Report of the International Auditors

To the shareholders of Sinopec Yizheng Chemical Fibre Company Limited
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") set out on pages 57 to 100, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirement of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2007

Consolidated Income Statement

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)

	Note	2006 Rmb'000	2005 Rmb'000
Turnover	5	**17,027,846**	15,798,665
Cost of sales		**(16,478,421)**	(15,309,488)
Gross profit		**549,425**	489,177
Other income		**70,861**	46,948
Distribution costs		**(200,916)**	(210,503)
Administrative expenses		**(288,841)**	(365,543)
Other expenses	6	**(39,073)**	(806,066)
Employee reduction expenses	7	**(10,450)**	(90,939)
Net loss on disposal of property, plant and equipment		**(19,396)**	(19,323)
Profit/(loss) from operations		**61,610**	(956,249)
Financial income	8(a)	**19,616**	5,865
Financial expenses	8(a)	**(16,893)**	(58,952)
Net finance income/(costs)	8(a)	**2,723**	(53,087)
Profit/(loss) before taxation	8	**64,333**	(1,009,336)
Income tax	9(b)	**(23,450)**	41,343
Profit/(loss) for the year	11	**40,883**	(967,993)
Attributable to:			
Equity shareholders of the Company	28	**40,468**	(967,508)
Minority interests		**415**	(485)
Profit/(loss) for the year		**40,883**	(967,993)
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	12(a)	**–**	–
Basic earnings/(loss) per share (in Rmb)	13(a)	**0.010**	(0.242)

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006
(Prepared under International Financial Reporting Standards)

	Note	2006 Rmb'000	2005 Rmb'000
Non-current assets			
Property, plant and equipment	14(a)	**5,752,496**	6,283,767
Construction in progress	15	**121,818**	275,871
Lease prepayments	16	**116,647**	120,142
Available-for-sale equity securities	19	**–**	62,500
Deferred tax assets	9(c)	**99,889**	110,191
		6,090,850	6,852,471
Current assets			
Inventories	20	**1,383,553**	1,236,018
Trade and other receivables	21	**1,621,773**	1,118,153
Deposits with banks and other financial institutions	22	**118,000**	25,998
Cash and cash equivalents	23	**941,263**	356,855
Assets classified as held for sale	3	**–**	243,618
		4,064,589	2,980,642
Current liabilities			
Trade and other payables	24	**1,891,379**	1,456,322
Bank loans	25(a)	**82,500**	137,500
Income tax payable		**8,356**	9,785
Liabilities classified as held for sale	3	**–**	55,589
		1,982,235	1,659,196
Net current assets		**2,082,354**	1,321,446
Total assets less current liabilities		**8,173,204**	8,173,917
Non-current liabilities			
Bank loans	25(a)	**–**	50,000
Net assets		**8,173,204**	8,123,917
Equity			
Share capital	26	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	27	**1,259,943**	1,246,672
Retained earnings	28	**346,776**	306,308
Total equity attributable to equity shareholders of the Company		**8,125,552**	8,071,813
Minority interests		**47,652**	52,104
Total equity		**8,173,204**	8,123,917

Approved and authorised for issue by the Board of Directors on 30 March 2007.

Qian Heng-ge
Chairman

Xiao Wei-zhen
Vice Chairman and General Manager

The notes on pages 64 to 100 form part of these financial statements.

Balance Sheet

As at 31 December 2006
(Prepared under International Financial Reporting Standards)

	Note	2006 Rmb'000	2005 Rmb'000
Non-current assets			
Property, plant and equipment	14(b)	**5,491,628**	5,992,601
Construction in progress	15	**114,037**	275,871
Lease prepayments	16	**116,647**	120,142
Interest in subsidiaries	17	**60,456**	58,915
Interest in jointly controlled entity	18	**241,836**	121,584
Available-for-sale equity securities	19	**–**	62,500
Deferred tax assets	9(c)	**99,889**	110,191
		6,124,493	6,741,804
Current assets			
Inventories	20	**1,321,150**	1,157,898
Trade and other receivables	21	**1,521,953**	1,096,194
Deposits with banks and other financial institutions	22	**70,000**	–
Cash and cash equivalents	23	**840,845**	281,947
Assets classified as held for sale	3	**–**	188,029
		3,753,948	2,724,068
Current liabilities			
Trade and other payables	24	**1,855,330**	1,376,797
Bank loans	25(a)	**–**	90,000
Income tax payable		**–**	2,112
		1,855,330	1,468,909
Net current assets		**1,898,618**	1,255,159
Total assets less current liabilities		**8,023,111**	7,996,963
Non-current liabilities			
Bank loans	25(a)	**–**	50,000
Net assets		**8,023,111**	7,946,963
Equity			
Share capital	26	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	27	**1,259,943**	1,246,672
Retained earnings	28	**244,335**	181,458
Total equity		**8,023,111**	7,946,963

Approved and authorised for issue by the Board of Directors on 30 March 2007.

Qian Heng-ge
Chairman

Xiao Wei-zhen
Vice Chairman and General Manager

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)

	Note	2006 Rmb'000	2005 Rmb'000
Operating activities			
Profit/(loss) before taxation		**64,333**	(1,009,336)
Adjustments for:			
Depreciation charge		**676,296**	848,052
Amortisation of lease prepayments		**3,495**	4,981
Interest income		**(17,541)**	(4,509)
Dividend income		**–**	(3,500)
Interest expense		**14,820**	56,586
Gain on disposal of available-for-sale equity securities		**(19,500)**	–
Gain on disposal of investments		**(655)**	(3,650)
Loss on acquisition of investments		**3,196**	–
Impairment losses of assets held for sale		**13,863**	–
Impairment losses of property, plant and equipment		**–**	783,621
Net loss on disposal of property, plant and equipment		**19,396**	19,323
Operating profit before changes in working capital		**757,703**	691,568
(Increase) /decrease in inventories		**(140,003)**	338,628
Increase in trade and other receivables		**(334,820)**	(465,802)
Increase in trade and other payables		**524,305**	125,404
Cash generated from operations		**807,185**	689,798
Interest paid		**(15,099)**	(57,521)
Income tax paid		**(14,577)**	(54,767)
Net cash generated from operating activities		**777,509**	577,510
Investing activities			
Capital expenditure		**(87,211)**	(205,993)
Capital expenditure by a jointly controlled entity		**(18,688)**	(16,316)
Proceeds from disposal of a subsidiary	(a)	**9,626**	–
Proceeds from sale of available-for-sale equity securities		**82,000**	–
Proceeds from sale of investments		**1,505**	–
Proceeds from capital injection by a venturer		**–**	60,792
Proceeds from disposal of property, plant and equipment		**20,802**	134,962
Interest received		**17,479**	8,009
Interest received by a jointly controlled entity		**62**	–
(Increase)/decrease in deposits with banks and other financial institutions		**(92,002)**	104,836
Net cash (used in)/generated from investing activities		**(66,427)**	86,290

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)

	Note	2006 Rmb'000	2005 Rmb'000
Financing activities			
Proceeds from bank loans		**119,609**	4,336,443
Proceeds from bank loans of a jointly controlled entity		**390,000**	177,500
Repayment of bank loans		**(294,700)**	(4,991,078)
Repayment of bank loans of a jointly controlled entity		**(355,000)**	–
Proceeds from venturer's loans of a jointly controlled entity		**–**	60,658
Dividends paid		**–**	(100,000)
Dividends paid to minority shareholders		**(2,263)**	(2,940)
Net cash used in financing activities		**(142,354)**	(519,417)
Net increase in cash and cash equivalents		**568,728**	144,383
Cash and cash equivalents at 1 January		**372,535**	228,152
Cash and cash equivalents at 31 December	23	**941,263**	372,535

The notes on pages 64 to 100 form part of these financial statements.

(a) Proceeds from disposal of a subsidiary:

	Note	2006 Rmb'000
Cash consideration	3	**23,050**
Cash held by a subsidiary disposed of	3	**(13,424)**
Proceeds from disposal of a subsidiary		**9,626**

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006
(Prepared under International Financial Reporting Standards)

	Attributable to equity shareholders of the Company						
	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
Addition of minority interests	–	–	–	–	–	3,000	3,000
Loss for the year							
– attributable to equity shareholders of the Company	–	–	–	(967,508)	(967,508)	–	(967,508)
– minority interests	–	–	–	–	–	(485)	(485)
Dividends	–	–	–	(100,000)	(100,000)	–	(100,000)
Distributions to minority interests	–	–	–	–	–	(2,940)	(2,940)
Others	–	–	55	–	55	–	55
As at 31 December 2005	4,000,000	2,518,833	1,246,672	306,308	8,071,813	52,104	8,123,917
Deduction of minority interests	–	–	–	–	–	(3,454)	(3,454)
Addition of minority interests	–	–	–	–	–	850	850
Profit for the year							
– attributable to equity shareholders of the Company	–	–	–	40,468	40,468	–	40,468
– minority interests	–	–	–	–	–	415	415
Distributions to minority interests	–	–	–	–	–	(2,263)	(2,263)
Others	–	–	13,271	–	13,271	–	13,271
As at 31 December 2006	**4,000,000**	**2,518,833**	**1,259,943**	**346,776**	**8,125,552**	**47,652**	**8,173,204**

The notes on pages 64 to 100 form part of these financial statements.

1. BACKGROUND OF THE COMPANY

Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") was established in the People's Republic of China (the "**PRC**") on 31 December 1993 as a joint stock limited company.

The Company, its subsidiaries and its jointly controlled entity (the "**Group**") are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies adopted by the Group is set out below.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") promulgated by the International Accounting Standards Board ("**IASB**"). IFRSs include International Accounting Standards ("**IASs**") and related interpretations.

These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. Significant differences between the financial statements prepared in accordance with IFRSs and the PRC Accounting Rules and Regulations are summarised on pages 151 and 152.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of certain property, plant and equipment (see accounting policy h).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see accounting policy v).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 33.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see accounting policy s), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see accounting policy v).

(ii) Jointly controlled entities

A jointly controlled entity is an entity over which the Group or the Company can exercise joint control with other venturers. Joint control is the contractually agreed sharing of control over an economic activity.

Investments in jointly controlled entities are accounted for in the consolidated financial statements 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 the Group's balance sheet, from the date that joint control commences until the date that joint control ceases.

In the Company's balance sheet, its investment in a jointly controlled entity is stated at cost less impairment losses (see accounting policy s).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at the applicable exchange rates quoted by the People's Bank of China ("**PBOC rates**") ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the applicable PBOC rates ruling at that date.

Exchange gain and loss on foreign currency translation, except for the exchange gain and loss directly relating to the construction of property, plant and equipment (see accounting policy j), are dealt with in the income statement.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and time deposits with banks and other financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see accounting policy s), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see accounting policy s).

(g) Inventories

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

Cost includes the cost of materials computed using the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sales.

When inventories are sold, the carrying amount of the inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Spare parts and consumables are stated at cost less any provision for obsolescence.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation (see note 14(c)) less accumulated depreciation and impairment losses (see accounting policy s). Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	25 to 40 years
Plant, machinery and equipment	8 to 40 years
Motor vehicles and other fixed assets	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

(i) Lease prepayments

Lease prepayments represent the amount of land use rights paid to the PRC land bureau. Land use rights are carried at historical cost less accumulated amortisation and impairment losses (see accounting policy s). Amortisation is calculated on a straight-line basis over the respective periods of the rights.

(j) Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses (see accounting policy s). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the construction period.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(k) Investments

Investments in equity securities, other than investments in subsidiaries and jointly controlled entity, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see accounting policy s).

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue recognition

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

(i) Sales of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value-added tax and is after deduction of any trade discounts and returns. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

(ii) Rendering of services

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

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(o) Net finance income/costs

Net finance income/costs comprise interest expense on borrowings, interest income from bank deposits, foreign exchange gains and losses and bank charges.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(p) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the income statement as and when they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. The research and development costs are therefore recognised as expenses in the period in which they are incurred.

(r) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in note 29.

(s) Impairment losses

(i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities and other current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment losses (Continued)

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(t) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(u) Income tax

Income tax for the year comprises current tax and movements of deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Operating leases

Operating leases payments made under operating leases are recognised in the income statement on a straight-line basis over the period of the respective leases.

3. NON-CURRENT ASSETS HELD FOR SALE

	Note	The Group 2006 Rmb'000	The Group 2005 Rmb'000
Assets classified as held for sale:			
Property, plant and equipment	14(a)	–	74,643
Construction in progress	15	–	1,748
Lease prepayments		–	78,435
Inventories		–	51,918
Trade and other receivables		–	21,194
Cash and cash equivalents	23	–	15,680
		–	243,618
Liabilities classified as held for sale:			
Trade and other payables		–	(20,498)
Bank loans		–	(35,091)
		–	(55,589)

	The Company 2006 Rmb'000	The Company 2005 Rmb'000
Assets classified as held for sale:		
Trade and other receivables	–	147,659
Interest in a subsidiary	–	40,370
	–	188,029

The assets and liabilities of a subsidiary, Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**"), were presented as held for sale as at 31 December 2005 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 organisational structure in view of the current market condition of the chemical polyester industry.

On 24 March 2006, the Group signed a conditional sale and purchase agreement with two third-party co-purchasers to dispose of its 100% equity interest in Tianma Chemical Fibre and shareholder's loan. However, one of the purchasers 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 income" in the income statement for the year ended 31 December 2006.

On 14 August 2006, the Group entered into a new conditional sale and purchase agreement with the remaining purchaser mentioned above and two other new third-party purchasers to dispose of its 100% equity interest in Tianma Chemical Fibre and shareholder's loan.

The above disposal was approved by the Company's shareholders and directors. The Company also obtained the approval from the Ministry of Commerce of the People's Republic of China.

An additional impairment loss of Rmb 13,863,000 for the subsequent remeasurement of the disposal group to fair value less costs to sell has been recognised as "Other expenses (note 6)" in the income statement for the year ended 31 December 2006.

3. NON-CURRENT ASSETS HELD FOR SALE (Continued)

The assets and liabilities disposed of were stated at the lower of their carrying amounts and their fair values less costs to sell as follows:

	The Group 2006 Rmb'000
Assets disposed of:	
Property, plant and equipment	60,780
Construction in progress	1,748
Lease prepayments	78,435
Inventories	44,386
Trade and other receivables	14,638
Cash and cash equivalents	13,424
	213,411
Liabilities disposed of:	
Trade and other payables	(23,961)
Net assets disposed of:	189,450
Satisfied by:	
Cash consideration	23,050
Bills receivable	139,860
Other receivables	26,540
	189,450

4. SEGMENT REPORTING

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

5. TURNOVER

Turnover represents the sales value of goods sold to customers, net of value-added tax and is after deduction of any sales discounts and returns.

6. OTHER EXPENSES

	2006 Rmb'000	2005 Rmb'000
Impairment losses of property, plant and equipment		
– filament plant (note 14(d))	–	391,860
– Tianma Chemical Fibre (note 14(e))	–	391,761
	–	783,621
Impairment losses of assets held for sale (note 3)	13,863	–
Others	25,210	22,445
Other expenses	39,073	806,066

7. EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb 10,450,000 (2005: Rmb 90,939,000, including Tianma Chemical Fibre's severance payment of Rmb 67,000,000) during the year ended 31 December 2006 in respect of the reduction of 170 (2005: 1,814, including Tianma Chemical Fibre's 1,324 employees) employees.

8. PROFIT/(LOSS) BEFORE TAXATION

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

	2006 Rmb'000	2005 Rmb'000
(a) Net finance (income)/costs:		
Interest income	(17,541)	(4,509)
Net foreign exchange gain	(2,075)	(1,356)
Financial income	(19,616)	(5,865)
Interest on borrowings	14,820	60,129
Less: Borrowing costs capitalised into construction in progress*	–	(3,543)
Net interest expense	14,820	56,586
Others	2,073	2,366
Financial expenses	16,893	58,952
Net finance (income)/costs	(2,723)	53,087

* No borrowing costs were capitalised for construction in progress during the year ended 31 December 2006 (2005: average rate of capitalised borrowing costs per annum: 3.7%).

8. PROFIT/(LOSS) BEFORE TAXATION (Continued)

(b) Other items:

	2006 Rmb'000	2005 Rmb'000
Cost of inventories#	**16,478,421**	15,309,488
Staff costs:		
– wages and salaries, welfare and other costs	**532,540**	534,105
– contributions to defined contribution schemes	**92,283**	86,107
Total staff costs#	**624,823**	620,212
Depreciation#	**676,296**	848,052
Repairs and maintenance expenses#	**157,530**	158,581
Research and development costs#	**29,564**	44,844
Share of loss of jointly controlled entity	**38,339**	11,481
Auditors' remuneration – audit services	**5,161**	6,488
Write-down of inventories	**3,221**	23,568
Amortisation of lease prepayments	**3,495**	4,981
Loss of bills receivable	**–**	25,000
Dividend income from unlisted investment	**–**	(3,500)
Gain on disposal of investments	**(655)**	(3,650)

Cost of inventories includes Rmb 1,267,326,000 (2005: Rmb 1,418,986,000) relating to staff costs, depreciation, repairs and maintenance expenses and research and development costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

9. INCOME TAX

(a) 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 year determined in accordance with the relevant income tax rules and regulations.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33% for 2006 and 2005. 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% (2005: 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.

9. INCOME TAX (Continued)

(b) Income tax in the consolidated income statement represents:

	2006 Rmb'000	2005 Rmb'000
Current tax		
– Provision for the year	**10,970**	10,615
– Under-provision in respect of prior years	**2,178**	1,774
	13,148	12,389
Reversal/(origination) of deferred tax assets (note (c))	**10,302**	(53,732)
	23,450	(41,343)

The following is a reconciliation of income tax calculated at the Company's applicable tax rate with actual income tax for the year:

	2006 Rmb'000	2005 Rmb'000
Profit/(loss) before taxation	**64,333**	(1,009,336)
Expected income tax using the Company's tax rate of 15%	**9,650**	(151,400)
Differential tax rate of subsidiaries	**5,805**	5,297
Effect of tax losses not recognised	**9,805**	98,371
Under-provision of income tax in respect of prior years	**2,178**	1,774
Non-deductible expenses	**–**	3,750
Tax exempt revenue	**(3,988)**	(3,951)
Write-off of deferred tax assets in respect of prior years	**–**	4,816
Income tax	**23,450**	(41,343)

9. INCOME TAX (Continued)

(c) Movements in the deferred tax assets are as follows:

The Group

	Balance at 1 January 2005 Rmb'000	Recognised in income statement Rmb'000	Balance at 31 December 2005 Rmb'000	Recognised in income statement Rmb'000	**Balance at 31 December 2006 Rmb'000**
Current					
Provisions, primarily for receivables and inventories	18,527	(8,473)	10,054	(334)	**9,720**
Non-current					
Land use rights	30,756	(792)	29,964	(792)	**29,172**
Property, plant and equipment	7,176	(1,538)	5,638	2,190	**7,828**
Tax losses	–	64,535	64,535	(11,366)	**53,169**
	56,459	53,732	110,191	(10,302)	**99,889**

The Company

	Balance at 1 January 2005 Rmb'000	Recognised in income statement Rmb'000	Balance at 31 December 2005 Rmb'000	Recognised in income statement Rmb'000	**Balance at 31 December 2006 Rmb'000**
Current					
Provisions, primarily for receivables and inventories	12,898	(2,844)	10,054	(334)	**9,720**
Non-current					
Land use rights	30,756	(792)	29,964	(792)	**29,172**
Property, plant and equipment	7,176	(1,538)	5,638	2,190	**7,828**
Tax losses	–	64,535	64,535	(11,366)	**53,169**
	50,830	59,361	110,191	(10,302)	**99,889**

The Group has not recognised deferred tax assets in respect of cumulative unutilised tax losses amounting to Rmb 108,176,000 (2005: Rmb 98,371,000). Except for this, there is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

(a) Directors' and supervisors' emoluments are as follows:

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2006 Rmb'000	2005 Rmb'000	**2006 Rmb'000**	2005 Rmb'000	**2006 Rmb'000**	2005 Rmb'000	**2006 Rmb'000**	2005 Rmb'000
Directors:								
Qian Heng-ge	**–**	–	**238**	199	**11**	8	**249**	207
Xu Zheng-ning	**–**	–	**238**	199	**11**	8	**249**	207
Sun Zhi-hong	**–**	–	**238**	199	**11**	8	**249**	207
Xiao Wei-zhen	**–**	–	**238**	193	**11**	8	**249**	201
Long Xing-ping	**–**	–	**199**	166	**11**	8	**210**	174
Zhang Hong	**–**	–	**199**	166	**11**	8	**210**	174
Shen Xi-jun	**–**	–	**199**	166	**11**	8	**210**	174
Cao Yong	**–**	–	**199**	166	**11**	8	**210**	174
Li Zhen-feng	**–**	–	**199**	166	**11**	8	**210**	174
Independent non-executive directors:								
Li Zhong-he	**40**	40	**–**	–	**–**	–	**40**	40
Wang Hua-cheng	**40**	40	**–**	–	**–**	–	**40**	40
Yi Ren-ping	**40**	40	**–**	–	**–**	–	**40**	40
Qian Zhi-hong	**40**	40	**–**	–	**–**	–	**40**	40
Supervisors:								
Zhou Wen-fei	**–**	–	**199**	166	**11**	8	**210**	174
Tao Chun-sheng	**–**	–	**127**	109	**11**	8	**138**	117
Chen Jian	**–**	–	**199**	166	**11**	8	**210**	174
Huang Zhi-wei	**–**	30	**–**	–	**–**	–	**–**	30
Chu Su-hua	**–**	30	**–**	–	**–**	–	**–**	30
Shi Gang	**30**	–	**–**	–	**–**	–	**30**	–
Wang Bing	**30**	–	**–**	–	**–**	–	**30**	–
Senior management:								
Zhang Zhong-an	**–**	–	**199**	166	**11**	8	**210**	174
Li Jian-ping	**–**	–	**17**	–	**1**	–	**18**	–
Wu Chao-yang	**–**	–	**130**	116	**11**	8	**141**	124
	220	220	**2,818**	2,343	**155**	112	**3,193**	2,675

For the years ended 31 December 2006 and 2005, no emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(b) Five individuals with highest emoluments

The five individuals with highest emoluments of the Company in 2006 and 2005 were all executive directors whose total emoluments have been shown above.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes a profit of Rmb 62,877,000 (2005: a loss of Rmb 952,611,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit/(loss) for the year:

	2006 **Rmb'000**	2005 Rmb'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	**62,877**	(952,611)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**–**	48,000
Company's profit/(loss) for the year (note 28)	**62,877**	(904,611)

12. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

No final dividend was proposed after the balance sheet date in respect of the years ended 31 December 2006 and 2005.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006 **Rmb'000**	2005 Rmb'000
Final dividend in respect of the previous financial year, approved and paid during the year, of Rmb nil (2005: Rmb 2.5 cents) per share	**–**	100,000

13. 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 ordinary equity shareholders of the Company of Rmb 40,468,000 (2005: a loss of Rmb 967,508,000) and the weighted average number of ordinary shares of 4,000,000,000 (2005: 4,000,000,000) in issue during the year.

(b) Diluted earnings/(loss) per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2006 and 2005.

14. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	Total Rmb'000
Cost or valuation:				
At 1 January 2005	2,085,173	12,726,541	595,327	15,407,041
Additions				
– proportionate share of the jointly controlled entity	71,800	196,361	2,980	271,141
– others	696	–	–	696
Transfer from construction in progress (note 15)				
– proportionate share of the jointly controlled entity	–	126	2,020	2,146
– others	37,202	113,085	15,331	165,618
Derecognition of negative goodwill	9,145	31,493	3,918	44,556
Disposals				
– transfer to the jointly controlled entity	(151,367)	(1,560,927)	(28,383)	(1,740,677)
– others	(25,290)	(49,687)	(41,761)	(116,738)
Transfer to assets held for sale (note 3)	(185,322)	(802,081)	(33,590)	(1,020,993)
At 31 December 2005	1,842,037	10,654,911	515,842	13,012,790
Representing:				
Cost	47,507	169,021	21,269	237,797
Valuation – 2004	1,723,194	10,313,846	491,593	12,528,633
Valuation – 2005	71,336	172,044	2,980	246,360
	1,842,037	10,654,911	515,842	13,012,790
Cost or valuation:				
At 1 January 2006	1,842,037	10,654,911	515,842	13,012,790
Additions				
– proportionate share of the jointly controlled entity	–	10	–	10
– others	–	3,729	10,009	13,738
Transfer from construction in progress (note 15)				
– proportionate share of the jointly controlled entity	867	2,105	494	3,466
– others	8,794	131,563	30,146	170,503
Disposals				
– proportionate share of the jointly controlled entity	–	–	(250)	(250)
– others	(21,576)	(63,721)	(74,106)	(159,403)
Reclassifications	190,557	(503,052)	312,495	–
At 31 December 2006	**2,020,679**	**10,225,545**	**794,630**	**13,040,854**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group (Continued)

	Buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	Total Rmb'000
Representing:				
Cost	57,168	306,428	61,918	425,514
Valuation – 2004	1,892,175	9,747,073	729,982	12,369,230
Valuation – 2005	71,336	172,044	2,730	246,110
	2,020,679	10,225,545	794,630	13,040,854
Accumulated depreciation and impairment losses:				
At 1 January 2005	688,222	6,176,334	498,372	7,362,928
Depreciation charge for the year	72,903	710,080	65,069	848,052
Impairment losses (note d, e)	77,971	699,244	6,406	783,621
Derecognition of negative goodwill	2,595	19,099	3,918	25,612
Written back on disposal				
– transfer to the jointly controlled entity (note d)	(29,049)	(1,215,523)	(22,693)	(1,267,265)
– others	(5,899)	(38,427)	(33,249)	(77,575)
Transfer to assets held for sale (note 3)	(136,474)	(783,317)	(26,559)	(946,350)
At 31 December 2005	670,269	5,567,490	491,264	6,729,023
At 1 January 2006	670,269	5,567,490	491,264	6,729,023
Depreciation charge for the year	83,909	528,762	63,625	676,296
Written back on disposal				
– proportionate share of the jointly controlled entity	–	–	(15)	(15)
– others	(6,656)	(53,032)	(57,258)	(116,946)
Reclassifications	16,980	(80,013)	63,033	–
At 31 December 2006	**764,502**	**5,963,207**	**560,649**	**7,288,358**
Net book value:				
At 31 December 2005	1,171,768	5,087,421	24,578	6,283,767
At 31 December 2006	**1,256,177**	**4,262,338**	**233,981**	**5,752,496**

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company

	Buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	Total Rmb'000
Cost or valuation:				
At 1 January 2005	1,873,974	11,941,717	546,681	14,362,372
Transfer from construction in progress (note 15)	37,189	111,655	15,236	164,080
Disposals				
– transfer to the jointly controlled entity	(151,367)	(1,560,927)	(28,383)	(1,740,677)
– others	(14,887)	(49,687)	(41,392)	(105,966)
At 31 December 2005	1,744,909	10,442,758	492,142	12,679,809
Representing:				
Cost	37,189	111,655	15,236	164,080
Valuation – 2004	1,707,720	10,331,103	476,906	12,515,729
	1,744,909	10,442,758	492,142	12,679,809
At 1 January 2006	1,744,909	10,442,758	492,142	12,679,809
Additions	–	–	9,796	9,796
Transfer from construction in progress (note 15)	8,794	131,563	30,146	170,503
Disposals	(5,031)	(46,335)	(65,627)	(116,993)
Reclassifications	190,557	(503,052)	312,495	–
At 31 December 2006	**1,939,229**	**10,024,934**	**778,952**	**12,743,115**
Representing:				
Cost	45,983	243,218	55,178	344,379
Valuation – 2004	1,893,246	9,781,716	723,774	12,398,736
	1,939,229	10,024,934	778,952	12,743,115

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) The Company (Continued)

	Buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles and other fixed assets Rmb'000	Total Rmb'000
Accumulated depreciation and impairment losses:				
At 1 January 2005	628,827	5,748,648	473,562	6,851,037
Depreciation charge for the year	66,147	660,808	61,696	788,651
Impairment losses (note d)	–	386,724	5,136	391,860
Written back on disposal				
– transfer to the jointly controlled entity (note d)	(29,049)	(1,215,523)	(22,693)	(1,267,265)
– others	(5,756)	(38,427)	(32,892)	(77,075)
At 31 December 2005	660,169	5,542,230	484,809	6,687,208
At 1 January 2006	660,169	5,542,230	484,809	6,687,208
Depreciation charge for the year	80,945	514,950	61,932	657,827
Written back on disposal	(1,472)	(35,347)	(56,729)	(93,548)
Reclassifications	16,980	(80,013)	63,033	–
At 31 December 2006	**756,622**	**5,941,820**	**553,045**	**7,251,487**
Net book value:				
At 31 December 2005	1,084,740	4,900,528	7,333	5,992,601
At 31 December 2006	**1,182,607**	**4,083,114**	**225,907**	**5,491,628**

(c) The Company was established in the PRC on 31 December 1993 as a joint stock limited company as part of the restructuring of Yihua Group Corporation ("**Yihua**"). On the same date, the principal business undertaking of Yihua together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 31 October 1993 by an independent valuer registered in the PRC and approved by the State-owned Assets Administration Bureau. The injected assets and liabilities were reflected in the financial statements on this basis.

In accordance with IAS 16 "Property, plant and equipment", subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed by an independent valuer registered in the PRC, China United Assets Appraisal Corporation, as of 31 December 2004, which was based on depreciated replacement costs, the carrying amount of property, plant and equipment did not differ materially from their fair values.

The management believes that the carrying amount of property, plant and equipment did not differ materially from their fair values as at 31 December 2006.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

(d) 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 (note 18). Pursuant to the JV Contract, the capital contributions made by the Company and the venturer will be in form of property, plant and equipment and cash respectively.

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 expenses" (note 6)) 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.

Following the establishment of the JV on 3 August 2005, these property, plant and equipment were disposed of to the JV, the related aggregated impairment losses totalling Rmb 432,728,000, which were recognised in 2004 and 2005, were transferred out and realised and included in "Written back on disposal".

(e) As mentioned in note 3, the Group decided to dispose of its 100% equity interest in Tianma Chemical Fibre before 31 December 2005. The Group assessed the recoverable amount of Tianma Chemical Fibre's property, plant and equipment as at 31 December 2005. Based on this assessment, an impairment loss of Rmb 391,761,000 was recognised to write down the carrying amount of the property, plant and equipment to the recoverable amount (included in "Other expenses" (note 6)) as at 31 December 2005. The estimate of recoverable amount was based on the property, plant and equipment's fair value less costs to sell, determined by reference to the selling price agreed with two independent third-party purchasers in the conditional sale and purchase agreement dated 24 March 2006.

(f) Most of the Group's buildings are located in the PRC.

15. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Balance at 1 January	**275,871**	268,306	**275,871**	266,699
Additions	**8,669**	174,931	**8,669**	173,252
Additions of the jointly controlled entity	**11,247**	2,146	**–**	–
Transfer to property, plant and equipment (note 14)	**(173,969)**	(167,764)	**(170,503)**	(164,080)
Transfer to assets held for sale (note 3)	**–**	(1,748)	**–**	–
Balance at 31 December	**121,818**	275,871	**114,037**	275,871

16. LEASE PREPAYMENTS

Lease prepayments represent land use rights on land located in the PRC, which were granted in 1995 and 2001 for a period of 50 years and 44 years respectively from the respective dates of grant.

17. INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	Rmb'000	Rmb'000
Unlisted shares, at cost	**60,456**	58,915

The following list contains only the particulars of the subsidiary, which is established and operating in the PRC and principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	**Registered capital** (in thousand)	**Percentage of equity held directly by the Company**	**Type of legal entity**	**Principal activity**
Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**")	Rmb 60,000	100%	Limited company	Investment holding and trading of polyester chips and polyester fibre

The above company is a controlled subsidiary as defined under note 2(c) and has been consolidated into the Group financial statements.

The above subsidiary has not issued any debt securities.

The Group disposed of its investments in Tianma Chemical Fibre in 2006.

18. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Company	
	2006	2005
	Rmb'000	Rmb'000
Unlisted shares, at cost	**241,836**	121,584

(a) Details of the Company's interest in the jointly controlled entity are as follows:

Name of jointly controlled entity	Place of incorporation and operation	Registered capital (in thousand)	Interest held by the Company	Type of legal entity	Principal activity
Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**")	PRC	USD 60,000	50%	Limited company	Manufacturing and processing of differentiated polyester textile filament products; conducting research in polyester textile products; sales of self-produced chemical plastic materials and provision of after-sales service

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; and the Company and the venturer 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.

(b) Summary financial information on the jointly controlled entity – Group's effective interest (50%):

	2006	2005
	Rmb'000	Rmb'000
Non-current assets	**261,157**	266,249
Current assets	**46,329**	46,832
Current liabilities	**(115,470)**	(202,978)
Net assets	**192,016**	110,103
Income	**493,602**	202,987
Expenses	**(531,941)**	(214,468)
Loss for the year	**(38,339)**	(11,481)

19. AVAILABLE-FOR-SALE EQUITY SECURITIES

	The Group and the Company	
	2006	2005
	Rmb'000	Rmb'000
Unlisted equity securities	**–**	62,500

Pursuant to the equity transfer agreement signed on 20 March 2006, the Group sold its entire 2% equity interest in Sinopec Finance Company Limited ("**Sinopec Finance**") to China Petrochemical Corporation ("**CPC**") for a cash consideration of Rmb 82,000,000. The gain on disposal of Rmb 19,500,000 has been recognised as "Other income" in the income statement for the year ended 31 December 2006.

20. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Raw materials	**530,013**	623,778	**526,595**	616,510
Work in progress	**100,382**	114,421	**97,650**	111,307
Finished goods	**288,147**	313,305	**236,478**	250,340
Goods in transit	**326,972**	23,301	**326,972**	23,301
	1,245,514	1,074,805	**1,187,695**	1,001,458
Spare parts and consumables	**138,039**	161,213	**133,455**	156,440
	1,383,553	1,236,018	**1,321,150**	1,157,898
Inventories stated at net realisable value	**669,061**	501,640	**649,050**	470,318

(b) The analysis of the amount of inventories recognised as an expense is as follows:

The cost of inventories recognised as an expense in the consolidated income statement amounted to Rmb 16,478,421,000 for the year ended 31 December 2006 (2005: Rmb 15,309,488,000), including the write-down of inventories amounted to Rmb 3,221,000 (2005: Rmb 23,568,000).

21. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Trade receivables	**280,348**	170,796	**274,135**	167,019
Bills receivable	**983,526**	817,439	**904,599**	748,856
Amounts due from parent company and fellow subsidiaries – trade	**86,103**	11,690	**81,754**	3,638
Amounts due from a jointly controlled entity – trade	**1,690**	1,260	**333**	–
	1,351,667	1,001,185	**1,260,821**	919,513
Amounts due from parent company and fellow subsidiaries – non-trade	**451**	8,397	**451**	1,747
Amounts due from subsidiaries – non-trade	**–**	–	**–**	11,293
Amounts due from a jointly controlled entity – non-trade	**1,465**	60,792	**2,929**	121,584
Other receivables, deposits and prepayments	**268,190**	47,779	**257,752**	42,057
	1,621,773	1,118,153	**1,521,953**	1,096,194

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

The ageing analysis of trade receivables, bills receivable, amounts due from parent company and fellow subsidiaries – trade and amounts due from a jointly controlled entity – trade (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
Invoice date:	**Rmb'000**	Rmb'000	**Rmb'000**	Rmb'000
Within 1 year	**1,350,124**	996,518	**1,260,548**	917,357
Between 1 and 2 years	**1,325**	3,880	**273**	2,008
Between 2 and 3 years	**218**	628	**–**	148
Over 3 years	**–**	159	**–**	–
	1,351,667	1,001,185	**1,260,821**	919,513

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

22. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Balances with banks and other financial institutions, which are related parties				
– Sinopec Finance	**48,518**	66,661	**48,017**	66,661
– China CITIC Bank	**13,245**	25,592	**7,767**	22,820
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**997,474**	290,569	**855,045**	192,451
	1,059,237	382,822	**910,829**	281,932
Less: Balances with banks and other financial institutions with an initial term of less than three months (note 23)	**(941,237)**	(356,824)	**(840,829)**	(281,932)
	118,000	25,998	**70,000**	–

23. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Cash in hand	**26**	31	**16**	15
Balances with banks and other financial institutions with an initial term of less than three months (note 22)	**941,237**	356,824	**840,829**	281,932
Cash and cash equivalents in the balance sheet	**941,263**	356,855	**840,845**	281,947
Cash and cash equivalents attributable to a disposal group held for sale (note 3)	**–**	15,680	**–**	–
Cash and cash equivalents in the consolidated cash flow statement	**941,263**	372,535	**840,845**	281,947

24. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Trade payables	**1,380,713**	794,182	**1,314,544**	753,964
Amounts due to parent company and fellow subsidiaries – trade	**83,851**	47,694	**83,851**	46,450
Amounts due to subsidiaries – trade	**–**	–	**71,312**	46,084
	1,464,564	841,876	**1,469,707**	846,498
Amounts due to parent company and fellow subsidiaries – non-trade	**6,657**	10	**6,657**	10
Amounts due to a jointly controlled entity – non-trade	**3,154**	–	**6,307**	–
Other payables and accrued expenses	**417,004**	614,436	**372,659**	530,289
	1,891,379	1,456,322	**1,855,330**	1,376,797

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

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Due within 1 month or on demand	**1,464,482**	810,104	**1,469,625**	814,726
Due after 1 month but within 6 months	**82**	31,772	**82**	31,772
	1,464,564	841,876	**1,469,707**	846,498

The amounts due to parent company and fellow subsidiaries – non-trade and amounts 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 6,755,000 (2005: Rmb 12,834,000) which is expected to be settled after more than one year.

25. BANK LOANS

(a) Bank loans as at 31 December 2006 were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Within 1 year or on demand				
(i) Short-term loans from banks and other financial institutions, which are related parties				
– Sinopec Finance	**10,000**	–	**–**	–
– China CITIC Bank	**15,000**	10,000	**–**	–
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**57,500**	37,500	**–**	–
(ii) Current portion of long-term bank loans from banks, which are related parties				
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**–**	90,000	**–**	90,000
	82,500	137,500	**–**	90,000
After 1 year but within 2 years				
(i) Long-term loans from banks, which are related parties				
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**–**	50,000	**–**	50,000
	82,500	187,500	**–**	140,000

All the Group's bank loans are unsecured and not guaranteed.

25. BANK LOANS (Continued)

(b) As at 31 December 2006, the Group's and the Company's weighted average interest rates per annum on short-term bank loans were 3.3% (2005: 3.3%) and nil (2005: 2.4%) respectively.

All the short-term bank loans are denominated in Renminbi and US Dollars.

(c) The interest rates and terms of repayment for long-term bank loans are as follows:

Long-term bank loans	Interest rate	Interest type	The Group and the Company 2006 Rmb'000	2005 Rmb'000
– Due in 2006	4.94%-5.18%	Fixed	**–**	90,000
– Due in 2007	4.94%-5.18%	Fixed	**–**	50,000
Total long-term bank loans (note 32(d))			**–**	140,000
Less: Current portion of long-term bank loans			**–**	(90,000)
Non-current portion of long-term bank loans			**–**	50,000

All the long-term bank loans are denominated in Renminbi.

26. SHARE CAPITAL

	The Group and the Company 2006 Rmb'000	2005 Rmb'000
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of Rmb 1 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of Rmb 1 each	**200,000**	200,000
1,400,000,000 "H" shares of Rmb 1 each	**1,400,000**	1,400,000
	4,000,000	4,000,000

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

27. RESERVES

	The Group and the Company					
	Capital reserve	**Excess over share capital**	**Statutory surplus reserve**	**Statutory public welfare fund**	**Discretionary surplus reserve**	**Total**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
		(note (a))	(note (b),(d))	(note (c),(d))	(note (e))	
At 1 January 2005	15,013	(224,400)	513,046	348,411	594,547	1,246,617
Others	55	–	–	–	–	55
At 31 December 2005	15,068	(224,400)	513,046	348,411	594,547	1,246,672
Others	13,271	–	348,411	(348,411)	–	13,271
At 31 December 2006	**28,339**	**(224,400)**	**861,457**	**–**	**594,547**	**1,259,943**

Notes:

(a) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at the historical cost less accumulated amortisation and impairment losses. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset is reversed to the shareholders' funds.

(b) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 10% of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders of these entities.

The statutory surplus reserve can be used by an entity to make good its previous years' losses, if any, or to expand its production and operation, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of its registered capital.

(c) According to the Articles of Association of the Company and its subsidiaries in the PRC, each of these entities is required to transfer 5 % to 10% of its profit after taxation, as determined in accordance with the PRC Accounting Rules and Regulations, to its statutory public welfare fund. The fund can only be utilised on capital items for the collective benefits of its employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than in liquidation. The transfer to this fund must be made before distribution of a dividend to its shareholders.

The Board of Directors of the Company has resolved not to make any profit appropriation (2005: Rmb nil) to the statutory public welfare fund.

(d) 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 on 15 March 2006, the balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

(e) The transfer to the discretionary surplus reserve from profit after taxation is subject to the approval by shareholders at Annual General Meetings. The utilisation of the reserve is similar to that of the statutory surplus reserve.

Neither the Company nor any of its subsidiaries has proposed to transfer any of its profit after taxation to discretionary surplus reserve in respect of the financial year 2006 (2005: Rmb nil).

28. RETAINED EARNINGS

	Note	The Group Rmb'000	The Company Rmb'000
At 1 January 2005		1,373,816	1,186,069
Loss attributable to equity shareholders		(967,508)	(904,611)
Dividends in respect of previous year and approved during the year	12(b)	(100,000)	(100,000)
At 31 December 2005		306,308	181,458
Profit attributable to equity shareholders		40,468	62,877
At 31 December 2006		**346,776**	**244,335**

According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs. As at 31 December 2006, the amount of accumulated losses, which was the amount determined in accordance with the PRC Accounting Rules and Regulations, was Rmb 300,226,000 (2005: Rmb 331,931,000). No dividend (2005: Rmb nil) in respect of the financial year 2006 was proposed after the balance sheet date.

29. 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 the schemes of the Company 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	**20%**	19%
Yizheng Municipal Government, Jiangsu Province	Employees of Yihua UNIFI	**20%**	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 the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

30. RELATED PARTY TRANSACTIONS

CPC, China Petroleum & Chemical Corporation ("**Sinopec Corp**") 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, Sinopec Yangzi Petrochemical Company Limited ("**Yangzi**"), China Petroleum & Chemical Corporation, Zhenhai Branch ("**Zhenhai**"), Sinopec Finance, China CITIC Bank, Sinopec International Company Limited and other subsidiaries of CPC, Sinopec Corp or CITIC are considered to be related parties as they are subject to the common significant influence of CPC, Sinopec Corp or CITIC.

Yihua UNIFI is considered to be a related party as it is a jointly controlled entity of which the Company and the other venturer have the ability to exercise joint control over it.

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

	2006 **Rmb'000**	2005 Rmb'000
Sinopec Corp and its subsidiaries		
Purchases of raw materials	**8,431,148**	6,519,226
Including: Yangzi	**4,608,171**	3,364,716
Zhenhai	**3,005,402**	2,637,487
Service charges for the purchases of raw materials	**23,971**	19,226
CPC and its subsidiaries (excluding Yihua and its subsidiaries, Sinopec Corp and its subsidiaries and Sinopec Finance)		
Purchases of raw materials and spare parts	**–**	35,191
Insurance premium	**18,765**	25,730
Gain on disposal of available-for-sale equity securities (note 19)	**19,500**	–
Safety security compensation income	**–**	19,652
Yihua and its subsidiaries		
Sales	**260,491**	385,778
Purchases	**–**	113,070
Miscellaneous service fee charges (see note below)	**11,654**	20,000
Loss on acquisition of investment in Yihua Kangqi	**3,196**	–
Gain on disposal of investment in Yihua Kangqi	**–**	3,650

Note: The above service fee charges were paid in accordance with the terms of the agreements dated 19 February 2005 and 20 January 2006 signed between the Company and Yihua.

30. RELATED PARTY TRANSACTIONS (Continued)

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

	2006	2005
	Rmb'000	Rmb'000
Sinopec Finance		
Interest income	**872**	79
Interest expense	**22**	1,606
China CITIC Bank		
Interest income	**1,388**	32
Interest expense	**795**	10,938
Bills custody fee	**123**	3,030
Yihua UNIFI		
Sales of finished goods	**414,178**	232,098
Purchases of finished goods	**101,279**	36,379
Sales of property, plant and equipment	**–**	371,116

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.

(b) 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 through its government authorities, agencies, affiliations and other organisations (collectively referred as "**state-controlled entities**").

Apart from transactions with CPC and its fellow subsidiaries and China CITIC 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.

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 expense to these state-controlled banks in the PRC are as follows:

	2006	2005
	Rmb'000	Rmb'000
Interest income	**15,281**	4,398
Interest expense	**7,721**	16,345

30. RELATED PARTY TRANSACTIONS (Continued)

(c) 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:

	2006	2005
	Rmb'000	Rmb'000
Short-term employee benefits	**3,038**	2,563
Retirement scheme contributions	**155**	112

(d) Contributions to defined contribution retirement scheme

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its staff. Details of the Group's retirement schemes are disclosed in note 29.

31. CAPITAL COMMITMENTS

Capital commitments relate primarily to construction of buildings, plant, machinery and purchases of equipment. The Group and the Company had capital commitments outstanding at 31 December 2006 not provided for in the financial statements as follows:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Contracted for	**–**	–	**–**	121,584
Authorised but not contracted for	**81,590**	186,358	**81,590**	186,358
	81,590	186,358	**81,590**	307,942

32. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions, and trade and other receivables. The financial liabilities of the Group include bank loans and trade and other payables. The Group does not hold or issue financial instruments for trading purpose. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2006 and 2005.

(a) Interest rate risk

The maturity information of the Group's deposits with banks and other financial institutions, and the interest rates and terms of repayment of bank loans of the Group are disclosed in notes 22 and 25 respectively.

32. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

Deposits with banks and other financial institutions

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of major financial institutions with good credit ratings.

Trade and other receivables

The Group does not have a significant exposure to any individual customer or counterparty. The major concentration of credit risk arises from exposures to a substantial number of trade debtors operating in one geographical region, the PRC. No single customer accounted for greater than 10% of total revenues.

(c) Foreign currency risk

The Group has foreign currency risk as dividend paid to H-share shareholders was in Hong Kong Dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

(d) Fair value

The fair values of cash and cash equivalents, trade and other receivables, and trade and other payables are not materially different from their carrying amounts.

The carrying amounts of deposits with banks and other financial institutions and short-term bank loans are estimated to approximate their fair values based on the nature or short-term maturity of these instruments.

The following table presents the carrying amount and fair value of the Group's long-term bank loans at 31 December 2006:

	2006		2005	
	Carrying amount Rmb'000	**Fair value Rmb'000**	Carrying amount Rmb'000	Fair value Rmb'000
Long-term bank loans (note 25(c))	**–**	**–**	140,000	136,005

The fair value of long-term bank loans is estimated based on a discounted cash flow model using the current market interest rates for similar financial instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the relevant financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Impairments

If circumstances indicate that the net book value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of the assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the trade receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

Net realisable value of inventories

The Group estimates net realisable value of inventories based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the year to the extent that such events confirm conditions existing at the end of the year.

34. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
IFRS 7, Financial Instruments: Disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2009
IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies	1 March 2006
IFRIC 8, Scope of IFRS 2, Share-based Payment	1 May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10, Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11, IFRS 2 – Group and Treasury Share Transaction	1 March 2007
IFRIC 12, Service Concession Arrangements	1 January 2008
Amendment to IAS 1, Presentation of Financial Statements: Capital Disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRS 8, IFRIC 7, IFRIC 8, IFRIC 9, IFRIC 11 and IFRIC 12 are not applicable to any of the Group's operations and that the adoption of the remainder of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

35. SUBSEQUENT EVENTS

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("**new tax law**"), which will take effect on 1 January 2008. According to the new tax law, the corporate income tax rate for entities other than certain high-tech enterprises and small-scale enterprises, as defined in the new tax law will be revised to 25%. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new tax law to the Group at this stage. In addition, after the adoption of the new tax law, the withholding tax in respect of the dividends paid to H-share shareholders will be payable. The financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

36. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2006, the directors consider the immediate parent and the ultimate controlling party of the Group to be Sinopec Corp and CPC respectively, which are established in the PRC. The immediate parent produces financial statements available for public use.