

Reconciliation Statement of Differences in Consolidated Shareholders' Funds Between the New and Old Accounting Standards

	Note	Amount Rmb'000
Consolidated shareholders' funds as at 31 December 2006 (old accounting standards)	3(1)	8,274,261
Adjustments:		
1 Capitalisation of general borrowing costs	3(2)	19,528
2 Income tax	3(3)	(2,929)
3 Minority interests	2(1)	47,652
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Consolidated shareholders' funds as at 1 January 2007 (new accounting standards)	4	<u>8,338,512</u>

Approved by the Board of the Directors on 30 March 2007.

Qian Heng-ge
Chairman
(Legal Representative)

Xiao Wei-zhen
Vice Chairman
and General
Manager

Li Jian-ping
Chief Financial
Officer

Xu Xiu-yun
Supervisor of the
Asset and Accounting
Department

The notes on pages 155 and 156 form part of these reconciliation statement of differences.

Notes to the Reconciliation Statement of Differences in Consolidated Shareholders' Funds Between the New and Old Accounting Standards

1. PURPOSE OF PREPARATION

Commencing from 1 January 2007, Sinopec Yizheng Chemical Fibre Company Limited (“**the Company**”) has adopted the Accounting Standards for Business Enterprises (“**the New Accounting Standards**”) promulgated by the Ministry of Finance (“**MOF**”) of the People’s Republic of China (“**PRC**”). To analyse and disclose the impact of adopting the New Accounting Standards on the Company’s financial position, the China Securities Regulatory Commission issued the “Notice on the Proper Disclosure of Financial and Accounting Information in Relation to the New Accounting Standards” (Zheng Jian Fa [2006] No. 136) (“**the Notice**”) in November 2006 under which the Company is required to disclose the reconciliation of major differences in the “Supplementary Information” section of the annual financial report for 2006 in the form of reconciliation statement of differences in consolidated shareholders’ funds between the new and old accounting standards (“**the reconciliation statement of differences**”) in accordance with relevant requirements of the “Accounting Standard for Business Enterprises No. 38, First-time Adoption of Accounting Standards for Business Enterprises” (“**ASBE 38**”) and the Notice.

2. BASIS OF PREPARATION

The Company issued H shares and prepared financial reports for external use under the PRC Accounting Rules and Regulations and the International Financial Reporting Standards (“**IFRSs**”) for the previous years. As required by the “Opinion of the Expert Team on the Implementation of the Accounting Standards for Business Enterprises” (“**the Opinion**”), on the date of first adoption, the following retrospective adjustments have been made to items relevant to the changes in accounting policies arising from the implementation of the New Accounting Standards.

For the principles of the New Accounting Standards which are different from the old accounting standards, if the Company had already adopted the principles of the New Accounting Standards in the preparation of financial statements under IFRSs for the previous years, retrospective adjustments will be made to the changes in accounting policies arising from the implementation of the New Accounting Standards based on the information relied upon by the Company in preparing the financial statements under IFRSs for the previous years.

This reconciliation statement of differences has been prepared in accordance with the principle of retrospective adjustment as stated above, the characteristics and actual situation of the Company and the principle of materiality on the basis of the consolidated financial statements of 2006. References have been made to the Notice in respect of the presentation and disclosure of information in the reconciliation statement of differences.

In respect of the areas that are not specified in Art. 5 to Art.19 of ASBE 38 and the Opinion, this reconciliation statement of differences is prepared under the following principles:

- (1) Upon the adoption of the New Accounting Standards, the Company has accounted for minority interests in the consolidated shareholders’ funds in accordance with the “Accounting Standards for Business Enterprises No.33, Consolidated Financial Statements”, and the adjustment is reflected in separately-presented items in the reconciliation statement of differences.

Notes to the Reconciliation Statement of Differences in Consolidated Shareholders' Funds Between the New and Old Accounting Standards

3. DESCRIPTIONS OF KEY ITEMS

- (1) The figures of consolidated shareholders' funds as at 31 December 2006 (under the old accounting standards) are extracted from the Company's consolidated financial statements for the year ended 31 December 2006 prepared under the old accounting standards. These financial statements were audited by KPMG Huazhen, which issued an auditors' report with an unqualified opinion on 30 March 2007. The basis of presentation and the significant accounting policies of these financial statements are set out in the Company's 2006 consolidated financial statements.

This reconciliation statement of differences and its notes should be read in conjunction with the 2006 financial statements.

(2) **Capitalisation of general borrowing costs**

Under the "Accounting Standards for Business Enterprises No.17, Borrowing Cost", where funds are borrowed generally and used for acquiring a fixed asset that is qualified for capitalisation, their borrowing cost is capitalised as part of the asset's cost. The Company increased fixed assets amounting to Rmb 19,528,000 upon its first adoption of the New Accounting Standards on 1 January 2007, by referring to the information relied upon by the Company in preparing the financial statements under IFRSs for the previous years. The Company decreased its accumulated losses amounting to Rmb 19,528,000 accordingly.

(3) **Income tax**

Under the "Accounting Standards for Business Enterprises No.18, Income Tax", the Company increased the deferred tax liabilities amounting to Rmb 2,929,000 upon its first adoption of the New Accounting Standards on 1 January 2007, which arose from the capitalisation of general borrowing costs. The Company increased its accumulated losses amounting to Rmb 2,929,000 accordingly.

4. IMPORTANT NOTES

The Company commenced adoption of the New Accounting Standards on 1 January 2007, and is in the process of making an assessment of its impact on the Company's financial position, results of operations and cash flow. After giving careful consideration to this and the further guidelines on the New Accounting Standards by the MOF, the Company may adjust related accounting policies or significant perception applied in the preparation of the reconciliation statement of differences, while preparing the 2007 financial statements. This will, in turn, cause a difference between the consolidated shareholders' funds (under the New Accounting Standards) as at 1 January 2007 as stated in the reconciliation statement of differences and the respective figures as presented in the 2007 financial statements.