approved by 2005 AGM held on 18 June 2006, the Company did not pay a final cash dividend for the year ended 31 December 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 2006.

4. During the reporting period, the Group was not involved in any material litigation or arbitration.

5. During the reporting period, details of disposal of assets are as follows:

   In order to speed up the reform adjustments of Tianma Chemical Fibre, a wholly-owned subsidiary of the Company, the 27th meeting of the Board of fourth term held on 28 October 2005 approved the placement on the Shanghai United Assets and Equity Exchange ("**SUAEE**") by equity transfer. According to the revaluation result issued by Beijing China Enterprise Appraisal Co. Ltd appointed by the Company, the book value of the asset is Rmb 720 million and the revalued value is Rmb 482 million, with a net revaluation deficit of Rmb 238 million. The resolution of the Board confirmed the above-mentioned result. According to the revaluation report, the provision for assets impairment is Rmb 301 million by excluding the incremental part of the revalued assets in the financial statements for the period ended 30 September 2005 (of this, provision for impairment of fixed assets is Rmb 286 million, provision for diminution in value of inventories is Rmb 15 million). With the addition of Rmb 105 million to the provision for impairment of fixed assets made at the end of 2005 based on the estimated net selling price mentioned below, the total provision for impairment of fixed assets is Rmb 391 million. In addition, the Group recorded Rmb 67 million of employee reduction expenses for the voluntary resignation contracts of Tianma Chemical Fibre employees.

   According to the SSE listing rules, the EGM held on 23 December 2005 approved the resolution of assets impairment of Tianma Chemical Fibre and authorized the Board to implement transfer of relevant assets.

   Through the public tender on the SUAEE, on 24 March 2006, the Company entered into the Sale and Purchase Agreement with Shenzhen Bangduo Company Limited ("Shenzhen **Bangduo**") and Ease Birch (Hong Kong) Limited ("**Ease Birch HK**"), pursuant to which the Company agreed to sell its 100% equity interest in Tianma Chemical Fibre together with the shareholder's loan for an aggregate consideration of Rmb 230 million, which will be reduced by Tianma Chemical Fibre's operating loss during the period between 31 July 2005 and 31 March 2006. As the result of the assets disposal, the Group has recorded a loss of Rmb 458 million in 2005.

5. *(continued)*

On 15 August 2006, the Board announced that Shenzhen Bangduo, one of the purchasers, suffered from financial difficulty and was unable to execute the conditional sale and purchase agreement. Shenzhen Bangduo revoked the original sale and purchase agreement and forfeited the deposit paid to the Group amounting to Rmb 15 million approximately pursuant to the agreement stipulations. Such deposit is sufficient to compensate for the loss of the continuing operation of Tianma Chemical Fiber. As a result, no additional losses were suffered. Through the Company's endeavour and in accordance with relevant regulations of SUAEE, on 14 August 2006, the Group entered into a new sale and purchase agreement with Ease Birch HK and two other new third-party purchasers, Zhejiang Jintai Construction Materials Company Limited and Shenzhen Jinyihua Investment Company Limited, to dispose of its 100% equity interest in Tianma Chemical Fibre in terms of previously decided deal content and price. At present, the equity transfer is in progress.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times on 31 October 2005, 26 December 2005, 27 March 2006 and 16 August 2006, Hong Kong Economic Times and South China Morning Post on 31 October 2005, 28 December 2005, 27 March 2006 and 16 August 2006.

The Board is of the view that disposal of Tianma Chemical Fibre is advantageous to improve the profitability and competitiveness of its core business.

During the reporting period, the Group had no other acquisition or disposals of assets, nor any merger and acquisitions activities other than mentioned above.

6. Information on connected transactions

In the 2005 AGM held on 18 June 2006, independent shareholders discussed and approved the resolution of 2006 ordinary connected transactions in terms of existing connected transaction agreement.

The Group's material connected transactions entered into during the period ended 30 June 2006 were as follows:

(a) The following is the significant connected transactions relating to ordinary operation during the reporting period

Type of transaction	**Transaction parties**	**Amount of transaction** *Rmb'000*	**Proportion of the same type of transaction** *(%)*
Purchase of raw materials	Sinopec and its subsidiaries	3,753,957	54.1
	Of which:		
	Sinopec Yangzi Petrochemical Company Limited	2,052,412	29.5
	Sinopec Zhenhai Refining & Chemical Company Limited	1,282,890	18.5

(a) *(continued)*

The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreements governing these transactions were fitted with the requirements of business operations and the market situation. Meanwhile, the Group is of opinion that purchasing goods from the above related parties ensures a steady and secured supply of raw materials. Therefore, these connected transactions are beneficial to the Group. These transactions were mainly negotiated at market prices. The above transactions have no adverse effect on the profit of the Group and independency of the Company.

(b) During the reporting period, the following is connected transactions relating to the transfer of the asset or equity in the Group.

The Company signed the equity transfer agreement with CPC on 20 March 2006. Pursuant to which the Company agreed to sell and CPC agreed to buy 2 per cent shares of the Sinopec Finance held by the Company, the corresponding consideration is Rmb 82 million in cash. The requisite transfers of rights and interests have been completed.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 21 March 2006.

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 fully complied with the related regulations issued by HKSE and the SSE.

Details of connected transactions during the reporting period please refer to note 29 of interim financial report prepared in accordance with the PRC Accounting Rules and Regulations.

7. The process of cleaning up the non-operating funds supplied by the Company to the controlling shareholders and its subsidiaries.

Balance of non-operating funds supplied by the Company to the controlling shareholders and its subsidiaries				
At the beginning of the reporting period	**At the end of the reporting period**	**Mode of repayment**	**Repayment amount during the reporting period**	**Time of repayment**
Rmb	Rmb		Rmb	
2,754,197.35	0	Cash and correction of non-material accounting mistake	2,754,197.35	February and April 2006

Explanation for the non-operating supplied by the Company to the controlling shareholders and its subsidiaries and the process of cleaning up the occupied capital	As at 31 December, 2005, the non-operating funds supplied by the Company to the ultimate controlling shareholders and its subsidiaries is Rmb 2,754,197.35, whose ageing was more than one year. In February 2006, Rmb 42,471.00 was repaid in cash. The other account receivable is incurred from the difference confirming the public engineering computation of previous years, which generates a statistical error for both parties and results in non-material accounting mistakes. According to "enterprise accounting rule-policy, estimation modification and error correction", the loss was recognised in the income statement at the end of April 2006.

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

9. The Company did not make any guarantee or pledge during the reporting period.

10. As at 30 June 2006, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting 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 2006. 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 on polyester products and major polyester raw materials from 1 January 2006 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%*	**6.5%***	7.6%	6.5%

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

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

13. On 14 July 2006, the U.S. Department of Commercial Affairs declared its initiation of an anti-dumping investigation targeting imported polyester staple fibre from the PRC. The products involved are polyester staple fibre not combed or processed other that at the stages before-spinning. The preliminary conclusion of industry damage was made on 8 August 2006, and the final conclusion will be made on 6 April 2007.

    The Group did not export the products mentioned above to the U.S. during the period under investigation, and the Company did not answer the prosecution. The influence of the case on the Company is limited.

14. The Group and its shareholders who hold more than five per cent of the Group's shares did not have any undertaking which required disclosures.

15. Save those disclosed above, the Group was not affected by 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 34 to 49.

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 2006.

KPMG
Certified Public Accountants

Hong Kong, China
25 August 2006

Consolidated income statement

for the six months ended 30 June 2006 – unaudited

		Six months ended 30 June	
		2006	2005
	Note	***Rmb'000***	*Rmb'000*
Turnover		**8,051,557**	7,663,928
Cost of sales		**(7,777,098)**	(7,455,094)
Gross profit		**274,459**	208,834
Other operating income		**60,667**	16,858
Selling expenses		**(99,190)**	(98,953)
Administrative expenses		**(143,930)**	(179,785)
Other operating expenses	*8(b)*	**(30,513)**	(406,741)
Operating profit/(loss) before financing costs		**61,493**	(459,787)
Financial income		**8,373**	2,273
Financial expenses		**(12,755)**	(39,473)
Net financing costs		**(4,382)**	(37,200)
Profit/(loss) before taxation	*4*	**57,111**	(496,987)
Income tax (expense)/credit	*5*	**(15,665)**	39,300
Profit/(loss) for the period		**41,446**	(457,687)
Attributable to:			
Equity shareholders of the Company		**43,498**	(457,691)
Minority interests		**(2,052)**	4
Profit/(loss) for the period		**41,446**	(457,687)
Basic earnings/(loss) per share *(in Rmb)*	*7(a)*	**0.011**	(0.114)

The notes on pages 38 to 49 form part of this interim financial report.

Consolidated Balance Sheet
as at 30 June 2006 – unaudited

	Note	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Non-current assets			
Property, plant and equipment	8	5,977,940	6,283,767
Construction in progress		260,978	275,871
Lease prepayments		118,642	120,142
Available-for-sale equity securities	4(a)	–	62,500
Deferred tax assets		100,285	110,191
		6,457,845	6,852,471
Current assets			
Inventories		1,124,654	1,236,018
Trade and other receivables	9	1,261,782	1,118,153
Deposits with banks and other financial institutions		52,000	25,998
Cash and cash equivalents	10	896,284	356,855
Assets classified as held for sale	2	216,143	243,618
		3,550,863	2,980,642
Current liabilities			
Trade and other payables	11	1,609,447	1,456,322
Bank loans		200,000	137,500
Income tax payable		3,702	9,785
Liabilities classified as held for sale	2	26,109	55,589
		1,839,258	1,659,196
Net current assets		1,711,605	1,321,446
Total assets less current liabilities		8,169,450	8,173,917
Non-current liabilities			
Bank loans		–	50,000
Net assets		8,169,450	8,123,917
Equity			
Share capital		4,000,000	4,000,000
Share premium		2,518,833	2,518,833
Reserves	12	1,251,080	1,246,672
Retained profits		349,806	306,308
Total equity attributable to equity shareholders of the Company		8,119,719	8,071,813
Minority interests		49,731	52,104
Total equity		8,169,450	8,123,917

Approved and authorised for issue by the Board of Directors on 25 August 2006.

Xu Zheng-ning	**Xiao Wei-zhen**
Chairman	*Managing Director*

The notes on pages 38 to 49 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2006 – unaudited

		Attributable to equity shareholders of the Company						
	Note	Share capital Rmb'000	Share premium Rmb'000	Reserves Rmb'000	Retained earnings Rmb'000	Total Rmb'000	Minority interests Rmb'000	Total equity Rmb'000
As at 1 January 2005 – as restated		4,000,000	2,518,833	1,246,617	1,373,816	9,139,266	52,529	9,191,795
Loss for the period								
– attributable to equity shareholders of the Company		–	–	–	(457,691)	(457,691)	–	(457,691)
– minority interests		–	–	–	–	–	4	4
Dividends	6	–	–	–	(100,000)	(100,000)	–	(100,000)
Distributions to minority interests		–	–	–	–	–	(2,550)	(2,550)
As at 30 June 2005		4,000,000	2,518,833	1,246,617	816,125	8,581,575	49,983	8,631,558
As at 1 January 2006		4,000,000	2,518,833	1,246,672	306,308	8,071,813	52,104	8,123,917
Addition of minority interests		–	–	–	–	–	850	850
Profit for the period								
– attributable to equity shareholders of the Company		–	–	–	43,498	43,498	–	43,498
– minority interests		–	–	–	–	–	(2,052)	(2,052)
Dividends	6	–	–	–	–	–	–	–
Distributions to minority interests		–	–	–	–	–	(1,171)	(1,171)
Others		–	–	4,408	–	4,408	–	4,408
As at 30 June 2006		**4,000,000**	**2,518,833**	**1,251,080**	**349,806**	**8,119,719**	**49,731**	**8,169,450**

The notes on pages 38 to 49 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2006 – unaudited

		Six months ended 30 June	
		2006	2005
	Note	***Rmb'000***	*Rmb'000*
Cash generated from operations		**527,324**	436,956
Income tax paid		**(11,842)**	(36,827)
Net cash generated from operating activities		**515,482**	400,129
Net cash generated from/(used in) investing activities		**44,957**	(65,200)
Net cash used in financing activities		**(23,762)**	(328,855)
Net increase in cash and cash equivalents		**536,677**	6,074
Cash and cash equivalents at 1 January	*10*	**372,535**	228,152
Cash and cash equivalents at 30 June	*10*	**909,212**	234,226

The notes on pages 38 to 49 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 authorised for issuance on 25 August 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

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 2005 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 33.

The financial information relating to the financial year ended 31 December 2005 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 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2006. The 2005 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 on pages 92 to 93.

2. Non-current assets held for sale

The assets and liabilities of a subsidiary, Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**"), are presented as held for sale following the decision of the Group's management on 28 October 2005 to sell this disposal group in order to streamline the Group's operational and organizational structure in view of the current market condition of the chemical polyester industry. On 24 March 2006, the Group entered into a conditional sale and purchase agreement with two third party co-purchasers, Ease Birch (Hong Kong) Limited ("**Ease Birch HK**") and Shenzhen Bangduo Industrial Company Limited ("**Shenzhen Bangduo**"), to dispose of its 100% equity interest in Tianma Chemical Fibre and shareholder's loan to them.

Shenzhen Bangduo revoked the above agreement and forfeited the deposit of Rmb 14,950,000 paid to the Group. The Group recognised the forfeited deposit as other operating income in the income statement for the six months ended 30 June 2006.

On 14 August 2006, the Group entered into a new conditional sale and purchase agreement with Ease Birch HK and two other new third-party purchasers, Zhejiang Jintai Construction Materials Company Limited ("**Zhejiang Jintai**") and Shenzhen Jinyihua Investment Company Limited ("**Shenzhen Jinyihua**"), to dispose of its 100% equity interest in Tianma Chemical Fibre and shareholder's loan (note 15(a)).

An additional impairment loss of Rmb 10,400,000 for the subsequent remeasurement of the disposal group to fair value less costs to sell has been recognised and included in "Other operating expenses" in the income statement for the six months ended 30 June 2006. The carrying amount of the disposal group, net of impairment loss, is Rmb 190,034,000 as at 30 June 2006 (2005: Rmb 188,029,000).

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. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

		Six months ended 30 June	
		2006	2005
	Note	***Rmb'000***	*Rmb'000*
Interest on borrowings		**11,882**	42,504
Less: Borrowing costs capitalised into construction in progress		**–**	(3,543)
Interest expense, net		**11,882**	38,961
Depreciation		**347,936**	452,883
Impairment loss of property, plant and equipment	*2, 8(b)*	**10,400**	391,860
Amortisation of lease prepayments		**1,500**	2,492
Write-down of inventory		**1,799**	27,379
Loss of bills receivable		**–**	25,000
Share of loss of jointly controlled entity		**15,019**	–
Staff reduction expenses		**5,037**	9,681
Net loss/(gain) on disposal of property, plant and equipment		**2,064**	(67)
Forfeited deposit	*2*	**(14,950)**	–
Interest income		**(7,131)**	(2,165)
Gain on disposal of available-for-sale equity securities	*(a)*	**(19,500)**	–

(a) Pursuant to the equity transfer agreement signed on 20 March 2006, the Group sold all its 2% equity interest in Sinopec Finance Company Limited ("**Sinopec Finance**") to CPC for a cash consideration of Rmb 82,000,000. The gain on disposal of the investment is Rmb 19,500,000.

5. Income tax expense/(credit)

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Current tax expense		
– Current period	**3,581**	2,533
– Under-provision in respect of prior years	**2,178**	1,773
	5,759	4,306
Deferred taxation	**9,906**	(43,606)
	15,665	(39,300)

The charge for PRC income tax of the Company is calculated at the rate of 15% (2005: 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 2006. It is possible that the Company's tax rate will increase in future periods.

5. Income tax expense/(credit) *(continued)*

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33% (2005: 15% to 33%). No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.

The PRC income tax rate applicable to the jointly controlled entity is 27%. Starting from the year in which taxable income is made after the offset of deductible losses incurred in prior years, the jointly controlled entity is entitled to an exemption from PRC income tax for the first and second years and a 50% reduction in the PRC income tax rate for the third to fifth years.

6. Dividend

No final dividend in respect of the financial year 2005 was approved during the period (financial year 2004: Rmb 2.5 cents per share totalling Rmb 100,000,000).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Rmb nil).

7. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of Rmb 43,498,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: loss of Rmb 457,691,000) and the number of ordinary shares of 4,000,000,000 (2005: 4,000,000,000) in issue during the period.

(b) Diluted earnings/(loss) per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2006.

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 2006 are as follows:

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Cost of acquisitions and transfer from construction in progress	**65,324**	42,441
Disposals (net carrying amount)	**23,215**	3,709

(b) Impairment loss

In order to diversify 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 ("**the venturer**") 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 is a jointly controlled entity, which is 50% owned by the Company and 50% owned by the venturer. Pursuant to the JV Contract, the capital contributions made by the Company and the venturer were in the form of property, plant and equipment and cash respectively.

8. Property, plant and equipment *(continued)*

(b) Impairment loss *(continued)*

As required by the relevant PRC rules and regulations and the relevant provisions in the JV Contract, a revaluation of the Company's property, plant and equipment contributed and disposed of to the JV was carried out 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. Immediately before the disposal of the relevant property, plant and equipment, the Group assessed their recoverable amount. Based on this assessment, an impairment loss of Rmb 391,860,000 in total was recognised to write down the carrying amount of these property, plant and equipment to their recoverable amount (included in "Other operating expenses") during 2005. The estimate of the recoverable amount was based on the property, plant and equipment's fair value less costs to sell, determined by reference to the revalued amount set out in the above revaluation report, which represents the disposition value of the property, plant and equipment agreed between the Company and the venturer.

9. Trade and other receivables

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Trade receivables	**287,307**	170,796
Bills receivable	**821,462**	817,439
Amounts due from parent companies and fellow subsidiaries (trade)	**26,531**	11,690
Amount due from a jointly controlled entity (trade)	**–**	1,260
	1,135,300	1,001,185
Amounts due from parent companies and fellow subsidiaries (non-trade)	**9,540**	8,397
Amount due from a jointly controlled entity (non-trade)	**60,792**	60,792
Other receivables, deposits and prepayments	**56,150**	47,779
	1,261,782	1,118,153

Sales are generally on a cash term. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

9. Trade and other receivables *(continued)*

The ageing analysis of trade receivables, bills receivable, amounts due from parent companies and fellow subsidiaries (trade) and amount due from a jointly controlled entity (trade), net of provision, is as follows:

	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Invoice date:		
Within one year	**1,132,852**	996,518
Between one and two years	**1,422**	3,880
Between two and three years	**1,026**	628
Over three years	**–**	159
	1,135,300	1,001,185

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

10. Cash and cash equivalents

	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Cash in hand	**54**	31
Balances with banks and other financial institutions with an initial term of less than three months	**896,230**	356,824
Cash and cash equivalents in the consolidated balance sheet	**896,284**	356,855
Cash and cash equivalents attributable to a disposal group held for sale	**12,928**	15,680
Cash and cash equivalents in the consolidated cash flow statement	**909,212**	372,535

11. Trade and other payables

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Trade payables	**761,698**	794,182
Amounts due to parent companies and fellow subsidiaries (trade)	**255,341**	47,694
	1,017,039	841,876
Amounts due to parent company and fellow subsidiaries (non-trade)	**9,334**	10
Amount due to a jointly controlled entity (non-trade)	**3,664**	–
Other payables and accrued expenses	**579,410**	614,436
	1,609,447	1,456,322

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

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Due within one month or on demand	**985,848**	810,104
Due after one month but within six months	**31,191**	31,772
	1,017,039	841,876

The amounts due to parent company and fellow subsidiaries (non-trade) and amount due to a jointly controlled entity (non-trade) are unsecured, interest free and have no fixed repayment terms.

Other payables and accrued expenses include an amount of Rmb 9,456,000 (2005: Rmb 12,834,000) which is expected to be settled after more than one year.

12. Reserves

For the six months ended 30 June 2006, no transfers were made to the statutory surplus reserve, the statutory public welfare fund or the discretionary surplus reserve (2005: Rmb nil).

According to the Company Law of the PRC which was revised on 27 October 2005, the Company, its subsidiaries and its jointly controlled entity are no longer required to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No.67" issued by the Ministry of Finance, the balance of this fund as at 31 December 2005 was transferred to statutory surplus reserve.

13. 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, CITIC Industrial Bank, 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.

Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") is considered to be a related party as it is a jointly controlled entity of which the Company and the venturer have the ability to exercise jointly control over it.

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

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Yangzi		
– Purchases of raw materials	**2,050,412**	1,586,721
Zhenhai		
– Purchases of raw materials	**1,282,890**	1,324,657
Yihua and its subsidiaries ("Yihua Group")		
– Sales	**128,721**	269,592
– Purchases	**–**	56,201
– Miscellaneous service fee charges *(see note below)*	**6,300**	44,300
– Miscellaneous service fee income *(see note below)*	**–**	9,000

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, 19 February 2005 and 20 January 2006 signed between the Company and Yihua.

	2006	2005
Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)		
– Service charges	**17,938**	12,071
– Purchases of raw materials	**418,655**	127,296

13. Related party transactions *(continued)*

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

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries and Sinopec Finance)		
– Purchases of raw materials	**–**	56,301
– Insurance premium	**14,379**	17,076
– Gain on disposal of available-for-sale equity securities *(note 4(a))*	**19,500**	–
Sinopec Finance		
– Interest income	**83**	257
– Interest expense	**–**	509
CITIC Industrial Bank		
– Interest income	**557**	167
– Interest expense	**85**	–
Yihua UNIFI		
– Sales	**222,817**	–

(b) Deposits with and loan from related parties

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Sinopec Finance		
– Bank deposits	**64,749**	66,661
CITIC Industrial Bank		
– Bank deposits	**55,245**	25,592
– Short-term loans	**15,000**	10,000

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.

13. Related party transactions *(continued)*

(c) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("**state-controlled entities**") through its government authorities, agencies, affiliations and other organisations.

Apart from transactions with CPC and its fellow subsidiaries and CITIC Industrial Bank, the Group has transactions with other state-controlled entities which include but are not limited to the following:

– depositing money; and

– borrowing loans.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its approval process for depositing money and borrowing loans which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the interim financial report, the directors are of the opinion that the following transactions require disclosure as related party transactions:

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income from and interest expenses to these state-controlled banks in the PRC are as follows:

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
State-controlled banks		
– Interest income	**3,296**	1,741
– Interest expenses	**6,057**	20,405

The amounts of deposits and loans placed with state-controlled banks in the PRC are summarised as follows:

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
State-controlled banks		
– Bank deposits	**841,164**	306,249
– Bank loans	**185,000**	212,591

13. Related party transactions *(continued)*

(d) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensations are as follows:

	Six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Short-term employee benefits	**1,297**	1,282
Retirement scheme contributions	**63**	56

(e) Contributions to defined contribution retirement scheme

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 the schemes of the Company, its principal subsidiary, Tianma Chemical Fibre, and its jointly controlled entity, Yihua UNIFI, are as follows:

Administrator	**Beneficiary**	**Contribution rate**	
		2006	2005
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**19%**	19%
Foshan Municipal Government, Guangdong Province	Employees of Tianma Chemical Fibre	**10%**	10%
Yizheng Municipal Government, Jiangsu Province	Employees of Yihua UNIFI	**19%**	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.

The Group has no other material obligation for the payment of retirement benefits associated with this scheme.

14. 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 2006 not provided for in the interim financial report as follows:

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Authorised but not contracted for	**108,958**	186,358
Contracted for	**–**	–
	108,958	186,358

15. Post balance sheet event

(a) On 24 March 2006, the Group signed a conditional sale and purchase agreement with two third party co-purchasers Ease Birch HK and Shenzhen Bangduo in order to sell its 100% equity interest in Tianma Chemical Fibre and shareholder's loan. However, Shenzhen Bangduo, one of the purchasers, suffered from financial difficulty and was unable to execute the agreement. Afterwards, Shenzhen Bangduo has agreed to revoke the original sale and purchase agreement and forfeited the deposit of Rmb 14,950,000 paid to the Group. On 14 August 2006, a new conditional sale and purchase agreement was entered into with Ease Birch HK and two other new purchasers, Zhejiang Jintai and Shenzhen Jinyihua, to buy the 100% equity interest in Tianma Chemical Fibre and shareholder's loan, with a net consideration of Rmb 187,427,000.

(b) Pursuant to the JV Contract signed between the venturer and the Company dated 10 June 2005 and Yihua UNIFI's board resolution dated 7 June 2006, the registered capital of Yihua UNIFI was increased from USD 30,000,000 to USD 60,000,000. The Company and the venturer had agreed to convert the amounts of Rmb 120,252,000 (equivalent to USD 15,000,000) and USD 15,000,000 respectively due from Yihua UNIFI to Yihua UNIFI's paid-in capital. Yue Hua Certified Public Accountants have verified the above capital contributions, and issued related capital verification report on 25 July 2006 (Yue Hua Su Yan Zi [2006] No.013).

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

Balance sheets *(unaudited)*

		The Group		The Company	
	Note	**At 30 June 2006 *Rmb'000***	At 31 December 2005 *Rmb'000*	**At 30 June 2006 *Rmb'000***	At 31 December 2005 *Rmb'000*
Assets					
Current assets					
Cash at bank and on hand	*4*	**961,212**	398,533	**837,635**	281,947
Bills receivable	*5*	**822,618**	820,731	**759,599**	748,856
Accounts receivable	*6*	**314,733**	189,407	**292,400**	171,848
Other receivables	*7*	**113,492**	111,881	**344,631**	319,226
Payments in advance	*8*	**25,382**	17,328	**6,124**	3,923
Inventories	*9*	**1,169,001**	1,287,936	**1,026,611**	1,157,898
Total current assets		**3,406,438**	2,825,816	**3,267,000**	2,683,698
Long-term investments					
Long-term equity investments	*10*	**–**	62,500	**283,055**	352,187
Receivables due after one year	*10*	**–**	–	**44,224**	2,712
Total long-term investments		**–**	62,500	**327,279**	354,899
Fixed assets					
Cost		**14,117,287**	14,064,457	**12,692,263**	12,635,784
Less: Accumulated depreciation		**7,463,288**	7,152,305	**6,829,514**	6,536,333
Net book value before provision for impairment		**6,653,999**	6,912,152	**5,862,749**	6,099,451
Less: Provision for impairment of fixed assets		**417,618**	417,621	**25,857**	25,860
Net book value after provision for impairment	*11*	**6,236,381**	6,494,531	**5,836,892**	6,073,591
Construction in progress	*12*	**262,726**	270,963	**258,094**	269,215
Total fixed assets		**6,499,107**	6,765,494	**6,094,986**	6,342,806
Intangible assets and other assets					
Intangible assets	*13*	**180,470**	247,655	**158,227**	224,351
Long-term deferred expenses	*14*	**–**	–	**–**	–
Total intangible assets and other assets		**180,470**	247,655	**158,227**	224,351
Deferred taxation					
Deferred tax assets	*3(e)*	**73,646**	83,410	**73,646**	83,410
Total assets		**10,159,661**	9,984,875	**9,921,138**	9,689,164

The notes on pages 56 to 91 form part of this interim financial report.

Balance sheets *(unaudited)* *(continued)*

		The Group		The Company	
	Note	**At 30 June 2006 Rmb'000**	At 31 December 2005 Rmb'000	**At 30 June 2006 Rmb'000**	At 31 December 2005 Rmb'000
Liabilities and shareholders' funds					
Current liabilities					
Short-term loans	15(a)	**60,000**	82,591	**–**	–
Bills payable	16	**–**	5,501	**–**	–
Accounts payable	16	**819,343**	507,729	**809,002**	499,199
Receipts in advance	16	**216,231**	343,802	**188,176**	347,299
Accrued payroll		**108,685**	164,279	**101,744**	155,720
Staff welfare payable		**57,800**	54,430	**50,048**	47,165
Taxes payable	3(d)	**54,641**	12,931	**52,949**	4,638
Other payables	17	**4,133**	22,799	**3,428**	21,842
Other creditors	16	**362,011**	354,590	**289,946**	235,767
Accrued expenses	18	**202**	279	**202**	279
Long-term liabilities due within one year	19	**146,756**	97,431	**140,000**	90,000
Total current liabilities		**1,829,802**	1,646,362	**1,635,495**	1,401,909
Long-term liabilities					
Long-term loans	15(b)	**–**	50,000	**–**	50,000
Long-term payables	20	**9,456**	12,834	**–**	–
Total long-term liabilities		**9,456**	62,834	**–**	50,000
Total liabilities		**1,839,258**	1,709,196	**1,635,495**	1,451,909
Minority interests		**49,731**	52,104	**–**	–
Shareholders' funds					
Share capital	21	**4,000,000**	4,000,000	**4,000,000**	4,000,000
Capital reserve	22	**3,107,945**	3,103,537	**3,117,590**	3,113,182
Surplus reserves	23	**1,456,004**	1,456,004	**1,456,004**	1,456,004
Accumulated losses		**(293,277)**	(335,966)	**(287,951)**	(331,931)
Total shareholders' funds		**8,270,672**	8,223,575	**8,285,643**	8,237,255
Total liabilities and shareholders' funds		**10,159,661**	9,984,875	**9,921,138**	9,689,164

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2006.

Xu Zheng-ning	**Xiao Wei-zhen**	**Xu Xiu-yun**
Chairman (Legal Representative)	*Managing Director*	*Supervisor of the Asset and Accounting Department*

The notes on pages 56 to 91 form part of this interim financial report.

Income and profit appropriation statement *(unaudited)*

	Note	The Group For the six months ended 30 June 2006 Rmb'000	The Group For the six months ended 30 June 2005 Rmb'000	The Company For the six months ended 30 June 2006 Rmb'000	The Company For the six months ended 30 June 2005 Rmb'000
Sales from principal activities	24	**8,051,557**	7,663,928	**7,577,323**	7,249,128
Less: Cost of sales from principal activities	24	**7,761,320**	7,415,604	**7,306,167**	7,008,560
Business taxes and surcharges	3(c)	**20,687**	11,504	**20,407**	11,181
Profit from principal activities		**269,550**	236,820	**250,749**	229,387
Less: Loss/(profit) from other operations		**5,125**	(15,502)	**(960)**	(13,207)
Operating expenses		**99,210**	98,953	**75,348**	81,592
General and administrative expenses		**150,352**	209,804	**135,898**	191,566
Financial expenses	25	**4,382**	40,743	**(943)**	34,589
Operating profit/(loss)		**10,481**	(97,178)	**41,406**	(65,153)
Add: Investment income/(loss)	26	**20,155**	–	**1,456**	(45,773)
Non-operating income	27	**40,512**	1,356	**24,063**	850
Less: Non-operating expenses	28	**14,988**	406,741	**13,181**	405,633
Profit/(loss) before income tax		**56,160**	(502,563)	**53,744**	(515,709)
Less: Income tax	3(b)	**15,523**	(40,136)	**9,764**	(49,471)
Minority interests		**(2,052)**	4	**–**	–
Net profit/(loss) for the period		**42,689**	(462,431)	**43,980**	(466,238)
Add: (Accumulated losses)/retained profits at the beginning of the period		**(335,966)**	718,313	**(331,931)**	724,967
(Accumulated losses)/retained profits available for distribution to shareholders		**(293,277)**	255,882	**(287,951)**	258,729
Less: Cash dividends appropriated to shareholders		**–**	100,000	**–**	100,000
(Accumulated losses)/retained profits at the end of the period		**(293,277)**	155,882	**(287,951)**	158,729

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2006.

Xu Zheng-ning	**Xiao Wei-zhen**	**Xu Xiu-yun**
Chairman	*Managing Director*	*Supervisor of the Asset and*
(Legal Representative)		*Accounting Department*

The notes on pages 56 to 91 form part of this interim financial report.

Cash flow statements *(unaudited)*

	Notes to the cash flow statement	The Group For the six months ended 30 June 2006 Rmb'000	The Company For the six months ended 30 June 2006 Rmb'000
(i) Cash flows from operating activities			
Cash received from sale of goods and rendering of services		9,574,469	8,522,232
Refund of taxes		922	922
Other cash received relating to operating activities		24,338	21,965
Sub-total of cash inflows		9,599,729	8,545,119
Cash paid for goods and services		(8,163,925)	(7,294,464)
Cash paid to and for employees		(389,752)	(372,572)
Cash paid for all types of taxes		(351,368)	(331,768)
Other cash paid relating to operating activities		(170,438)	(61,437)
Sub-total of cash outflows		(9,075,483)	(8,060,241)
Net cash inflow from operating activities	*(a)*	524,246	484,878

The notes on pages 56 to 91 form part of this interim financial report.

Cash flow statements *(unaudited)* *(continued)*

		Notes to the cash flow statement	**The Group For the six months ended 30 June 2006** ***Rmb'000***	**The Company For the six months ended 30 June 2006** ***Rmb'000***
(ii)	**Cash flows from investing activities**			
	Cash received from disposal of investment		**83,505**	**82,000**
	Net cash received from disposal of fixed assets		**2,712**	**2,712**
	Other cash received relating to investing activities		**3,900**	**2,719**
	Other cash received relating to investment activities by a jointly controlled entity		**36**	**–**
	Sub-total of cash inflows		**90,153**	**87,431**
	Cash paid for acquisition of fixed assets and construction in progress		**(11,046)**	**(10,992)**
	Other cash paid for acquisition of fixed assets, construction in progress and other long-term assets by a jointly controlled entity		**(8,148)**	**–**
	Sub-total of cash outflows		**(19,194)**	**(10,992)**
	Net cash inflow from investing activities		**70,959**	**76,439**
(iii)	**Cash flows from financing activities**			
	Cash received from borrowings		**119,609**	**117,000**
	Cash received from borrowings by a jointly controlled entity		**210,000**	**–**
	Sub-total of cash inflows		**329,609**	**117,000**
	Cash repayment of borrowings		**(150,647)**	**(117,000)**
	Cash repayment of borrowings by a jointly controlled entity		**(201,553)**	**–**
	Cash paid for dividends distribution or repayment of interest		**(8,792)**	**(5,629)**
	Cash paid for interest by a jointly controlled entity		**(1,143)**	**–**
	Sub-total of cash outflows		**(362,135)**	**(122,629)**
	Net cash outflow from financing activities		**(32,526)**	**(5,629)**
	Net increase in cash and cash equivalents	*(b)*	**562,679**	**555,688**

The notes on pages 56 to 91 form part of this interim financial report.

Cash flow statements *(unaudited)* *(continued)*

Notes to the cash flow statements

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

	The Group For the six 30 June 2006 *Rmb'000*	The Company For the six 30 June 2006 *Rmb'000*
Net profit	**42,689**	**43,980**
Add: Provision for bad and doubtful debts	**569**	**–**
Provision for inventories	**1,799**	**–**
Depreciation of fixed assets	**349,743**	**330,523**
Amortisation of intangible assets	**11,044**	**9,983**
Gains arising from investments	**(20,155)**	**(1,456)**
Financial expenses	**4,751**	**(362)**
Net loss on disposal of fixed assets	**2,064**	**886**
Deferred tax assets	**9,764**	**9,764**
Decrease in gross inventories	**117,136**	**131,287**
Increase in gross operating receivables	**(135,455)**	**(156,032)**
Increase in operating payables	**142,349**	**116,305**
Minority interests	**(2,052)**	**–**
Net cash inflow from operating activities	**524,246**	**484,878**

(b) Net increase in cash and cash equivalents

Cash and cash equivalents at the end of the period *(note 4)*	**961,212**	**837,635**
Less: Cash and cash equivalents at the beginning of the period *(note 4)*	**398,533**	**281,947**
Net increase in cash and cash equivalents	**562,679**	**555,688**

The interim financial report has been approved by the Board of Directors of the Company on 25 August 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 56 to 91 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 ("**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, 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 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 ("**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 and its jointly controlled entity.

2. Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

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.

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)), 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.

2. Significant accounting policies *(continued)*

(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 low value 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 low value 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.

(i) Long-term equity investments

Where the Group 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.

2. Significant accounting policies *(continued)*

(i) Long-term equity investments *(continued)*

– 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 Group 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 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 Group'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 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) 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)*

(p) Revenue recognition *(continued)*

(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.

(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) 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, its subsidiaries and its jointly controlled entity.

(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 contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect.

(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 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.

(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**	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Provision for income tax for the period	**3,581**	2,533	**–**	–
Under provision for income tax in respect of prior periods	**2,178**	1,773	**–**	600
	5,759	4,306	**–**	600
Deferred taxation	**9,764**	(44,442)	**9,764**	(50,071)
	15,523	(40,136)	**9,764**	(49,471)

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 2006. Hence, the Company continued to apply the tax rate of 15% in 2006. 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**") 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%.

3. Taxation *(continued)*

(b) Income tax *(continued)*

The subsidiary granted with tax concession are set out below:

Name of subsidiaries	Preferential tax rate	Reason for granting concession
Yizheng Chemical Fibre Xiamen Kangqi Co., Ltd.	15%	Enterprise in Xiamen special economic zone

(c) Business tax and surcharges

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
City development tax	**13,164**	7,320	**12,986**	7,115
Education surcharge	**7,523**	4,184	**7,421**	4,066
	20,687	11,504	**20,407**	11,181

(d) Taxes payable

	The Group		The Company	
	At 30 June 2006	At 31 December 2005	**At 30 June 2006**	At 31 December 2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Income tax payable	**3,702**	9,785	**–**	2,112
City development tax payable	**5,365**	25,051	**5,335**	24,769
VAT payable/(recoverable)	**33,129**	(33,910)	**35,565**	(34,159)
Others	**12,445**	12,005	**12,049**	11,916
	54,641	12,931	**52,949**	4,638

3. Taxation *(continued)*

(e) Deferred tax assets and liabilities

Deferred tax assets

	The Group		The Company	
	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*	**At 30 June 2006 *Rmb'000***	At 31 December 2005 *Rmb'000*
Provision for bad and doubtful debts	**1,291**	1,375	**1,291**	1,375
Provision for inventories	**8,679**	8,679	**8,679**	8,679
Provision for impairment of fixed assets	**3,879**	3,879	**3,879**	3,879
Depreciation variance arising from the different residual value of fixed assets between accounting policy and tax regulation	**4,942**	4,942	**4,942**	4,942
Tax losses	**54,855**	64,535	**54,855**	64,535
	73,646	83,410	**73,646**	83,410

Deferred tax liabilities

The Group has no significant deferred tax liability.

4. Cash at bank and on hand

	The Group			
	At 30 June 2006			At 31 December 2005
	Original currency *'000*	**Exchange rate**	**Renminbi equivalent *'000***	Renminbi equivalent *'000*
Cash on hand				
– Renminbi			**54**	31
Cash at bank				
– Renminbi			**824,044**	300,455
– Hong Kong Dollars	**144**	**1.029**	**148**	2,848
– US Dollars	**2,119**	**8.010**	**16,972**	2,946
Cash at bank and on hand			**841,218**	306,280
Deposits with related companies				
– Renminbi			**119,994**	92,253
Cash and cash equivalent			**961,212**	398,533

4. Cash at bank and on hand *(continued)*

	The Company			
	At 30 June 2006			At 31 December 2005
	Original currency '000	**Exchange rate**	**Renminbi equivalent '000**	Renminbi equivalent '000
Cash on hand				
– Renminbi			**33**	15
Cash at bank				
– Renminbi			**713,028**	191,813
– Hong Kong Dollars	**136**	**1.029**	**140**	141
– US Dollars	**1,805**	**8.010**	**14,458**	497
Cash at bank and on hand			**727,659**	192,466
Deposits with related companies				
– Renminbi			**109,976**	89,481
Cash and cash equivalents			**837,635**	281,947

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 29.

5. Bills receivable

	The Group		The Company	
	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000	**At 30 June 2006 Rmb'000**	At 31 December 2005 Rmb'000
Bank acceptance bills	**822,618**	820,731	**759,599**	748,856

As at 30 June 2006, 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.

6. Accounts receivable

Ageing analysis of accounts receivable is as follows:

	The Group				The Company			
	At 30 June 2006		At 31 December 2005		**At 30 June 2006**		At 31 December 2005	
	Rmb'000	***(%)***	*Rmb'000*	*(%)*	***Rmb'000***	***(%)***	*Rmb'000*	*(%)*
Accounts receivable								
Within one year	**312,855**	**93**	184,730	85	**292,523**	**100**	169,692	98
Between one to two years	**1,571**	**1**	20,912	10	**467**	**–**	2,867	2
Between two to three years	**18,211**	**5**	3,819	2	**332**	**–**	371	–
Over three years	**4,567**	**1**	5,464	3	**160**	**–**	–	–
	337,204	**100**	214,925	100	**293,482**	**100**	172,930	100
***Less:* Provision for bad and doubtful debts**								
Within one year	**583**	**–**	–	–	**583**	**–**	–	–
Between one and two years	**141**	**9**	17,023	81	**140**	**30**	859	30
Between two and three years	**17,180**	**94**	3,190	84	**199**	**60**	223	60
Over three years	**4,567**	**100**	5,305	97	**160**	**100**	–	–
	22,471	**7**	25,518	12	**1,082**	**–**	1,082	1
Accounts receivable, net	**314,733**		189,407		**292,400**		171,848	

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

	The Group		The Company	
	At 30 June 2006	At 31 December 2005	**At 30 June 2006**	At 31 December 2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Opening balance	**25,518**	28,088	**1,082**	9,996
Add: Charge for the period/year	**–**	6,744	**–**	392
Less: Write-off during the period/year	**3,047**	9,314	**–**	9,306
Closing balance	**22,471**	25,518	**1,082**	1,082

During the six months ended 30 June 2006, the Group and the Company did not make a full or substantial provision against any individually significant accounts receivable.

6. Accounts receivable *(continued)*

During the six months ended 30 June 2006, 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 29.

As at 30 June 2006, the amount and proportion of the Group's five largest accounts receivable over the total accounts receivable are as follows:

	At 30 June 2006		At 31 December 2005	
	Rmb'000	***(%)***	*Rmb'000*	*(%)*
Total of the five largest accounts receivable	**147,789**	**44**	110,928	52

7. Other receivables

Ageing analysis of other receivables is as follows:

	The Group				**The Company**			
	At 30 June 2006		At 31 December 2005		**At 30 June 2006**		At 31 December 2005	
	Rmb'000	***(%)***	*Rmb'000*	*(%)*	***Rmb'000***	***(%)***	*Rmb'000*	*(%)*
Other receivables								
Within one year	**105,312**	**75**	101,096	73	**337,372**	**81**	310,767	80
Between one to two years	**3,330**	**2**	4,593	3	**3,247**	**1**	4,455	1
Between two to three years	**259**	**–**	238	–	**209**	**–**	238	–
Over three years	**32,400**	**23**	33,199	24	**73,626**	**18**	73,589	19
	141,301	**100**	139,126	100	**414,454**	**100**	389,049	100
Less: **Provision for bad and doubtful debts**								
Within one year	**482**	**–**	–	–	**–**	**–**	–	–
Between one to two years	**–**	**–**	–	–	**–**	**–**	–	–
Between two to three years	**50**	**19**	–	–	**–**	**–**	–	–
Over three years	**27,277**	**84**	27,245	82	**69,823**	**95**	69,823	95
	27,809	**20**	27,245	20	**69,823**	**17**	69,823	18
Other receivables, net	**113,492**		111,881		**344,631**		319,226	

7. Other receivables *(continued)*

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

	The Group		The Company	
	At 30 June 2006	At 31 December 2005	**At 30 June 2006**	At 31 December 2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Opening balance	**27,245**	27,240	**69,823**	69,823
Add: Charge for the period/year	**569**	5	**–**	–
Less: Write-off during the period/year	**5**	–	**–**	–
Closing balance	**27,809**	27,245	**69,823**	69,823

During the six months ended 30 June 2006, 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 2006, 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.

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

As at 30 June 2006, the amount and proportion of the Group's five largest other receivables over the total net other receivables are as follows:

	At 30 June 2006		At 31 December 2005	
	Rmb'000	**%**	*Rmb'000*	%
Total of the five largest other receivables	**93,961**	**66**	93,961	68

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 29.

9. Inventories

	The Group		The Company	
	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*	**At 30 June 2006 *Rmb'000***	At 31 December 2005 *Rmb'000*
Raw materials	**535,954**	659,803	**509,129**	621,110
Work in progress	**101,946**	118,725	**93,115**	111,307
Finished goods	**366,357**	334,296	**261,006**	254,863
Goods in transit	**28,530**	23,301	**28,530**	23,301
Spare parts and low value consumables	**218,463**	232,261	**192,694**	205,180
	1,251,250	1,368,386	**1,084,474**	1,215,761
***Less:* Provision for diminution in value of inventories**				
Raw materials	**8,879**	11,197	**4,600**	4,600
Finished goods	**5,630**	5,513	**4,523**	4,523
Spare parts and low value consumables	**67,740**	63,740	**48,740**	48,740
	82,249	80,450	**57,863**	57,863
	1,169,001	1,287,936	**1,026,611**	1,157,898

Provision for diminution in value of inventories:

	The Group			The Company		
	Raw materials *Rmb'000*	Finished goods *Rmb'000*	Spare parts and low value consumables *Rmb'000*	Raw materials *Rmb'000*	Finished goods *Rmb'000*	Spare parts and low value consumables *Rmb'000*
As at 1 January 2005	4,270	8,322	44,290	4,270	6,722	44,290
Add: Provision made during the year	11,197	13,791	27,861	4,600	12,801	12,861
Less: Transfer out due to sales during the year	4,270	16,600	8,411	4,270	15,000	8,411
As at 31 December 2005	11,197	5,513	63,740	4,600	4,523	48,740
As at 1 January 2006	11,197	5,513	63,740	4,600	4,523	48,740
Add: Provision made during the period	5,187	4,000	4,000	–	–	–
Less: Transfer out due to sales during the period	7,505	3,883	–	–	–	–
As at 30 June 2006	**8,879**	**5,630**	**67,740**	**4,600**	**4,523**	**48,740**

9. Inventories *(continued)*

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

During the six months ended 30 June 2006, the Group and the Company recognised the cost of inventories as an expense, including cost of inventories sold, are Rmb 7,756,398,000 (2005: Rmb 7,442,983,000) and Rmb 7,299,446,000 (2005: Rmb 7,029,952,000) respectively.

10. Long-term investments

Long-term equity investments

	The Group **Other unlisted equity investment** *Rmb'000* *note (b(i))*
As at 1 January 2006	62,500
Decrease during the period	(62,500)
As at 30 June 2006	**–**

	The Company			
	Investments in subsidiaries *Rmb'000* *note (a)*	**Investments in a jointly controlled entity** *Rmb'000*	**Other unlisted equity investment** *Rmb'000* *note (b(i))*	**Total** *Rmb'000*
As at 1 January 2006	179,584	110,103	62,500	352,187
Investment income accounted for under the equity method *(note 26)*	8,387	(15,019)	–	(6,632)
Decrease during the period	–	–	(62,500)	(62,500)
As at 30 June 2006	**187,971**	**95,084**	**–**	**283,055**

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 30 June 2006 are as follows:

Name of company	Registered capital '000	Percentage of equity held: directly by the Company	Percentage of equity held: by subsidiary	Types of legal entity	Principal activity	Registered place
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**") (Formerly 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**")	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

(b) Other unlisted equity investment

(i) Pursuant to the equity transfer agreement dated 20 March 2006, the Group sold all of its 2% equity interest in Sinopec Finance to CPC for a cash consideration of Rmb 82,000,000. The gain on disposal of the investment is Rmb 19,500,000, which has been recognised in the Group's income statement for the six months ended 30 June 2006.

(ii) Pursuant to the equity transfer agreement dated 26 March 2006, Yihua Kangqi, a subsidiary of the Company, sold its 5% equity interests in each of Yizheng Chemical Fibre Nignbo Kangqi Co., Ltd. and Yizheng Chemical Fibre Qindao Kangqi Co., Ltd. to their minority shareholders. The total gain on disposal of these investments is Rmb 655,000, which has been recognised in the Group's income statement for the six months ended 30 June 2006.

10. Long-term investments *(continued)*

(c) Receivables due after one year

	The Company	
	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Amount due from a subsidiary	**800,000**	800,000
Less: Provision for impairment	**755,776**	797,288
	44,224	2,712

The Company has advanced Rmb 800 million to Tianma Chemical Fibre to support its operating working capital on a going concern basis.

In order to streamline the Group's operational and organizational structure 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 management's assessment of the recoverable amount, determined by reference to the selling price agreed with two independent third-party co-purchasers, Shenzhen Bangduo Industrial Company Limited ("**Shenzhen Bangduo**") and Ease Birch (Hong Kong) Limited ("**Ease Birch HK**"), in the conditional sale and purchase agreement dated 24 March 2006, the Group recognised a provision of Rmb 797,288,000 as at 31 December 2005. The provision included employee reduction expense of Rmb 67,000,000, which should be paid to Tianma Chemical Fibre's employees. Based on the negotiation result between the Group and the relevant local government authority in April 2006, the employee reduction expense paid and payable to Tianma Chemical Fibre's employees reduced from Rmb 67,000,000 to Rmb 52,924,000. The Company has written back the over-provision for impairment of Rmb 14,076,000 (note 27) in the income statement for the six months ended 30 June 2006.

As disclosed in the post balance sheet event (note 32(a)), Shenzhen Bangduo, one of the purchasers, revoked the original conditional agreement and forfeited the deposit paid to the Group amounting to Rmb 14,950,000 (included in "**Non-operating income**"). The Group entered into a new conditional sale and purchase agreement with new purchasers on 14 August 2006.

The relevant receivables due after 1 year are expected to be settled within one year.

11. Fixed assets

	The Group			
	Land and buildings *Rmb'000*	Plant, machinery and equipment *Rmb'000*	Motor vehicles and other fixed assets *Rmb'000*	Total *Rmb'000*
Cost or valuation:				
As at 1 January 2006	2,521,772	10,993,552	549,133	14,064,457
Additions				
– attributable to jointly controlled entity	753	331	–	1,084
– others	2,264	42,084	757	45,105
Transfer from construction in progress *(note 12)*	1,590	37,527	13,381	52,498
Reclassification	182,065	(494,560)	312,495	–
Disposals	(5,100)	(19,734)	(21,023)	(45,857)
As at 30 June 2006	**2,703,344**	**10,559,200**	**854,743**	**14,117,287**
Accumulated depreciation:				
As at 1 January 2006	824,395	5,812,102	515,808	7,152,305
Charge for the period	40,658	278,917	30,168	349,743
Reclassification	16,196	(79,229)	63,033	–
Written back on disposal	(1,622)	(17,786)	(19,352)	(38,760)
As at 30 June 2006	**879,627**	**5,994,004**	**589,657**	**7,463,288**
Provision for impairment:				
As at 1 January 2006	78,424	337,182	2,015	417,621
Written back on disposal	–	–	(3)	(3)
As at 30 June 2006	**78,424**	**337,182**	**2,012**	**417,618**
Net book value:				
As at 30 June 2006	**1,745,293**	**4,228,014**	**263,074**	**6,236,381**
As at 31 December 2005	1,618,953	4,844,268	31,310	6,494,531

11. Fixed assets *(continued)*

	The Company			
	Land and buildings *Rmb'000*	**Plant, machinery and equipment** *Rmb'000*	**Motor vehicles and other fixed assets** *Rmb'000*	**Total** *Rmb'000*
Cost or valuation:				
As at 1 January 2006	2,140,307	10,003,335	492,142	12,635,784
Addition during the period	2,264	42,030	757	45,051
Transfer from construction in progress *(note 12)*	1,590	37,527	13,254	52,371
Reclassification	182,065	(494,560)	312,495	–
Disposals	(457)	(19,734)	(20,752)	(40,943)
As at 30 June 2006	**2,325,769**	**9,568,598**	**797,896**	**12,692,263**
Accumulated depreciation:				
As at 1 January 2006	735,212	5,317,057	484,064	6,536,333
Charge for the period	34,849	267,095	28,579	330,523
Reclassification	16,196	(79,229)	63,033	–
Written back on disposal	(219)	(17,786)	(19,337)	(37,342)
As at 30 June 2006	**786,038**	**5,487,137**	**556,339**	**6,829,514**
Provision for impairment:				
As at 1 January 2006	453	24,662	745	25,860
Written back on disposal	–	–	(3)	(3)
As at 30 June 2006	**453**	**24,662**	**742**	**25,857**
Net book value:				
As at 30 June 2006	**1,539,278**	**4,056,799**	**240,815**	**5,836,892**
As at 31 December 2005	1,404,642	4,661,616	7,333	6,073,591

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

(b) As at 30 June 2006, the original cost of fully depreciated fixed assets in use was Rmb 1,755,275,000 (2005: Rmb 1,008,286,000).

(c) The Group obtained land use rights through purchase and contribution from its former investor.

12. Construction in progress

As at 30 June 2006, the Group's and the Company's major construction in progress is as follows:

Project	Budgeted amount *Rmb'000*	Balance as at 1 January 2006 *Rmb'000*	Additions for the period *Rmb'000*	Transfer to fixed assets for the period *Rmb'000* *(note 11)*	Balance as at 30 June 2006 ***Rmb'000***	Source of fund	Percentage of completion	Interest capitalised during the period *Rmb'000*
Expansion of PTA line 2	39,092	36,790	–	–	**36,790**	Own fund	94%	–
Improvements of air-compression system of power plant	16,825	14,693	1,427	–	**16,120**	Own fund	96%	–
Upgrade of ERP system	14,500	13,902	–	–	**13,902**	Own fund	96%	–
Improvements and expansion of existing plants	208,213	202,148	39,823	(52,371)	**189,600**	Own fund	91%	–
Other construction projects	2,922	1,682	–	–	**1,682**	Own fund	58%	–
Total for the Company		269,215	41,250	(52,371)	**258,094**			
Miscellaneous projects of the subsidiaries and the jointly controlled entity		1,748	3,011	(127)	**4,632**	Own fund		
Total for the Group		270,963	44,261	(52,498)	**262,726**			

For the six months ended 30 June 2006, there was no capitalized borrowing costs (2005: Rmb nil).

13. Intangible assets

	The Group		
	Technology right	Patent right	Total
	Rmb'000	*Rmb'000*	*Rmb'000*
Cost:			
As at 1 January 2006	304,317	142,435	446,752
Disposal	(71,107)	–	(71,107)
As at 30 June 2006	**233,210**	**142,435**	**375,645**
Accumulated amortisation:			
As at 1 January 2006	64,013	135,084	199,097
Charge for the period	10,473	571	11,044
Written back on disposal	(14,966)	–	(14,966)
As at 30 June 2006	**59,520**	**135,655**	**195,175**
Net book value:			
As at 30 June 2006	**173,690**	**6,780**	**180,470**
As at 31 December 2005	240,304	7,351	247,655

The Group obtained technology right for producing differentiated polyester filament products through purchase from UNIFI Manufacturing INC. ("**UNIFI Manufacturing**") in 2005, and the amortisation period is 10 years.

	The Company		
	Technology right	Patent right	Total
	Rmb'000	*Rmb'000*	*Rmb'000*
Cost:			
As at 1 January 2006	280,000	142,435	422,435
Disposal	(71,107)	–	(71,107)
As at 30 June 2006	**208,893**	**142,435**	**351,328**
Accumulated amortisation:			
As at 1 January 2006	63,000	135,084	198,084
Charge for the period	9,412	571	9,983
Written back on disposal	(14,966)	–	(14,966)
As at 30 June 2006	**57,446**	**135,655**	**193,101**
Net book value:			
As at 30 June 2006	**151,447**	**6,780**	**158,227**
As at 31 December 2005	217,000	7,351	224,351

13. Intangible assets *(continued)*

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

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

14. Long-term deferred expenses

	The Group and the Company	
	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Cost:		
Opening and closing balances	**31,560**	31,560
Accumulated amortisation:		
Opening balance	**31,560**	31,340
Charge for the period/year	**–**	220
Closing balance	**31,560**	31,560
Net book value:		
Closing balance	**–**	–
Opening balance	**–**	220

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

15. 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 4.53% (2005: 3.85%) and 3.92% (2005: 3.84%) respectively for the six months ended 30 June 2006. The Group's short-term bank loans are credit loans, unsecured and not guaranteed. As at 30 June 2006, the Group and the Company had no significant overdue short-term bank loan (2005: Rmb nil).

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

15. Short-term and long-term loans *(continued)*

(b) Long-term bank loans

				The Group and the Company	
Lender	Period	Interest rate per annum	Interest type	At 30 June 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Industrial and Commercial Bank of China	Due in July 2006	5.18%	Fixed	**90,000**	90,000
China Construction Bank	Due in January 2007	5.18%	Fixed	**50,000**	50,000
Total long-term bank loans				**140,000**	140,000
Less: Long-term bank loans (current portion) *(note 19)*				**140,000**	90,000
Long-term bank loans (long-term portion)				**–**	50,000

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 2006 *Rmb'000*	At 31 December 2005 *Rmb'000*
Due within one year	**140,000**	90,000
Due between one to two years	**–**	50,000
	140,000	140,000

As at 30 June 2006, the Group's and the Company's long-term bank loans are credit loans, unsecured and not guaranteed.

As at 30 June 2006, there were no long-term loans from shareholders who hold 5% or more of the voting shares of the Company.

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 which repayment terms generally range from three to six months.

	The Group				The Company			
	At 30 June 2006		At 31 December 2005		**At 30 June 2006**		At 31 December 2005	
	Rmb'000	***(%)***	*Rmb'000*	*(%)*	***Rmb'000***	***(%)***	*Rmb'000*	*(%)*
Bills payable								
Bank acceptance bills	**–**	**–**	5,501	100	**–**	**–**	–	–

Bills payable were aged within one year.

As at 30 June 2006, 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 2006, 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 29.

17. Other payables

		The Group		The Company	
	Charge rate	**At 30 June 2006** ***Rmb'000***	At 31 December 2005 *Rmb'000*	**At 30 June 2006** ***Rmb'000***	At 31 December 2005 *Rmb'000*
Education surcharge	*note 3(a)*	**3,367**	22,386	**3,344**	21,759
Others		**766**	413	**84**	83
		4,133	22,799	**3,428**	21,842

18. Accrued expenses

Accrued expenses mainly represent interest accrual.

19. Long-term liabilities due within one year

	The Group		The Company	
	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000	**At 30 June 2006 Rmb'000**	At 31 December 2005 Rmb'000
Bank loans				
– Rmb loans *(note 15)*	**140,000**	90,000	**140,000**	90,000
Other long-term payable *(note 20)*	**6,756**	7,431	**–**	–
	146,756	97,431	**140,000**	90,000

20. Long-term payables

	The Group Payable for technology right	
	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
As at 1 January	**20,265**	–
Addition during the period	**–**	24,317
Decrease during the period	**(4,053)**	(4,052)
	16,212	20,265
Less: Long-term payables due within 1 year *(note 19)*	**6,756**	7,431
	9,456	12,834

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

	The Group Payable for technology right	
	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Due within 1 year	**6,756**	7,431
Due between 1 to 2 years	**5,402**	6,079
Due between 2 to 3 years	**4,054**	4,728
Due between 3 to 4 years	**–**	2,027
	16,212	20,265

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

21. Share capital

	The Group and the Company	
	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Registered, issued and paid up capital:		
2,400,000,000 local "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		
	At 31 December 2005	Addition during the period	**At 30 June 2006**
	Rmb'000	*Rmb'000*	***Rmb'000***
Share premium	3,078,825	–	**3,078,825**
Reserve for equity investment	9,644	–	**9,644**
Other capital reserve	15,068	4,408	**19,476**
	3,103,537	4,408	**3,107,945**

	The Company		
	At 31 December 2005	Addition during the period	**At 30 June 2006**
	Rmb'000	*Rmb'000*	***Rmb'000***
Share premium	3,078,825	–	**3,078,825**
Reserve for equity investment	19,289	–	**19,289**
Other capital reserve	15,068	4,408	**19,476**
	3,113,182	4,408	**3,117,590**

23. Surplus reserves

	The Group and the Company			
	Statutory surplus reserve *Rmb'000*	Statutory public welfare fund *Rmb'000*	Discretionary surplus reserve *Rmb'000*	Total *Rmb'000*
As at 1 January 2005 and 31 December 2005	513,046	348,411	594,547	1,456,004
Public welfare transfer to statutory surplus reserve *(note (c))*	348,411	(348,411)	–	–
As at 30 June 2006	**861,457**	**–**	**594,547**	**1,456,004**

(a) 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 ("**Company Law**") and the Articles of Association of the Company, its subsidiaries and its jointly controlled entity.

(b) No transfers were made for the statutory surplus reserve or the discretionary surplus reserve for the six months ended 30 June 2006.

(c) Pursuant to the Company Law revised on 27 October 2005, the Company, its subsidiaries and its jointly controlled entity are no longer required by law to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006.

Furthermore, in accordance with the relevant requirements set out in "Notice on accounting issues relating to the implementation of the Company Law of the PRC" (Cai Qi [2006] No.67) issued by the Ministry of Finance of the PRC, the balance of the statutory public welfare fund as at 31 December 2005 has been transferred to the statutory surplus reserve account.

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 primary 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 2006, revenue from sales to the top five customers was Rmb 774,060,000 (2005: Rmb 1,216,000,000) which accounted for 10% (2005: 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	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Interest expenses incurred	**11,882**	42,504	**5,552**	39,675
Interest income	**(7,131)**	(2,165)	**(5,914)**	(5,285)
Net exchange gains	**(1,242)**	(108)	**(1,283)**	(164)
Other financial expenses	**873**	512	**702**	363
	4,382	40,743	**(943)**	34,589

26. Investment income/(loss)

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Accounted for the investment loss of subsidiaries under the equity method *(note 10)*	**–**	–	**(6,632)**	(635)
Provision for impairment for receivable due after one year *(note 10(c))*	**–**	–	**(11,412)**	(45,138)
Gain on disposal of other unlisted equity investment *(note 10(b))*	**20,155**	–	**19,500**	–
	20,155	–	**1,456**	(45,773)

27. Non-operating income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Forfeited deposit *(note 10(c))*	**14,950**	–	**14,950**	–
Gain on disposal of fixed assets	**2,098**	120	**2,098**	120
Written back of employee reduction expenses over-accrued in prior period	**14,076**	–	**–**	–
Others	**9,388**	1,236	**7,015**	730
	40,512	1,356	**24,063**	850

28. Non-operating expenses

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2006	2005	**2006**	2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Provision for impairment of fixed assets	**–**	391,860	**–**	391,860
Loss on disposal of fixed assets	**4,162**	53	**2,984**	47
Staff reduction expenses	**5,037**	9,681	**5,037**	9,681
Others	**5,789**	5,147	**5,160**	4,045
	14,988	406,741	**13,181**	405,633

29. 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 2005 and 30 June 2006	1,680,000,000	42%

Please refer to note 10(a) for the primary related parties controlled or jointly controlled by the Company.

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

(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
Sinopec Zhenhai Refining and 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:

	For the six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Yangzi		
– Purchase of raw materials	**2,050,412**	1,586,721
Zhenhai		
– Purchase of raw materials	**1,282,890**	1,324,657
Yihua and its subsidiaries ("Yihua Group")		
– Sales	**128,721**	269,592
– Purchases	**–**	56,201
– Miscellaneous service fee charges *(see note below)*	**6,300**	44,300
– Miscellaneous service fee income *(see note below)*	**–**	9,000

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, 19 February 2005 and 20 January 2006 signed between the Company and Yihua.

29. 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	
	2006	2005
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)		
– Import and export agency commission	**17,938**	12,071
– Purchase of raw materials	**418,655**	127,296
CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries, Sinopec Finance)		
– Purchase of raw materials	**–**	56,301
– Insurance premium	**14,379**	17,076
– Investment income *(note 10(b(i)))*	**19,500**	–
Sinopec Finance		
– Interest income	**83**	257
– Interest expense	**–**	509
CITIC Industrial Bank		
– Interest income	**557**	167
– Interest expense	**85**	–
Yihua UNIFI		
– Sales	**222,817**	–

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 are as follows:

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Cash at bank	**64,749**	66,661

(e) Deposits with and loan from CITIC Industrial Bank are as follows:

	At 30 June 2006	At 31 December 2005
	Rmb'000	*Rmb'000*
Cash at bank	**55,245**	25,592
Short-term loan	**15,000**	10,000

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

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

	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Other receivables	**60,792**	60,792
Payments in advance	**–**	1,260
Other payables	**(3,664)**	–
	57,128	62,052

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

	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Payments in advance	**4,806**	6,533
Accounts receivable	**16,700**	–
Other receivables	**2,890**	1,747
Accounts payable	**(249,711)**	(30,633)
Other creditors	**(3,034)**	–
Receipts in advance	**(627)**	(862)
	(228,976)	(23,215)

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

	At 30 June 2006 Rmb'000	At 31 December 2005 Rmb'000
Accounts receivable	**5,025**	5,157
Other receivables	**6,650**	6,650
Accounts payable	**–**	(12,740)
Receipts in advance	**(5,003)**	(3,459)
Other creditors	**(6,300)**	(10)
	372	(4,402)

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 2006 as follows:

	The Group		The Company	
	At 30 June 2006	At 31 December 2005	**At 30 June 2006**	At 31 December 2005
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Authorised but not contracted for	**108,958**	186,358	**108,958**	186,358
Contracted for	**–**	–	**121,584**	121,584
	108,958	186,358	**230,542**	307,942

31. 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**	
		2006	2005
Yizheng Municipal Government Jiangsu Province	Employees of the Company	**19%**	19%
Foshan Municipal Government Guangdong Province	Employees of Tianma Chemical Fibre	**10%**	10%
Yizheng Municipal Government Jiangsu Province	Employees of Yihua UNIFI	**19%**	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 2006 was 9% (2005: 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 event

(a) On 24 March 2006, the Group signed a conditional sale and purchase agreement with two third party co-purchasers Shenzhen Bangduo and Ease Birch HK in order to sell its 100% equity interest in Tianma Chemical Fibre together with the amount due from Tianma Chemical Fibre. However, Shenzhen Bangduo, one of the purchasers, suffered from financial difficulty and was unable to execute the agreement. Afterwards, Shenzhen Bangduo has agreed to revoke the original sale and purchase agreement and forfeited the deposit of Rmb 14,950,000 paid to the Group. On 14 August 2006, a new conditional sale and purchase agreement was entered into with Ease Birch HK and two other new purchasers, Zhejiang Jintai Construction Materials Company Limited and Shenzhen Jinyihua Investment Company Limited, to buy the 100% equity interest in Tianma Chemical Fibre together with the amount due from Tianma Chemical Fibre, with a net consideration of Rmb 187,427,000.

(b) Pursuant to the equity joint venture contract signed between the Company and UNIFI Asia Holding SRL ("**UNIFI Asia**") dated 10 June 2005 and Yihua UNIFI's board resolution dated 7 June 2006, the registered capital of Yihua UNIFI was increased from USD 30,000,000 to USD 60,000,000. The Company and UNIFI Asia, had agreed to convert the amounts of Rmb 120,252,000 (equivalent to USD 15,000,000) and USD 15,000,000 respectively due from Yihua UNIFI to Yihua UNIFI's paid in capital. Yue Hua Certified Public Accountants have verified the above capital contributions, and issued related capital verification report on 25 July 2006 (Yue Hua Su Yan Zi [2006] No.013).

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

	The Group For the six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Non-recurring items for the period		
Forfeited deposit	**(14,950)**	–
Written back of employee reduction expenses over-accrued in prior period	**(14,076)**	–
Provision for impairment of fixed assets	**–**	391,860
Net losses/(gains) on disposal of fixed assets	**2,064**	(67)
Employee reduction expenses	**5,037**	9,681
Donations	**–**	330
Other non-operating income (excluding forfeited deposit, written back of employee reduction expenses over-accrued in prior period and gains on disposal of fixed assets)	**(9,388)**	(1,236)
Other non-operating expenses (excluding donation, losses on disposal of fixed assets, employee reduction expenses and fixed assets impairment losses)	**5,789**	4,817
	(25,524)	405,385
Less: Tax effect on above items	**3,829**	(44,308)
Total	**(21,695)**	361,077

33. Non-recurring items *(continued)*

	The Company For the six months ended 30 June	
	2006	2005
	Rmb'000	*Rmb'000*
Non-recurring items for the period		
Forfeited deposit	**(14,950)**	–
Provision for impairment of fixed assets	**–**	391,860
Net losses/(gains) on disposal of fixed assets	**886**	(73)
Employee reduction expenses	**5,037**	9,681
Donations	**–**	330
Other non-operating income (excluding forfeited deposit and gains on disposal of fixed assets)	**(7,015)**	(730)
Other non-operating expenses (excluding donation, losses on disposal of fixed assets, employee reduction expenses and fixed assets impairment losses)	**5,160**	3,715
	(10,882)	404,783
Less: Tax effect on above items	**1,632**	(44,217)
Total	**(9,250)**	360,566

(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 Group's interim financial report prepared in accordance with the PRC Accounting Rules and Regulations and IFRSs. The reconciliation presented below is included as supplemental information, is not required as part of the basic interim financial report and does not include differences related to classification, display or disclosures. Such information has not been subject to independent review. 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 non-current assets reclassified as held for sale shall not be depreciated or amortised. Under the PRC Accounting Rules and Regulations, there is no special guidance on assets held for sale and the depreciation and amortisation for the disposal group should be continued.

Hence, the carrying amount of non-current assets reclassified as held for sale under IFRSs was higher than that under the PRC Accounting Rules and Regulations. Since there is a different basis of calculation of impairment loss, the amount of impairment loss recognised in the income statement is also different under IFRSs and the PRC Accounting Rules and Regulations.

(iv) Under IFRSs, with effect from 1 January 2005, minority interests at the balance sheet date are presented in the consolidated balance sheet as part of equity, separately from the amounts attributable to equity shareholders of the Company, 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 minority interests and equity shareholders of the Company. 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 profit/loss 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 profit/(loss) 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:

	Note	**Six months ended 30 June 2006 Rmb'000**	Six months ended 30 June 2005 Rmb'000
Profit/(loss) for the period under the PRC Accounting Rules and Regulations		**42,689**	(462,431)
Adjustments:			
– Reversal of amortisation of revaluation of land use rights	*(i)*	**2,640**	2,640
– Capitalisation of general borrowing costs	*(ii)*	**(1,689)**	2,936
– Reversal of depreciation and amortisation of assets held for sale	*(iii)*	**10,400**	–
– Impairment loss of assets held for sale	*(iii)*	**(10,400)**	–
– Minority interests	*(iv)*	**(2,052)**	4
– Effects of the above adjustments on taxation		**(142)**	(836)
Profit/(loss) for the period under IFRSs		**41,446**	(457,687)

	Note	**At 30 June 2006 Rmb'000**	At 31 December 2005 Rmb'000
Total equity under the PRC Accounting Rules and Regulations		**8,270,672**	8,223,575
Adjustments:			
– Revaluation of land use rights	*(i)*	**(197,120)**	(199,760)
– Capitalisation of general borrowing costs	*(ii)*	**19,528**	21,217
– Reversal of depreciation and amortisation of assets held for sale	*(iii)*	**10,400**	–
– Impairment loss of assets held for sale	*(iii)*	**(10,400)**	–
– Minority interests	*(iv)*	**49,731**	52,104
– Effects of the above adjustments on taxation		**26,639**	26,781
Total equity under IFRSs		**8,169,450**	8,123,917

9. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE AND THE MODEL CODE

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.

The Company has adopted the Model Code as contained in Appendix 10 to the Listing Rules. After having specifically inquired from all the Directors, Supervisors and Senior Management, the Company confirms that its Directors, Supervisors and Senior Management have fully complied with the standards as set out in the Model Code.

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 28 August 2006 (Monday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2006 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 2006 signed by the Legal Representative, Chief Financial Officer and the person in charge of the accounts;

3. The Articles of Association of the Company;

4. The original manuscripts of all the documents and announcements disclosed by the Company in the newspapers designated by CSRC during the report period.

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