中國石化儀征化纖股份有限公司

SINOPEC YIZHENG CHEMICAL FIBRE COMPANY LIMITED

(a joint stock limited company established in the People's Republic of China)

(Stock Exchange of Hong Kong Limited Stock Code: 1033)

(Shanghai Stock Exchange Stock Code: 600871)

Interim Report 2007

CONTENTS

Important Notes: *The Board of Directors ("**the Board**"), and the Supervisory Committee of Sinopec Yizheng Chemical Fibre Company Limited and its directors, supervisors and senior management warranted that there are no false representations, misleading statements or material omissions in this interim report and individually and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report. The interim financial report contained therein is unaudited.*

Mr. Qian Heng-ge, Chairman, Mr. Xiao Wei-zhen, General Manager, Mr. Li Jian-ping, Chief Financial Officer and Ms. Xu Xiu-yun, Supervisor of the Asset and Accounting Department of the Company warranted the authenticity and completeness of the interim financial report contained in the interim report.

The Board of Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") hereby presents the interim results of the Company and its subsidiaries ("**the Group**") for the six months ended 30 June 2007. The interim financial report therein is unaudited.

1. COMPANY PROFILE

1.	Legal name	:	Sinopec Yizheng Chemical Fibre Company Limited 中國石化儀征化纖股份有限公司
	Abbreviation	:	YCF 儀征化纖
2.	Legal representative	:	Mr. Qian Heng-ge
3.	Registered and office address	:	Yizheng City, Jiangsu Province the People's Republic of China ("**the PRC**")
	Postal code	:	211900
	Telephone	:	86-514-83232235
	Fax	:	86-514-83233880
	Internet website	:	http://www.ycfc.com
	E-mail address	:	cso@ycfc.com
4.	Company Secretary	:	Mr. Tom C.Y. Wu
	Assistant Company Secretary	:	Ms. Michelle M.Shi
	Contact address	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited Yizheng City, Jiangsu Province, the PRC
	Telephone	:	86-514-83231888
	Fax	:	86-514-83235880
	E-mail address	:	cso@ycfc.com
5.	Newspapers disclosing information	:	China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times, South China Morning Post (English)
	Internet website designated by the China Securities Regulatory Commission ("**CSRC**") to publish the interim report	:	http://www.sse.com.cn
	Place where the interim report available for inspection	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited

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

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

A share
– Shanghai Stock Exchange ("**SSE**")
– Stock name: S Yihua
– Stock code: 600871

2. FINANCIAL SUMMARY

1. Principal financial information and financial indicators of the Group

1.1 Extracted from the interim financial report prepared in accordance with International Accounting Standard ("IAS") 34 *"Interim Financial Reporting"*

(Consolidated and unaudited)

	For the six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
Turnover	**8,482,657**	8,159,888
Profit before taxation	**19,017**	57,111
Income tax (credit)/expense	**(35,235)**	15,665
Profit attributable to equity shareholders of the Company	**52,783**	43,498
Basic and diluted earnings per share	**Rmb0.013**	Rmb0.011

1.2 Extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

(Consolidated and unaudited)

	As at 30 June 2007 ***Rmb'000***	As at 31 December 2006 (as restated) *Rmb'000*	Increase from last year *(%)*	As at 31 December 2006 (as previously reported) *Rmb'000*
Total assets	**10,175,005**	10,025,803	1.5	10,115,603
Shareholders' funds attributable to the Company	**8,345,110**	8,290,860	0.7	8,274,261
Net assets per share attributable to equity shareholders of the Company	**Rmb2.086**	Rmb2.073	0.7	Rmb2.069

1.2 Extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

(Consolidated and unaudited) (continued)

	For the six months ended 30 June 2007 *Rmb'000*	For the six months ended 30 June 2006 (as restated) *Rmb'000*	Increase/ (decrease) from corresponding period of last year *(%)*	For the six months ended 30 June 2006 (as previously reported) *Rmb'000*
Operating profit	**39,615**	23,655	67.5	10,481
Total profit	**14,906**	54,471	(72.6)	56,160
Net profit attributable to equity shareholders of the Company	**50,029**	41,254	21.3	42,689
Net profit attributable to equity shareholders of the Company before non-recurring items	**130,413**	19,805	558.5	20,994
Basic earnings per share	**Rmb0.013**	Rmb0.010	21.3	Rmb0.011
Diluted earnings per share	**Rmb0.013**	Rmb0.010	21.3	Rmb0.011
Return on net assets	**0.60%**	0.50%	Increased by 0.10 percentage points	0.52%
Net cash flows from operating activities	**395,613**	523,905	(24.5)	524,246
Net cash flows from operating activities per share	**Rmb0.099**	Rmb0.131	(24.5)	Rmb0.131

1.3 Non-recurring items and amount (figures are based on the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

(Consolidated and unaudited)

Non-recurring items	**Amount** *(Rmb'000)*
Net losses on disposal of fixed assets	(24,953)
Employee reduction expenses	(95,726)
Gains on disposal of intangible assets	7,008
Other non-operating income excluding gains on disposal of fixed assets and intangible assets	690
Other non-operating expenses excluding losses on disposal of fixed assets	(7,454)
Effect of income tax	39,744
Total	(80,691)
Including: Non-recurring items affecting net profit attributable to equity shareholders of the Company	(80,384)
Non-recurring items affecting net profit attributable to minority interests	(307)

1.4 Significant differences between the interim financial report of the Group and the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and International Financial Report Standards ("IFRSs")

(Consolidated and unaudited)

	PRC Accounting Standards for Business Enterprises (2006)		IFRSs	
	The Group	The Company	The Group	The Company
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Profit for the period	51,498	53,888	54,252	71,642
Explanations for difference	Please refer to the section on "Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and IFRSs" of this interim report.			

2. Supplementary schedule for the income statement (figures are based on the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

(Consolidated and unaudited)

	Return on net assets *(%)*		Earnings per share *(Rmb)*	
Profit during the reporting period	**Fully diluted**	**Weighted average**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to equity shareholders of the Company	0.600	0.601	0.013	0.013
Profit attributable to equity shareholders of the Company before non-recurring items	1.563	1.568	0.033	0.033

3. Statement of impairment of assets of the Group (extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

(Consolidated and unaudited) (continued)

	At 1 January 2007 Rmb'000	Increase for the period Rmb'000	Decrease for the period Rmb'000	At 30 June 2007 Rmb'000
1. Total provisions for bad and doubtful debts	**42,977**	10,317	37,936	**15,358**
Including: Trade receivables	**21,756**	–	19,091	**2,665**
Other receivables	**21,221**	10,317	18,845	**12,693**
2. Total provision for diminution in value of inventories	**57,863**	–	9,123	**48,740**
Including: Raw materials	**4,600**	–	4,600	**-**
Finished goods	**4,523**	–	4,523	**-**
Spare parts and consumables	**48,740**	–	–	**48,740**
3. Total provision for impairment of fixed assets	**25,362**	–	15,973	**9,389**
Including: Machinery, equipment and others	**25,362**	–	15,973	**9,389**
Total	**126,202**	10,317	63,032	**73,487**

Statement of impairment of assets of the Company

	At 1 January 2007 Rmb'000	Increase for the period Rmb'000	Decrease for the period Rmb'000	At 30 June 2007 Rmb'000
1. Total provisions for bad and doubtful debts	**70,312**	10,317	67,447	**13,182**
Including: Trade receivables	**489**	–	–	**489**
Other receivables	**69,823**	10,317	67,447	**12,693**
2. Total provision for diminution in value of inventories	**57,863**	–	9,123	**48,740**
Including: Raw materials	**4,600**	–	4,600	**-**
Finished goods	**4,523**	–	4,523	**-**
Spare parts and consumables	**48,740**	–	–	**48,740**
3. Total provision for impairment of fixed assets	**25,362**	–	15,973	**9,389**
Including: Machinery, equipment and others	**25,362**	–	15,973	**9,389**
Total	**153,537**	10,317	92,543	**71,311**

4. Changes in interim financial report items (figures extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises(2006))

(Consolidated and unaudited)

Item	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000	Change %	Reason for Change
Cash at bank and on hand	**1,448,432**	1,051,153	37.8	Increase in sales during the period
Provision for impairment of fixed assets	**9,389**	25,362	(63.0)	Write off on disposal of fixed assets
Receipts in advance	**117,316**	316,976	(63.0)	Advance for goods collectively received at last year end which were settled during the period
Other creditors	**238,683**	163,194	46.3	The accrued sales discounts have not been settled

Item	For the six months ended 30 June 2007 Rmb'000	2006 Rmb'000	Change (%)	Reason for Change
General and administrative expenses	**310,564**	204,067	52.2	Employee reduction expenses paid for the reform of the overhaul and maintenance centre during the period
(Net financial income)/ financial expenses	**(8,401)**	3,264	(357.4)	No loans taken and a decrease in bills discounted during the period
Investment losses/ (income)	**11,675**	(5,136)	Not applicable	No gains on the disposal of the equity of Sinopec Finance Company Limited during the period
Non-operating income	**9,269**	40,510	(77.1)	No forfeited deposit and compensation income during the period
Non-operating expenses	**33,978**	9,694	250.5	Increase in losses on disposal of fixed assets during the period
Income tax	**(36,592)**	15,269	(339.6)	Increase in deferred tax assets during the period
Net profit attributable to minority interests	**1,469**	(2,052)	Not applicable	The subsidiaries made profit during the period

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

1. Changes in share capital

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

2. Shareholdings of major shareholders

(1) Number of shareholders

The number of shareholders of the Company as at 30 June 2007 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	40,881
"H" share	673
Total	41,556

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

As at 30 June 2007, the shareholdings of the top ten shareholders and circulating shareholders of the Company are respectively as follows:

Number of shareholders at the end of the reporting period	41,556

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen share*
China Petroleum & Chemical Corporation ("**Sinopec**")	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited***	Overseas capital shareholder	1,369,961,305	34.25	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") **	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
China Minsheng Banking Corporation-Orient Well-chosen Mix-type Open-end Securities Investment Fund	Domestic circulating shares	3,139,927	0.08	Circulating shares	Not applicable
Shenzhen Xintian Shidai Investment Company	Domestic circulating shares	2,495,000	0.06	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited***	Overseas capital shareholder	2,442,000	0.06	Circulating shares	Not applicable
Shenyin & Wanguo Securities Co., Ltd. – Agricultural Bank of China-BNP PARIBAS	Domestic circulating shares	2,000,000	0.05	Circulating shares	Not applicable
HSBC Nominees (HONG KONG) Limited A/C BR-13***	Overseas capital shareholder	1,800,000	0.045	Circulating shares	Not applicable
Shenzhen Yuboya Culture Development Company Limited	Domestic circulating shares	1,619,467	0.04	Circulating shares	Not applicable
Fortune Trust Investment Company Limited – Aggregate Capital Trust No.16 2006	Domestic circulating shares	1,550,000	0.04	Circulating shares	Not applicable

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

Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of the reporting period *(shares)*	Classification
HKSCC (Nominees) Limited***	1,369,961,305	"H" shares
China Minsheng Banking Corporation-Orient Well-chosen Mix-type Open-end Securities Investment Fund	3,139,927	Circulating "A" shares
Shenzhen Xintian Shidai Investment Company	2,495,000	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited***	2,442,000	"H" shares
Shenyin & Wanguo Securities Co., Ltd. – Agricultural Bank of China - BNP PARIBAS	2,000,000	Circulating "A" shares
HSBC Nominees (HONG KONG) Limited A/C BR-13***	1,800,000	"H" shares
Shenzhen Yuboya Culture Development Company Limited	1,619,467	Circulating "A" shares
Fortune Trust Investment Company Limited. – Aggregate Capital Trust No.16 2006	1,550,000	Circulating "A" shares
Shanghai Pudong Development Bank-Guangfa Small-scale Fast-growing Company Securities Investment Fund	1,500,000	Circulating "A" shares
Cai Min	1,413,000	Circulating "A" shares

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

Notes:

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

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

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

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

As at 30 June 2007, (according to the shareholders' register and related application documents received by the Company), so far as the Directors, Supervisors and Senior Management of the Company are aware, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**"):

Names of shareholder	Number of share held (shares)	Percentage of shareholding in the Company's total issued share capital (%)	Percentage of shareholding in the Company's total issued domestic shares (%)	Percentage of shareholding in the Company's total issued H shares (%)	Short position (shares)
Sinopec*	1,680,000,000	42.00	64.62	N/A	-
CITIC	720,000,000	18.00	27.69	N/A	-
Brandes Investment Partners, LP**	81,102,000	2.03	N/A	5.79	-

* *As at 30 June 2007, China Petrochemical Corporation ("**CPC**") holds 75.84% of the equity interest in Sinopec.*

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

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 30 June 2007, no substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rules**")) of the Company or other person held any interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 Part XV of the SFO.

3. Purchase, sale or redemption of the Company's listed securities

During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors, Supervisors and Senior Management

Due to required changes in their working positions, Mr. Xu Zheng-ning and Mr. Cao Yong tendered their resignations as Directors. The 12th meeting of the 5th term of the Board held on 9 February, 2007 considered and accepted the resignations of Mr. Xu Zheng-ning and Mr. Cao Yong as Directors. The Board resolved that Mr. Xu Zheng-ning shall cease to act as Chairman of the Board.

The Board unanimously agreed that Mr. Qian Heng-ge shall be the Chairman of the Board, and that Mr. Xiao Wei-zhen shall be the Vice Chairman of the Board. Mr. Qian Heng-ge shall cease to act as Vice Chairman of the Board.

The Board would like to express their whole-hearted gratitude to Mr. Xu Zheng-ning for his contributions to the Company.

Due to a required change in his working position, Mr. Zhou Wen-fei tendered his resignation as Supervisor. The 4th meeting of the 5th term of the Supervisory Committee held on 9 February, 2007 resolved that Mr. Zhou Wen-fei's resignation be accepted and that Mr. Zhou Wen-fei shall cease to act as Chairman of the Supervisory Committee.

The Supervisory Committee unanimously agreed that Mr. Cao Yong shall be the Chairman of the Supervisory Committee. On 9 February 2007, the Staff Representatives' Meeting of the Company elected Mr. Cao Yong as Supervisor appointed by the staff representatives to the 5th term Supervisory Committee of the Company.

The Supervisory Committee would like to express its whole-hearted gratitude to Mr. Zhou Wen-fei for his contributions to the Company.

The 17th meeting of the 5th term Board held on 4 July 2007 appointed Mr. Li Jian-xin as the Deputy General Manager of the Company.

Mr. Li Jian-xin, aged 49, Senior Engineer (at professor level). He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Sinopec Asset and Management Corporation Yizheng Branch ("**Yihua**")), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company. He has ample experience in the production, technology, operation and administration of large-scale petrochemical enterprises. He was awarded the national and provincial Science & Technology Progress Prize several times. Mr. Li graduated from the Department of Fibre Engineering and Equipment of the Beijing Chemical Industry Institute in 1982, and completed the course for an MBA at Nanjing University in 2000.

2. Directors', Supervisors' and Senior Management's interests in shares

According to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance (the "**SDI Ordinance**") of Hong Kong, and under the relevant PRC laws and regulations concerning details of shares of the Company held by the Directors, Supervisors and Senior Management as at 30 June 2007 are as follows:

Name	Title	Number of "A" shares held at the beginning of the reporting period	Number of "A" shares held at the end of the reporting period	Stock Option of the Company held	Reason for change
Qian Heng-ge	Chairman	2,000	2,000	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	0	0	Nil	No Change
Xiao Wei-zhen	Vice Chairman, General Manager	0	0	Nil	No Change
Long Xing-ping	Director	0	0	Nil	No Change
Zhang Hong	Director	0	0	Nil	No Change
Guan Diao-sheng	Director	0	0	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	0	0	Nil	No Change
Li Zhong-he	Independent Director	0	0	Nil	No Change
Wang Hua-cheng	Independent Director	0	0	Nil	No Change
Yi Ren-ping	Independent Director	0	0	Nil	No Change
Qian Zhi-hong	Independent Director	0	0	Nil	No Change
Cao Yong	Chairman of the Supervisory Committee	0	0	Nil	No Change
Tao Chun-shen	Supervisor	0	0	Nil	No Change
Chen Jian	Supervisor	0	0	Nil	No Change
Shi Gang	Independent Supervisor	0	0	Nil	No Change
Wang Bing	Independent Supervisor	0	0	Nil	No Change
Zhang Zhong-an	Deputy General Manager	0	0	Nil	No Change
Li Jian-xin	Deputy General Manager	0	0	Nil	No Change
Li Jian-ping	Chief Financial Officer	0	0	Nil	No Change
Tom C. Y. Wu	Company Secretary	0	0	Nil	No Change

There was no change in the number of the Company's shares held by the Directors, Supervisors and Senior Management during the reporting period.

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, whether beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) during the reporting period.

3. Directors', Supervisors' and Senior Management's rights to acquire shares and debentures and short position

As at 30 June, 2007, none of the Directors, Supervisors or Senior Management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) of which the Company and the HKSE were required to be informed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management has taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or of which the Company and the HKSE were required to be informed pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

4. Independent Director and Audit Committee

As at 30 June 2007, the Company has four Independent Directors, two of whom are professionals in the accounting field and have experience in financial management.

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

5. BUSINESS REVIEW AND PROSPECTS

Financial figures, where applicable, contained herein have been extracted from the Group's unaudited interim financial report prepared in accordance with IAS 34 "Interim Financial Reporting".

Interim results

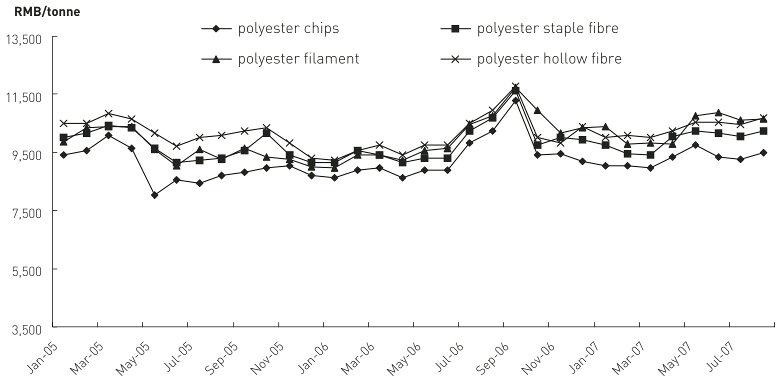
For the six months ended 30 June 2007, the Group's consolidated turnover amounted to Rmb8,482,657,000, increased by 4.0 per cent compared with Rmb8,159,888,000 for the corresponding period of last year. The profit attributable to equity shareholders of the Company was Rmb52,783,000, an increase of 21.3 per cent compared with Rmb43,498,000 for the corresponding period of last year. Basic earnings per share increased by 21.3 per cent to Rmb0.013 compared with Rmb0.011 for the corresponding period of last year.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2007 (interim dividend for 2006: Nil).

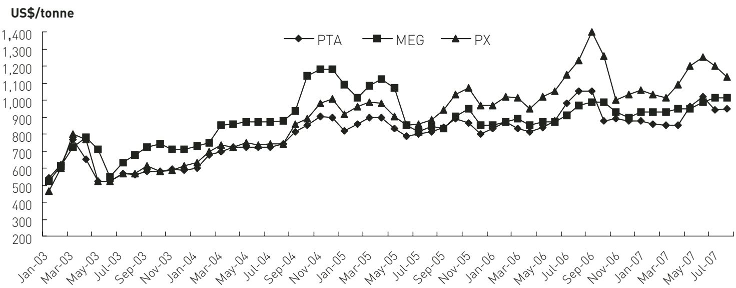
Market review

In the first half of 2007, the domestic polyester industry market improved on the whole and the profit margin of polyester products tended to increase. However, because the supply of domestic polyester production capacity exceeded demand, prices of parxylene ("**PX**") remained high and PRC textile export conditions were unstable, the operational environment for polyester industry was still tough. In the first quarter, the prices of polyester raw materials and products concussively declined owing to the relatively slow start-up of textile demand. In April and May, due to the cost drive of polyester raw materials and the influence of downstream textile demand growth expedition, prices of domestic polyester products went up and the profit margin of polyester products increased. At the start of June, the prices of polyester domestic raw materials and products declined and stabilized owing to the seasonal decrease in down stream textile demand.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



Market review *(continued)*

In the first half of 2007, domestic polyester production capacity increased slowly and the total domestic polyester capacity increased by almost 800,000 tonnes. Total domestic supply volume of polyester fibre was 9,541,700 tonnes, an increase of 16.5 per cent compared with the corresponding period of last year, of which, the domestic production volume increased by 18.6 per cent compared with the corresponding period of last year. Meanwhile, the relatively rapid growth of PRC textile and clothes exports drove export volume to 75.47 billion dollars, 17.6 per cent higher than the first half of 2006. Total domestic consumption volume of polyester fibre reached 8,544,200 tonnes, an increase of 13.3 per cent compared with the corresponding period of 2006. The domestic demand for polyester fibre steadily increased.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	First half of 2007 *'000 tonnes*	First half of 2006 *'000 tonnes*	+/- (%)	**First half of 2007 *'000 tonnes***	First half of 2006 *'000 tonnes*	+/- (%)	**First half of 2007 *'000 tonnes***	First half of 2006 *'000 tonnes*	+/- (%)
Production volume	**5,723.8**	4,694.0	21.9	**3,290.1**	2,903.9	13.3	**9,013.9**	7,597.9	18.6
Import volume	**123.5**	124.9	(1.1)	**113.2**	137.8	(17.9)	**236.7**	262.7	(9.9)
Export volume	**289.2**	192.2	50.5	**188.3**	137.0	37.4	**477.5**	329.2	45.0
Net import	**(165.7)**	(67.3)	(146.2)	**(75.1)**	0.8	(9,487.5)	**(240.8)**	(66.5)	(262.1)
Inventories at the beginning of the period	**221.1**	255.7	(13.5)	**70.0**	70.9	(1.3)	**291.1**	326.6	(10.9)
Inventories at the end of the period	**331.7**	247.0	34.3	**188.3**	67.1	180.6	**520.0**	314.1	65.6
Total supply volume	**6,068.4**	5,074.6	19.6	**3,473.3**	3,112.6	11.6	**9,541.7**	8,187.2	16.5
Total consumption volume	**5,447.5**	4,635.4	17.5	**3,096.7**	2,908.5	6.5	**8,544.2**	7,543.9	13.3

Source: *The Chemical Fibre Association of China*

Result review

In the first half of 2007, faced with a difficult operating environment, the Group continued to extend reforms and strengthened fine management. By exerting efforts to expand market and reduce expenses of management, procurement and sales, positive progress was achieved in various fields concerning production and operation.

Production and marketing

In the first half of 2007, the Group's production facilities maintained safe and stable operations. Due to successful transfer of Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**") in the second half of 2006, the consolidated range of the Group changed. Production volume and sales volume of polyester products decreased slightly compared with the corresponding period of 2006. The total production volume of polyester products was 1,071,917 tonnes, basically equal to 1,072,066 tonnes for the corresponding period of 2006. The capacity utilisation rate of polyester utilities reached 97.8 per cent. The total production volume of purified terephthalic acid ("**PTA**") was 502,496 tonnes, an increase of 0.9 per cent compared with 497,962 tonnes for the corresponding period of last year. In the first half of 2007, the Group's total sales volume of polyester products reached 855,823 tonnes, a decrease of 0.7 per cent compared with 861,902 tonnes in the corresponding period of 2006. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.7 per cent. In the first half of 2007, the Group took measures to expand the export of polyester products, resulting in the Group's export volume of polyester products rising to 74,099 tonnes, an increase of 45.7 per cent compared with 50,848 tonnes for the corresponding period of 2006.

New product development and technological innovation

In the first half of 2007, the Group further optimized its products mix and tried to increase the profit contributions from differential and specialized products according to the profit maximisation principle. Altogether, the Group initiated eleven kinds of new polyester products, began development of nine products, and launched fifteen products for market promotion. In the first half of 2007, the Group's total production volume of specialized polyester chips amounted to 428,152 tonnes and the specialized rate was 81.8 per cent, 3.3 percentage points higher than that of the corresponding period of 2006. The total production volume of differential polyester fibre amounted to 226,807 tonnes and the differential rate of polyester fibre was 67.5 per cent, 4.9 percentage points higher than that of the corresponding period of 2006.

Cost control

In the first half of 2007, the weighted average prices (excluding VAT) of the Group's polyester product increased by 5.5 per cent compared with the corresponding period of last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, mono-ethylene glycol ("**MEG**") and PX, increased by 6.1 per cent compared with the corresponding period of 2006. The Group tried to increase the profit margin of polyester products by reducing expenses of management, procurement and sales, and by strengthening fine management in production and operation. Measures for reducing cost and increasing efficiency were implemented together. The consumption of energy and raw materials was further reduced, the overall energy consumption per unit decreased by 4.3 per cent compared with the corresponding period of 2006. In the first half of 2007, mainly due to increases in transportation costs, insurance premiums and the payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre, the Group's selling and administrative expenses increased by 12.9 per cent and 80.1 per cent respectively from those of the first half of 2006. Due to a significant increase in the interest income as a result of abundant cash, the net financing expenses decreased by 357.4 per cent from those of the first half of 2006,. The total increase in selling expenses, administrative expenses and net financing expenses was 46.2 per cent from that of the first half of 2006.

Internal reform and management

In the first half of 2007, the Group continually extended reforms and the separation of non-core business. Non-core business divestiture of the overhaul and maintenance centre was smoothly completed and other improvements to particular items were steadily advanced. To meet employee reduction and capital allocation requirement, the Group held competitions for operations and service positions. Meanwhile, the Group extended performance evaluations, and increased motivation to further raise employee morale. In the first half of 2007, the number of employees deceased by 1,213 by voluntary resignation contracts or through divestiture of non-core business.

Capital expenditure

In the first half of 2007, the Group's total capital expenditure was Rmb13,867,000. To maximize investment contribution, the Group strengthened investment management in accordance with the prudence principle. Projects such as saving energy consumption, safety and environment, and reducing costs and expenses, which increase profit contribution from existing assets, were completed in succession.

Business prospects

In the second half of 2007, the Group will continue to face a tough operating situation. Firstly, the global market price of crude oil is still high, and the prices of PX will also remain high due to tight supply, so the profits of the polyester industry will continue to move up the supply chain. Secondly, some factors such as the adjustment of PRC's VAT rebates policy, Renminbi appreciation and international trade friction will increase the uncertainty for the PRC's textile and clothing exports, which will intensify the risk of the domestic polyester industry.

At the same time, the Group retains some advantages. Firstly, PRC's economy maintains relatively fast growth which will expand the domestic textile demand. Based on the analysis of the first half of 2007, the volume of production and sales and the profits of PRC's textile industry have obviously increased. The total amount of social consumable retail increased 15.4 per cent compared with the corresponding period of 2006. Secondly, the pace of growth in the PRC's textile and clothing will probably slow down but will still maintain relatively fast, which will drive the steadily increasing of domestic demand for polyester products.

In the second half of 2007, faced with a difficult operation environment, the Group will continue to advance reforms, extend adjustments, strengthen management and reduce costs and expenses to achieve better operating results. The following will be set as priorities in the second half of 2007:

I. Strictly fine management and maintain safe and stable operation of production facilities

To ensure safe and stable operation of production facilities, the Group will further put its safety and environmental protection responsibility system into effect, fine management strictly, strengthen system implementation and process control, enhance the management and maintenance of equipment and facilities, and try to reduce unexpected production cessation. The Group will monitor market change and the running status of facilities in order to choose proper overhaul time and prepare better. In the second half of 2007, the Group's projected production volume of polyester products is 1,043,000 tonnes, and the projected 2007 annual production volume of polyester products is 2,115,000 tonnes, 2.8 per cent higher than production volume in 2006. The Group's production volume of PTA for the second half of 2007 is projected at 508,000 tonnes. The projected 2007 annual production volume of PTA is 1,011,000 tonnes, 0.6 per cent more than production volume in 2006.

II. Pay close attention to market change and better balance material supply, production and sales

The Group will pay close attention to market changes, further balance materials supply with, production and sales, make greater efforts in selling product, control the pace of raw material procurement to reduce market risks and strive for greater profit. In the second half of 2007, the Group's projected sales volume of polyester products is 850,000 tonnes. The 2007 projected sales volume of polyester products is 1,706,000 tonnes, an increase of 0.2 per cent from that of 2006. The ratio of sales to production is expected to reach 100 per cent in the second half of 2007.

III. Improve product structure and profit contribution from differential products

The Group will further optimize product structure, and expand the production of specialized and differential products which have strong profitability. Meanwhile, the Group will continue to advance the work of fixing production line, variety and customer so as to further improve the product quality and added value and improve the profit contribution from differential products. In the second half of 2007, the Group's projected production volume of specialized polyester chips and differential fibre products is 421,000 tonnes and 225,000 tonnes respectively. Specialized rates are expected to be 84.1 per cent and differential rates are expected to be 66.9 per cent.

Business prospects *(continued)*

IV. Reduce cost and expenses greatly and strive to strengthen external operation of public utility facilities

The Group will continue to carry out the measures drafted at the beginning of 2007 for reducing costs and expenses. The Group will further implement overall budget management and strictly manage unplanned expenses to meet the expense control target. The Group will continually improve energy efficiency, and reduce emission of pollutants, and consumption of raw materials and energy. To increase profits, the Group will strengthen external operation of public utilities and make the public utility facilities capacity yield well.

V. Advance reform adjustment and market operation

In accordance with market principles and to increase profits, the Group will continue to advance reform adjustments and market operations. Firstly, the Group will actively advance non-core business divestiture, refine the core business and reduce costs so as to enhance the competitiveness of polyester chemical manufacturing. Secondly, a new round of appointment competitions will be carried out for management and technology positions to reduce employee numbers and human resource capital. Meanwhile, the Group will further refine and adjust the management process to improve management efficiency.

6. MANAGEMENT DISCUSSION AND ANALYSIS

The following financial figures, except where specifically noted, are extracted from the Group's unaudited interim financial report prepared in accordance with IAS 34 "Interim Financial Reporting". These data should be read in conjunction with the unaudited interim financial report and notes therein.

1. Results of Operations

In the first half of 2007, the profit attributable to equity shareholder of the Company was Rmb52,783,000, an increase of 21.3 per cent compared with Rmb43,498,000 for the corresponding period of 2006. Yihua Kangqi Chemical Fibre Company Limited ("**Kangqi Company**") and its subsidiaries ("**Kangqi Group**") recorded a profit of Rmb2,217,000.

(1) Turnover

In the first half of 2007, the Group's production facilities maintained safe and stable operations. Owing to successful transfer of Tianma Chemical Fibre in the second half of 2006, the consolidated scope of the Group changed. The Group's total production volume of polyester products was 1,071,917 tonnes, a slightly decrease compared to 1,072,066 tonnes for the corresponding period of 2006. The Group's capacity utilization rate reached 97.8 per cent. Under the condition of the overhaul of the PTA line II, the production volume of PTA continued to increase. The Group's total production volume of PTA was 502,496 tonnes, an increase of 0.9 per cent compared with 497,962 tonnes for the corresponding period of 2006.

1. Results of Operations *(continued)*

Production volume

	For the six months ended 30 June			
	2007		2006	
	Production volume (tonnes)	**Percentage of total production volume (%)**	Production volume (tonnes)	Percentage of total production volume (%)
Polyester products				
Chips	**735,964**	**68.7**	729,311	68.0
Including:				
Bottle-grade chips	**212,713**	**19.8**	212,789	19.8
Staple fibre	**224,230**	**20.9**	224,510	21.0
Hollow fibre	**25,117**	**2.3**	24,656	2.3
Filament	**86,606**	**8.1**	93,589	8.7
Total	**1,071,917**	**100.0**	1,072,066	100.0

In the first half of 2007, the Group's total sales volume of polyester products amounted to 855,823 tonnes, a decrease of 0.7 per cent compared with 861,902 tonnes for the corresponding period of 2006. The decrease is mainly due to the change of consolidated scope of the Group as the result of the successful transfer of Tianma Chemical Fibre in the second half of 2006. The Company's total sales volume maintains an increase when compared with that of the corresponding period of 2006. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.7 per cent. The Group's export volume of polyester products was 74,099 tonnes, an increase of 45.7 per cent compared to 50,848 tonnes for the corresponding period of 2006. Due to the drive from the cost of polyester raw materials, the weighted average prices (excluding VAT) of the Group's polyester products increased from Rmb9,163/tonne for the corresponding period of 2006 to Rmb9,669/tonne for the first half of 2007, a 5.5 per cent increase. The increase in prices of polyester products, however, was slightly less than that of polyester raw material.

Sales volume

	For the six months ended 30 June			
	2007		2006	
	Sales volume (tonnes)	**Percentage of total sales volume (%)**	Sales volume (tonnes)	Percentage of total sales volume (%)
Polyester products				
Chips	**511,535**	**59.8**	507,330	58.9
Including:				
Bottle-grade chips	**210,675**	**24.6**	208,415	24.2
Staple fibre	**227,399**	**26.5**	232,632	27.0
Hollow fibre	**24,485**	**2.9**	25,730	3.0
Filament	**92,404**	**10.8**	96,210	11.1
Total	**855,823**	**100.0**	861,902	100.0

Average prices for products *(Rmb/tonne, excluding VAT)*

	For the six months ended 30 June		
	2007	2006	Change(%)
Polyester products			
Chips	**9,338**	8,882	5.1
Staple fibre	**9,983**	9,329	7.0
Hollow fibre	**10,549**	9,737	8.3
Filament	**10,501**	10,090	4.1
Weighted average price	**9,669**	9,163	5.5

Turnover

	For the six months ended 30 June			
	2007		2006	
	Turnover ***Rmb'000***	**Percentage of turnover** ***(%)***	Turnover *Rmb'000*	Percentage of turnover *(%)*
Polyester products				
Chips	**4,776,612**	**56.3**	4,506,093	55.2
Staple fibre	**2,270,063**	**26.8**	2,170,313	26.6
Hollow fibre	**258,300**	**3.1**	250,538	3.1
Filament	**970,310**	**11.4**	970,772	11.9
Others	**207,372**	**2.4**	262,172	3.2
Total	**8,482,657**	**100.0**	8,159,888	100.0

In the first half of 2007, despite the decrease in sales volume by 0.7 per cent compared with the corresponding period of 2006, the Group's turnover amounted to Rmb8,482,657,000, an increase of 4.0 per cent compared with Rmb8,159,888,000 for the corresponding period of 2006. The increase was caused by the 5.5 per cent increase in the weighted average price of polyester products compared with the corresponding period of 2006.

(2) Cost of sales

In the first half of 2007, the Group's cost of sales was Rmb8,089,109,000, an increase of Rmb193,089,000 compared with Rmb7,896,020,000 for the corresponding period of 2006, representing 95.4 per cent of turnover. In the first half of 2007, total costs of raw materials increased by 2.9 per cent, from Rmb7,175,965,000 to Rmb7,381,637,000, compared with the corresponding period of 2006, accounting for 91.3 per cent of the cost of sales. The increase was mainly due to the increase in the procurement and purchase cost of PX and PTA. In the first half of 2007, the weighted average price of external purchased polyester raw materials increased by 6.1 per cent compared with the corresponding period of 2006. Of this increase, the average purchase costs of PX, PTA and MEG increased by 11.2 per cent, 3.2 per cent and 1.3 per cent, respectively, compared with the corresponding period of 2006. To ease the increase in the cost of sale, the Group took measures to organize the safe and stable operation of facilities, reduce costs and expenses, increase PTA production volume and lower energy consumption.

In the first half of 2007, turnover increased by 4.0 per cent compared with the corresponding period of 2006, while cost of sales increased by 2.4 per cent compared with the corresponding period of last year. As a result, the Group's gross profit increased by Rmb129,680,000 to Rmb393,548,000 compared with the corresponding period of 2006. The Group's gross margin was 4.6 per cent, an increase of 1.4 percentage points compared with the corresponding period of 2006.

(3) Selling, administrative and financial expenses

	For the six months ended 30 June		
	2007	2006	Change
	Rmb'000	*Rmb'000*	*(%)*
Selling expenses	**108,270**	95,913	12.9
Administrative expenses	**239,756**	133,132	80.1
Net financial (income) /costs	**(8,401)**	3,264	(357.4)
Total	**339,625**	232,309	46.2

In the first half of 2007, selling expenses and administrative expenses increased by 12.9 per cent and 80.1 per cent, respectively, compared with the corresponding period of 2006. These increases were mainly due to the increase in transportation costs, insurance premiums and the payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre. Due to abundant cash significantly increasing interest income, net financing costs decreased by 357.4 per cent compared with the corresponding period of 2006. The total increase in selling expenses, administrative expenses and net financial income was 46.2 per cent as compared with the corresponding period of 2006.

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

	For the six months ended 30 June		
	2007 *Rmb'000*	2006 *Rmb'000*	Change *(%)*
Operating profit	**10,616**	60,375	(82.4)
Profit before taxation	**19,017**	57,111	(66.7)
Income tax (credit)/expense	**(35,235)**	15,665	(324.9)
Profit attributable to equity shareholders of the Company	**52,783**	43,498	21.3
Basic earnings per share (in Rmb)	**0.013**	0.011	21.3

In the first half of 2007, due to the recovery of domestic polyester market, the Group's enhanced efforts in raising production volume and sales volume, exercising better control over costs and expenses, increasing PTA production volume and optimizing products mix, the Group's profit margin of polyester products increased. Owing to the payment of Rmb89,239,000 for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre, the Group's operating profit and profit before taxation was Rmb10,616,000 and Rmb19,017,000 respectively, representing a decrease of 82.4 per cent and 66.7 per cent, respectively, compared with the corresponding period of 2006. Profit attributable to equity shareholders of the Company amounted to Rmb52,783,000, an increase of 21.3 per cent compared with the corresponding period of 2006.

(5) Statement of the operations by products

Polyester products contributed more than 10 per cent of the Group's income from operations and operating profit. The following is the statement of operations by products for the six months ended 30 June 2007 in accordance with the PRC Accounting Standards for Business Enterprises (2006).

Products	**Operating income** *Rmb'000*	**Cost of sales** *Rmb'000*	**Gross profit margin** *(%)*	**Increase/ (decrease) in operating income as compared with the corresponding period of last year** *(%)*	**Increase/ (decrease) in cost of sales as compared with the corresponding period of last year** *(%)*	**Gross profit margin as compared with the corresponding period of last year**
Polyester products	8,275,285	7,761,267	6.2	4.8	1.6	Increased by 2.9 percentage points
Including: connected transactions	98,373	92,262	6.2	(8.7)	(11.1)	Increased by 2.6 percentage points

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

(6) Reasons for the significant changes in the gross margin compared to that of 2006 (extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

In the first half of 2007, the Group's gross margin from principal operations was 5.7 per cent, an increase of 1.5 percentage points compared with 2006. The increase was mainly due to the wider of the profit margin of polyester products, the Group's enhanced efforts in raising production volume and sales volume, exercising better control over costs and expenses, increasing PTA production volume and optimizing products mix.

(7) Operations of jointly controlled entity in the first half of 2007 (extracted from the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**"). The Company and UNIFI Asia Holding SRL holds 50 per cent of the equity interest of Yihua UNIFI respectively. Its principal activities are the production and processing of differential polyester filament and relative products, research and development of polyester and textile products, sales of and after sales services for its products. In the first half of 2007, Yihua UNIFI sustained a loss of Rmb23,350,000. The Group's investment loss from Yihua UNIFI was Rmb11,675,000, which accounted for 23.3 per cent of the profit attributable to equity shareholders of the Company.

2. Financial Analysis

The Group's primary sources of funds come from operating activities, short-term and long-term borrowings, and the funds are primarily used for working capital, capital expenditures and repayment of short-term and long- term borrowings.

(1) Assets, liabilities and shareholders' equity analysis

	At 30 June 2007 ***Rmb'000***	At 31 December 2006 *Rmb'000*	Changes *Rmb'000*
Total assets	**10,177,151**	10,046,111	131,040
Current assets	**4,459,570**	4,026,062	433,508
Non-current assets	**5,717,581**	6,020,049	(302,468)
Total liabilities	**1,925,936**	1,872,907	53,029
Current liabilities	**1,925,936**	1,872,907	53,029
Non-current liabilities	**–**	–	–
Minority interests	**48,882**	47,652	1,230
Total equity attributable to equity shareholders of the Company	**8,202,333**	8,125,552	76,781

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

As at 30 June 2007, the Group's total assets were Rmb10,177,151,000, total liabilities were Rmb1,925,936,000, and total equity attributable to equity shareholders of the Company was Rmb8,202,333,000. Compared with the assets and liabilities as at 31 December 2006 (hereinafter referred to as "compared with the end of last year"), the variations and main causes of such changes are described as follows:

Total assets were Rmb10,177,151,000, an increase of Rmb131,040,000 compared with the end of last year. Current assets were Rmb4,459,570,000, an increase of Rmb433,508,000 compared with the end of last year. The increase was mainly because the Group's cash and cash equivalents and deposits with banks and other financial institutions increased by Rmb102,279,000 and Rmb295,000,000 respectively owing to abundant cash coming from the rise in net cash inflow in the first half of 2007. Non-current assets were Rmb5,717,581,000, a decrease of Rmb302,468,000 compared with the end of last year, mainly due to ordinary depreciation and amortization.

Total liabilities were Rmb1,925,936,000, an increase of Rmb53,029,000 compared with the end of last year. Current liabilities were Rmb1,925,936,000, an increase of Rmb53,029,000 compared with the end of last year, mainly due to the increase of Rmb58,683,000 in trade and other payables.

As at 30 June 2007, total liabilities to total assets ratio was 18.9 per cent, whereas 18.6 per cent as at 31 December 2006.

(2) Cash flow analysis

In the first half of 2007, cash and cash equivalents increased by Rmb102,279,000 (increased from Rmb933,153,000 as at 31 December 2006 to Rmb1,035,432,000 as at 30 June 2007). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2007 and 2006.

Major items in cash flow statement	**For the six months ended 30 June**		
	2007	2006	Changes
	Rmb'000	*Rmb'000*	*Rmb'000*
Net cash flows from operating activities	**390,060**	516,284	(126,224)
Net cash flows from investing activities	**(287,542)**	53,069	(340,611)
Net cash flows from financing activities	**(239)**	(32,209)	31,970
Net increase in cash and cash equivalents	**102,279**	537,144	(434,865)
Cash and cash equivalents at the beginning of the period	**933,153**	366,882	566,271
Cash and cash equivalents at the end of the period	**1,035,432**	904,026	131,406

(2) Cash flow analysis *(continued)*

In the first half of 2007, the Group's net cash inflow from operating activities was Rmb390,060,000, representing a decrease of Rmb126,224,000 compared with the corresponding period of 2006. This was mainly due to the following:

- The increase in prices of raw materials and products, which increased inventories by Rmb105,894,000 in the first half of 2007. There had been a decrease of Rmb111,364,000 in the first half of 2006. The net cash inflow from operating activities decreased by Rmb217,258,000.

- The increase in gross profit from 263,868,000 in the first half of 2006 to Rmb393,548,000 in the first half of 2007. The net cash inflow from operating activities increased by Rmb129,680,000.

In the first half of 2007, the Group's net cash outflow from investing activities was Rmb287,542,000, an increase of Rmb340,611,000 compared with the corresponding period of 2006. This was mainly due to an increase of Rmb295,000,000 in the deposits with banks and other financial institutions in the first half of 2007.

In the first half of 2007, the Group's net cash outflow from financing activities was Rmb239,000, a decrease of cash outflow by Rmb31,970,000 compared with the corresponding period of 2006. This was mainly due to no loans as a result of abundant cash in the first half of 2007.

(3) Bank borrowings

As at 30 June 2007, the Group's bank loans were zero (as at 31 December 2006: zero). The Group's major bank loans were denominated in Renminbi, and all of the bank borrowings were charged at a fixed interest rate. The borrowing requirements of the Group were not subject to seasonal changes.

(4) Debt-equity ratio

The debt-equity ratio of the Group was zero for the first half of 2007 (first half of 2006: zero). The ratio is computed by dividing long-term borrowings by the sum of long-term borrowings and shareholders' equity.

(5) Assets charges

As at 30 June 2007, there was not any charge in the Group's assets.

(6) Management of foreign exchange risk

The major receivables and payables items of the Group are dominated in Renminbi. Foreign currency used in the Group's operation was dominated in US dollars and settled immediately under current items. Therefore, there is no material effect on the Group as a result of the fluctuations in foreign exchange rates.

3. Capital Expenditure

In the first half of 2007, the Group's capital expenditure amounted to Rmb13,867,000. The amount was mainly invested in the projects that increased profit contribution from existing assets such as improving safety and environment, and reducing costs, expenses, and energy consumption.

The Group's capital expenditure for the second half of 2007 is projected to be approximately Rmb325,150,000. In the second half of 2007, in order to enhance investment contributions, the Group will arrange the schedule of capital expenditure in accordance with the prudential principle. It is expected to be Rmb200,000,000 for the PTA project with an annual capacity of 1,000,000 tonnes. The planned capital expenditures will be funded by cash generated from operations and bank credit facilities.

7. SIGNIFICANT EVENTS

1. Since the issuing and listing of A share and H share on domestic and foreign markets, the Company committed itself to improving the level of corporate governance. In light of the new regulatory requirements in both local and overseas markets, the Company set up a relative consummate governance structure and mechanism based on the mutual restriction and balance among the Shareholders' Convention, the board, the Supervisory Committee and the management layers. It meets the requirements of pertinent laws and rules of regulatory institutes.

According to the corporate governance arrangements of the CSRC, the Company's relevant work has been carried out.

2. On 1 January 2005, the Company formally implemented its internal control system, covering the Company's production and operational chain and key business sectors. The Company carried out yearly and quarterly checkups and evaluations of the implementation and revised it as needed. In March 2003, the Company had set up management and functional departments of the internal control system to lead and develop this special work. Due to the new local and overseas regulatory requirements, the 13th meeting of the fifth term, held on 30 March 2007, examined and revised the system.

7. SIGNIFICANT EVENTS *(continued)*

3. According to laws or regulations of "Several Opinions of the State Council on Promoting the Reform, Opening-up and Stable Development of the Capital Market" (No. 3, 2004 of the State Council) and "Guidance Opinions on the Share Reform of Listed Companies", jointly declared by the CSRC, State-Owned Assets Supervision and Administration Commission of the State Council, Ministry of Finance, the People's Bank of China and the Ministry of Commerce, the Company's non-circulating shareholders brought forward the proposal of share reform on 29 September 2006. After performing the operational process of share reform, the 8 November 2006 shareholders' meeting of A share market, which related to the share reform scheme, did not pass the "Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited".

The non-circulating shareholders are studying the share reform arrangement of the Company according to pertinent policies and regulations. But there is no concrete plan at present.

4. As approved by 2006 AGM held on 29 June 2007, to make up the losses of 2005, the Company did not pay a final cash dividend for the year ended 31 December 2006, according to the Company Law and the Articles of Association of the Company.

In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend be paid for the year ended 31 December 2007.

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

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

7. Information on connected transactions

At the 2006 AGM held on 29 June 2007, independent shareholders discussed and approved the resolution to revise the caps of settlement deposit account balance opened at Sinopec Finance Company limited.

The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, the Hong Kong Economic Times and the South China Morning Post on 14 May 2007, and the Circular was sent to the shareholders of H share on 14 May 2007.

At the 2006 AGM held on 29 June 2007, independent shareholders discussed and approved the resolution of 2007 ordinary connected transactions in terms of the existing connected transaction agreement.

7. SIGNIFICANT EVENTS *(continued)*

7. Information on connected transactions *(continued)*

The Group's material connected transactions entered into during the period ended 30 June 2007 were as follows:

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

Type of transaction	Transaction parties	Amount of transaction *Rmb'000*	Proportion of the same type of transaction *(%)*
Purchase of raw materials	Sinopec and its subsidiaries	4,531,930	67.3
	Of which:		
	Sinopec Yangzi Petrochemical Company Limited	2,142,624	31.8
	Sinopec Petroleum & Chemical Corporation, Zhenhai Branch	1,658,314	24.6

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

(b) During the reporting period, there were no significant connected transactions related to the transfer of assets or equity in the Group.

The Board believed that the above transactions were entered into in the ordinary course of business and in normal commercial terms or in accordance with the terms of agreements governing these transactions. The above applicable connected transactions fully complied with the related regulations issued by HKSE and the SSE.

For details of connected transactions during the reporting period, please refer to note 38 of the interim financial report prepared in accordance with PRC Accounting Standards for Business Enterprises (2006).

8. During the reporting period, there were no non-operating funds supplied by the Company to the controlling shareholders and its subsidiaries.

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

7. SIGNIFICANT EVENTS *(continued)*

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

11. As at 30 June 2007, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

12. During the reporting period, the Company did not hold any shares of other listed companies or shares in financial enterprises such as commercial banks, securities companies, insurance companies, trust companies or futures companies. Neither did it hold shares in companies planning to list.

13. The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" (Guoshuihan [2007] No. 664) ("the **Notice**") in June 2007, stating that the Enterprise Income Tax ("**EIT**") preferential policy has expired for the first batch of H-share companies. The Company is one of the nine listed companies mentioned above and has applied the preferential EIT rate of 15% till the year 2006. The Notice stated that the expired concessionary tax policy should be rectified immediately and the difference in EIT arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

At present, the Company is actively communicating with the relevant tax authority to assess the specific situation, and up to now, has been informed by Yizheng State Tax Bureau that the applicable EIT rate for the year 2007 is 33%. As the Company had a large amount of unutilised tax losses incurred in previous years, the change in EIT rate would not have a great impact on the income tax expense payable of the Company in 2007. However, there was no verdict on the treatment of income tax for previous years. The Company will keep on contacting with tax authorities to assess the financial influence and will issue further announcement as and when appropriate.

In addition, in March 2007, the National People's Congress of the PRC approved the legislation which adopted a uniform taxation system for both domestic enterprises and foreign enterprises in the PRC. The new system will take effect from 1 January 2008 and the uniform income tax rate for enterprises will be 25% from 1 January 2008. The impact of the income tax rate change on the Group will depend on the finalized implementation guidelines to be announced.

7. SIGNIFICANT EVENTS *(continued)*

14. According to "Protocol on the Accession of the PRC" and related legal documents, effective 1 January 2007, the PRC government has to reduce the import tariff rates on polyester products and major polyester raw materials in accordance with the following progressive table:

Type	2001	2002	2003	2004	2005	2006	**2007**	2008
Polyester chips	16%	12.8%	11.8%	10.7%	9.7%	8.6%	**7.6%**	6.5%
Polyester staple fibre	17%	10.6%	7.8%	5%	5%	5%	**5%**	5%
Polyester filament	21%	14%	11%	8%	5%	5%	**5%**	5%
PX	8%	5%	4%	3%	2%	2%	**2%**	2%
MEG	12%	8.8%	7%	5.5%	5.5%	5.5%	**5.5%**	5.5%
PTA	14%	12.8%	8%*	7%*	6.5%*	6.5%*	**6.5%***	6.5%

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

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

15. In July 2006, the U.S. Department of Commercial Affairs declared its initiation of an anti-dumping investigation targeting imported polyester staple fibre from the PRC. The products involved are polyester staple fibre not combed or processed other than at the stages before spinning. The U.S. International Trade Committee and the U.S. Department of Commercial Affairs have made preliminary conclusions of industry damaging activities and anti-dumping in August 2006 and December 2006 respectively. Both committees made a final conclusion of levying a 0% to 44.3% anti-dumping tax in April and May 2007.

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

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

17. Save as those disclosed above, during the reporting period, the Group did not have any major event, or disclosure matter referred to in the Article 62 of the Security Law of the PRC, Article 60 of the "Provisional Regulations of Administration of the Issuing and Trading of Shares of the PRC" and the Article 30 of "Disclosure of Information by Public Listing Companies".

8. INTERIM FINANCIAL REPORT (UNAUDITED)

(A) Interim financial report prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting"

KPMG

Review report to the board of directors of Sinopec Yizheng Chemical Fibre Company Limited

(Established in the People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 32 to 46 which comprises the consolidated balance sheet of Sinopec Yizheng Chemical Fibre Company Limited as of 30 June 2007 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

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

30 August 2007

Consolidated Income Statement
for the six months ended 30 June 2007 – unaudited

	Note	Six months ended 30 June 2007 Rmb'000	2006 Rmb'000 (restated)
Turnover		**8,482,657**	8,159,888
Cost of sales		**(8,089,109)**	(7,896,020)
Gross profit		**393,548**	263,868
Other income		**9,176**	58,567
Selling expenses		**(108,270)**	(95,913)
Administrative expenses		**(239,756)**	(133,132)
Other expenses		**(32,407)**	(17,996)
Operating profit before financing income/(costs)		**22,291**	75,394
Financial income		**15,029**	5,182
Financial expense		**(6,628)**	(8,446)
Net financing income/(costs)		**8,401**	(3,264)
Share of loss of a jointly controlled entity		**(11,675)**	(15,019)
Profit before taxation	4	**19,017**	57,111
Income tax credit / (expense)	5	**35,235**	(15,665)
Profit for the period		**54,252**	41,446
Attributable to:			
Equity shareholders of the Company		**52,783**	43,498
Minority interests		**1,469**	(2,052)
Profit for the period		**54,252**	41,446
Basic and diluted earnings per share (in Rmb)	7	**0.013**	0.011

The notes on pages 36 to 46 form part of this interim financial report.

Consolidated Balance Sheet
as at 30 June 2007 – unaudited

	Note	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)
Non-current assets			
Property, plant and equipment	8	**5,197,569**	5,508,765
Construction in progress		**76,758**	114,037
Lease prepayments		**115,153**	116,647
Interest in a jointly controlled entity		**169,036**	180,711
Deferred tax assets		**159,065**	99,889
		5,717,581	6,020,049
Current assets			
Inventories		**1,461,794**	1,355,900
Trade and other receivables	9	**1,549,344**	1,619,009
Deposits with banks and other financial institutions	10	**413,000**	118,000
Cash and cash equivalents	11	**1,035,432**	933,153
		4,459,570	4,026,062
Current liabilities			
Trade and other payables	12	**1,923,234**	1,864,551
Income tax payable		**2,702**	8,356
		1,925,936	1,872,907
Net current assets		**2,533,634**	2,153,155
Total assets less current liabilities		**8,251,215**	8,173,204
Net assets		**8,251,215**	8,173,204
Equity			
Share capital		**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	13	**1,278,624**	1,259,943
Retained profits		**404,876**	346,776
Total equity attributable to equity shareholders of the Company		**8,202,333**	8,125,552
Minority interests		**48,882**	47,652
Total equity		**8,251,215**	8,173,204

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

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 36 to 46 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2007 – unaudited

		Attributable to equity shareholders of the Company						
	Note	Share capital *Rmb'000*	Share premium *Rmb'000*	Reserves *Rmb'000*	Retained earnings *Rmb'000*	Total *Rmb'000*	Minority interests *Rmb'000*	Total equity *Rmb'000*
As at 1 January 2006		4,000,000	2,518,833	1,246,672	306,308	8,071,813	52,104	8,123,917
Addition of minority interests		–	–	–	–	–	850	850
Profit for the period								
– attributable to equity shareholders of the Company		–	–	–	43,498	43,498	–	43,498
– minority interests		–	–	–	–	–	(2,052)	(2,052)
Distributions to minority interests		–	–	–	–	–	(1,171)	(1,171)
Others		–	–	4,408	–	4,408	–	4,408
As at 30 June 2006		4,000,000	2,518,833	1,251,080	349,806	8,119,719	49,731	8,169,450
As at 1 January 2007		4,000,000	2,518,833	1,259,943	346,776	8,125,552	47,652	8,173,204
Profit for the period								
– attributable to equity shareholders of the Company		–	–	–	52,783	52,783	–	52,783
– minority interests		–	–	–	–	–	1,469	1,469
Distributions to minority interests		–	–	–	–	–	(239)	(239)
Realisation of deferred tax on land use rights		–	–	(5,317)	5,317	–	–	–
Adjustment of deferred tax on land use rights due to change in income tax rate	5	–	–	19,777	–	19,777	–	19,777
Others		–	–	4,221	–	4,221	–	4,221
As at 30 June 2007		**4,000,000**	**2,518,833**	**1,278,624**	**404,876**	**8,202,333**	**48,882**	**8,251,215**

The notes on pages 36 to 46 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2007 – unaudited

	Note	Six months ended 30 June **2007** ***Rmb'000***	 2006 *Rmb'000* (restated)
Cash generated from operations		**399,878**	528,126
Income tax paid		**(9,818)**	(11,842)
Net cash generated from operating activities		**390,060**	516,284
Net cash (used in)/generated from investing activities		**(287,542)**	53,069
Net cash used in financing activities		**(239)**	(32,209)
Net increase in cash and cash equivalents		**102,279**	537,144
Cash and cash equivalents at 1 January	*11*	**933,153**	366,882
Cash and cash equivalents at 30 June	*11*	**1,035,432**	904,026

The notes on pages 36 to 46 form part of this interim financial report.

Notes on the unaudited interim financial report

1. Principal activities and basis of preparation

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") and its subsidiaries ("**the Group**") are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China ("**the PRC**"). China Petroleum & Chemical Corporation ("**Sinopec Corp**") is the Company's immediate parent company and China Petrochemical Corporation ("**CPC**") is the Company's ultimate parent company.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34 *Interim Financial Reporting*, adopted by the International Accounting Standards Board ("**IASB**"). This interim financial report was authorised for issuance on 30 August 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements, except for the accounting policy change that is expected to be reflected in the 2007 annual financial statements. Details of the change in accounting policy are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Standard on Review Engagement 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 31.

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Company's annual financial statements for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2007. The 2006 annual financial statements have been prepared in accordance with IFRSs.

The Company also prepares an interim financial report which complies with the PRC Accounting Standards for Business Enterprises. Significant differences between the interim financial report of the Group prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) ("**ASBE (2006)**") and IFRSs are summarised on pages 109 to 110.

2. Change in accounting policy

In prior years, interest in a jointly controlled entity was accounted for in the consolidated financial statements on a proportionate consolidation basis. With effect from 1 January 2007, interest in a jointly controlled entity is accounted for in the consolidated financial statements by using the equity method. This change is to achieve a consistency between the accounting policies adopted in the financial statements of the Group prepared under IFRSs and ASBE (2006). The effect of this change did not have an impact on the profit and the equity attributable to equity shareholders of the Company in the periods prior to the change.

The financial condition as at 31 December 2006 and the results of operation for the six months ended 30 June 2006 previously reported by the Group have been restated to apply the equity method for interest in a jointly controlled entity, as set out below:

	The Group, as previously reported	**Effect of accounting for interest in a jointly controlled entity under equity method**	**The Group, as restated**
	Rmb'000	*Rmb'000*	*Rmb'000*
Consolidated income statement items for the six months ended 30 June 2006:			
Turnover	8,051,557	108,331	8,159,888
Gross profit	274,459	(10,591)	263,868
Operating profit before financing costs	61,493	13,901	75,394
Share of loss of a jointly controlled entity	–	15,019	15,019
Profit before taxation	57,111	–	57,111
Profit for the period	41,446	–	41,446
Profit attributable to equity shareholders of the Company	43,498	–	43,498
Consolidated balance sheet items as at 31 December 2006:			
Non-current assets	6,090,850	(70,801)	6,020,049
Interest in a jointly controlled entity	–	180,711	180,711
Current assets	4,064,589	(38,527)	4,026,062
Current liabilities	1,982,235	(109,328)	1,872,907
Net current assets	2,082,354	70,801	2,153,155
Net assets	8,173,204	–	8,173,204
Total equity attributable to equity shareholders of the Company	8,125,552	–	8,125,552
Total equity	8,173,204	–	8,173,204

3. Segment reporting

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

4. Profit before taxation

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

	Note	Six months ended 30 June 2007 Rmb'000	2006 Rmb'000 (restated)
Interest on borrowings		–	5,065
Depreciation		**328,703**	340,306
Impairment loss of property, plant and equipment		–	10,400
Amortisation of lease prepayments		**1,494**	1,500
(Reversal of)/write-down of inventories		**(9,123)**	1,799
Employee reduction expenses	*(a)*	**95,726**	5,037
Net loss on disposal of property, plant and equipment		**24,953**	2,064
Forfeited deposit		–	(14,950)
Interest income		**(13,386)**	(3,966)
Gain on disposal of available-for-sale equity securities		–	(19,500)

(a) In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb 95,726,000 (2006: Rmb 5,037,000) during the period ended 30 June 2007 in respect of the reduction of 1,213 (2006: 63 employees) employees.

5. Income tax

	Six months ended 30 June 2007 Rmb'000	2006 Rmb'000 (restated)
Current tax expense		
– Current period	**3,705**	3,581
– Under-provision in respect of prior years	**459**	2,178
	4,164	5,759
Deferred taxation	**(39,399)**	9,906
Income tax (credit)/expense	**(35,235)**	15,665

It has come to the Company's attention that the State Administration of Taxation issued a notice in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorized by the State Council to issue shares in Hong Kong in 1993 which is still being applied. The notice stated that the difference in enterprise income tax ("EIT") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and has applied the preferential EIT rate of 15% in prior years. At present, the Company is actively communicating with the relevant tax authority to assess the specific situation, and up to now, has been informed that the EIT rate for the Company would be adjusted from the original 15% to 33% in 2007. At this stage, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company in respect of any prior years, and it is not possible to reliably estimate the eventual outcome of this matter. Accordingly, no provision in respect of the EIT differences has been made in the financial statements.

5. Income tax *(continued)*

The charge for PRC income tax for the period is therefore calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The enterprise income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33% (2006: 15% to 33%). The Group did not carry out business overseas and therefore does not incur overseas income taxes.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008.

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 30 June 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled. As a result, deferred taxation of Rmb 49,747,000 and Rmb 19,777,000 has been adjusted in profit or loss and equity respectively.

6. Dividend

No final dividend in respect of the financial year 2006 was approved during the period (financial year 2005: Rmb nil).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Rmb nil).

7. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb 52,783,000 for the six months ended 30 June 2007 (six months ended 30 June 2006: profit of Rmb 43,498,000) and the number of ordinary shares of 4,000,000,000 (2006: 4,000,000,000) in issue during the period.

(b) Diluted earnings per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2007.

8. Property, plant and equipment

Acquisitions and disposals

The acquisitions and disposals of items of property, plant and equipment during the six months ended 30 June 2007 are as follows:

	Six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
		(restated)
Cost of acquisitions and transfer from construction in progress	**55,145**	65,324
Disposals (net carrying amount)	**37,638**	23,215

9. Trade and other receivables

	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)
Trade receivables	**374,610**	279,395
Bills receivable	**883,158**	979,417
Amounts due from parent companies and fellow subsidiaries (trade)	**76,570**	86,103
Amount due from a jointly controlled entity (trade)	**2,567**	3,380
	1,336,905	1,348,295
Amounts due from parent companies and fellow subsidiaries (non-trade)	**331**	451
Amount due from a jointly controlled entity (non-trade)	**4**	2,929
Other receivables, deposits and prepayments	**212,104**	267,334
	1,549,344	1,619,009

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 companies and fellow subsidiaries (trade) and amount due from a jointly controlled entity (trade), net of provision, is as follows:

	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)
Invoice date:		
Within one year	**1,333,277**	1,346,752
Between one and two years	**3,222**	1,325
Between two and three years	**378**	218
Over three years	**28**	–
	1,336,905	1,348,295

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

10. Deposits with banks and other financial institutions

	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)
Balances with banks and other financial institutions, which are related parties		
– Sinopec Finance Company Limited ("**Sinopec Finance**")	**259,854**	48,017
– China CITIC Bank	**54,130**	12,775
– State-controlled banks in the PRC (excluding China CITIC Bank)	**1,134,415**	990,336
	1,448,399	1,051,128
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 11)*	**(1,035,399)**	(933,128)
	413,000	118,000

11. Cash and cash equivalents

	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)
Cash in hand	**33**	25
Balances with banks and other financial institutions with an initial term of less than three months *(note 10)*	**1,035,399**	933,128
	1,035,432	933,153

12. Trade and other payables

	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)
Trade payables	**1,319,107**	1,374,545
Amounts due to parent companies and fellow subsidiaries (trade)	**186,763**	83,851
Amount due to a jointly controlled entity (trade)	**1,512**	–
	1,507,382	1,458,396
Amounts due to parent company and fellow subsidiaries (non-trade)	**18,374**	6,657
Amount due to a jointly controlled entity (non-trade)	**7,574**	6,307
Other payables	**389,904**	393,191
	1,923,234	1,864,551

The maturity analysis of trade payables, amounts due to parent companies and fellow subsidiaries (trade) and amount due to a jointly controlled entity (trade) is as follows:

	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)
Due within one month or on demand	**1,500,205**	1,458,314
Due after one month but within six months	**7,177**	82
	1,507,382	1,458,396

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

13. Reserves

For the six months ended 30 June 2007, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (2006: Rmb nil).

14. Related party transactions

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

Sinopec Asset and Management Corporation Yizheng Branch ("**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 Sinopec Corp, CPC or CITIC are considered to be related parties as they are subject to the common control or significant influence of Sinopec Corp, CPC or CITIC.

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

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

	Six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**4,531,930**	3,751,957
Including: Yangzi	**2,142,624**	2,050,412
Zhenhai	**1,658,314**	1,282,890
Service charges for the purchase of raw materials	**15,228**	17,938
Yihua and its subsidiaries		
Sales	**119,803**	128,721
Miscellaneous service fee charges *(see note below)*	**4,800**	6,300

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

14. Related party transactions *(continued)*

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

	Six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
		(restated)
Sinopec Finance		
Interest income	**1,634**	83
CPC and its subsidiaries (excluding Sinopec Corp and its (subsidiaries, Yihua and its subsidiaries and Sinopec Finance)		
Insurance premium	**11,951**	14,379
Gain on disposal of available-for-sale equity securities	**–**	19,500
China CITIC Bank		
Interest income	**775**	557
Yihua UNIFI		
Sales of finished goods	**454,130**	445,634
Purchases of finished goods	**58,079**	–

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:

- money deposits; and
- loan borrowings.

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 money deposits and loan borrowings which do not depend on whether the counterparties are state-controlled entities or not.

14. Related party transactions *(continued)*

(b) Transactions with other state-controlled entities in the PRC *(continued)*

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

	Six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
		(restated)
Interest income	**10,977**	3,326
Interest expenses	**–**	4,999

(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:

	Six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
Short-term employee benefits	**1,223**	1,297
Retirement scheme contributions	**82**	63

(d) Contributions to defined contribution retirement scheme

As stipulated by the regulations of the PRC, the Company and its subsidiaries in the PRC participate in basic defined contribution retirement schemes organised by their respective municipal governments under which they are governed. Details of the schemes of the Company are as follows:

Administrator	**Beneficiary**	**Contribution rate**	
		2007	2006
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	**20%**	20%

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 2007 was 9% (2006: 9%).

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

15. Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group had capital commitments outstanding at 30 June 2007 not provided for in the interim financial report as follows:

	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*
Contracted for	**–**	–
Authorised but not contracted for	**325,150**	81,590
	325,150	81,590

16. Contingent liabilities

As discussed in note 5, the Group has certain income tax exposures with regard to prior years. At this stage, the Company is still in the process of communicating with the relevant tax authorities over this matter and is not in a position to reliably estimate the eventual outcome.

17. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2007

Up to the date of issue of these interim 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 2007 and which have not been adopted in these interim financial statements:

	Effective for accounting period beginning on or after
IFRS 8, Operating segments	1 January 2009
IAS 23 (March 2007), Borrowing costs	1 January 2009
IFRIC 11, IFRS 2 – Group and treasury share transaction	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions	1 January 2008

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 interim financial statements, the Group believes that the adoption of IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 are not applicable to any of the Group's operations and that the adoption of IFRS 8 and IAS 23 (March 2007) are unlikely to have a significant impact on the Group's results of operations and financial position.

18. Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the change in accounting policy, details of which are set out in note 2.

(B) Interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

Balance sheets *(unaudited)*

	Note	The Group **At 30 June 2007 Rmb'000**	The Group At 31 December 2006 Rmb'000 (restated)	The Company **At 30 June 2007 Rmb'000**	The Company At 31 December 2006 Rmb'000 (restated)
Assets					
Current assets					
Cash at bank and on hand	7	**1,448,432**	1,051,153	**1,325,035**	910,845
Bills receivable	8	**883,158**	979,417	**799,116**	904,599
Accounts receivable	9	**381,128**	301,849	**352,433**	296,588
Payments in advance	10	**72,647**	67,243	**69,004**	62,233
Other receivables	11	**62,817**	81,955	**55,161**	69,988
Inventories	12	**1,461,794**	1,355,900	**1,420,433**	1,321,150
Total current assets		**4,309,976**	3,837,517	**4,021,182**	3,565,403
Non-current assets					
Long-term equity investments	13	**169,036**	180,711	**396,066**	412,703
Fixed assets	14	**5,064,653**	5,361,789	**5,049,848**	5,344,652
Construction in progress	15	**76,758**	114,037	**76,758**	114,037
Intangible assets	16	**438,438**	458,103	**438,438**	458,103
Deferred tax assets	17	**116,144**	73,646	**116,144**	73,646
Total non-current assets		**5,865,029**	6,188,286	**6,077,254**	6,403,141
Total assets		**10,175,005**	10,025,803	**10,098,436**	9,968,544

The notes on pages 55 to 108 form part of this interim financial report.

Balance sheets *(unaudited)* (continued)

	Note	The Group At 30 June 2007 Rmb'000	The Group At 31 December 2006 Rmb'000 (restated)	The Company At 30 June 2007 Rmb'000	The Company At 31 December 2006 Rmb'000 (restated)
Liabilities and shareholders' funds					
Current liabilities					
Accounts payable	19	**1,390,066**	1,141,420	**1,388,508**	1,141,057
Receipts in advance	19	**117,316**	316,976	**102,763**	328,650
Staff costs payable	20	**163,852**	222,315	**146,839**	206,969
Taxes payable	5(3)	**(133,575)**	(159,543)	**(136,716)**	(172,659)
Other creditors	19	**238,683**	163,194	**235,432**	162,768
Total current liabilities		**1,776,342**	1,684,362	**1,736,826**	1,666,785
Non-current liabilities					
Deferred tax liabilities	17	**4,671**	2,929	**4,671**	2,929
Total non-current liabilities		**4,671**	2,929	**4,671**	2,929
Total liabilities		**1,781,013**	1,687,291	**1,741,497**	1,669,714
Shareholders' funds					
Share capital	21	**4,000,000**	4,000,000	**4,000,000**	4,000,000
Capital reserve	22	**3,121,029**	3,116,808	**3,130,674**	3,126,453
Surplus reserves	23	**1,456,004**	1,456,004	**1,456,004**	1,456,004
Accumulated losses		**(231,923)**	(281,952)	**(229,739)**	(283,627)
Total shareholders' funds attributable to equity shareholders of the Company		**8,345,110**	8,290,860	**8,356,939**	8,298,830
Minority interests	6	**48,882**	47,652	**-**	–
Total shareholders' funds		**8,393,992**	8,338,512	**8,356,939**	8,298,830
Total liabilities and shareholders' funds		**10,175,005**	10,025,803	**10,098,436**	9,968,544

The interim financial report has been approved by the Board of Directors of the Company on 30 August 2007.

Qian Heng-ge	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Legal Representative	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 55 to 108 form part of this interim financial report.

Income statement *(unaudited)*

	Note	The Group For the six months ended 30 June 2007 Rmb'000	The Group For the six months ended 30 June 2006 Rmb'000 (restated)	The Company For the six months ended 30 June 2007 Rmb'000	The Company For the six months ended 30 June 2006 Rmb'000 (restated)
Operating income	24	**8,482,657**	8,159,888	**8,279,548**	7,667,882
Less: Cost of sales	25	**7,998,855**	7,815,050	**7,828,233**	7,344,311
Business taxes and surcharges	26	**20,912**	20,687	**20,476**	20,407
Selling expenses		**108,270**	95,933	**90,430**	75,348
General and administrative expenses		**310,564**	204,067	**302,444**	194,079
(Net financial income)/ financial expenses	27	**(8,401)**	3,264	**(12,532)**	(943)
Impairment losses of assets	28	**1,167**	2,368	**1,194**	–
Add: Investment (losses)/income	29	**(11,675)**	5,136	**(11,675)**	1,456
Including: Share of loss of a jointly controlled entity		**(11,675)**	(15,019)	**(11,675)**	(15,019)
Operating profit		**39,615**	23,655	**37,628**	36,136
Add: Non-operating income	30	**9,269**	40,510	**9,021**	24,063
Less: Non-operating expenses	31	**33,978**	9,694	**33,517**	8,144
Including: Losses on disposal of non-current assets		**26,524**	4,162	**26,442**	2,984
Profit before income tax		**14,906**	54,471	**13,132**	52,055
Less: Income tax	32	**(36,592)**	15,269	**(40,756)**	9,510
Net profit for the period		**51,498**	39,202	**53,888**	42,545
Attributable to:					
Equity shareholders of the Company		**50,029**	41,254	**53,888**	42,545
Minority interests		**1,469**	(2,052)	**-**	–
Basic and diluted earnings per share *(in Rmb)*	42(2)	**0.013**	0.010	**0.013**	0.011

The interim financial report has been approved by the Board of Directors of the Company on 30 August 2007.

Qian Heng-ge	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Legal Representative	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 55 to 108 form part of this interim financial report.

Cash flow statements *(unaudited)*

	Note	The Group For the six months ended 30 June 2007 Rmb'000	The Group 2006 Rmb'000 (restated)	The Company For the six months ended 30 June 2007 Rmb'000	The Company 2006 Rmb'000 (restated)
Cash flows from operating activities:					
Cash received from sale of goods and rendering of services		**9,946,174**	9,563,861	**9,420,015**	8,522,232
Refund of taxes		**-**	922	**-**	922
Other cash received relating to operating activities		**690**	24,336	**503**	21,965
Sub-total of cash inflows		**9,946,864**	9,589,119	**9,420,518**	8,545,119
Cash paid for goods and services		**(8,660,651)**	(8,163,531)	**(8,245,911)**	(7,294,464)
Cash paid to and for employees		**(364,812)**	(386,257)	**(357,993)**	(372,572)
Cash paid for all types of taxes		**(342,295)**	(347,863)	**(319,161)**	(331,768)
Other cash paid relating to operating activities		**(183,493)**	(167,563)	**(87,675)**	(61,437)
Sub-total of cash outflows		**(9,551,251)**	(9,065,214)	**(9,010,740)**	(8,060,241)
Net cash inflow from operating activities	33(1)	**395,613**	523,905	**409,778**	484,878
Cash flows from investing activities:					
Cash received from disposal of long-term investments		**-**	83,505	**-**	82,000
Net cash received from disposal of fixed assets and intangible assets		**21,171**	2,712	**19,188**	2,712
Other cash received relating to investing activities		**12,972**	3,900	**12,293**	2,719
Sub-total of cash inflows		**34,143**	90,117	**31,481**	87,431
Cash paid for acquisition of fixed assets and construction in progress		**(26,685)**	(11,046)	**(26,322)**	(10,992)
Sub-total of cash outflows		**(26,685)**	(11,046)	**(26,322)**	(10,992)
Net cash inflow from investing activities		**7,458**	79,071	**5,159**	76,439

The notes on pages 55 to 108 form part of this interim financial report.

Cash flow statements *(unaudited)* (continued)

	Note	The Group For the six months ended 30 June 2007 Rmb'000	The Group For the six months ended 30 June 2006 Rmb'000 (restated)	The Company For the six months ended 30 June 2007 Rmb'000	The Company For the six months ended 30 June 2006 Rmb'000 (restated)
Cash flows from financing activities:					
Cash received from borrowings		**–**	119,609	**–**	117,000
Sub-total of cash inflows		**–**	119,609	**–**	117,000
Cash repayment of borrowings		**–**	(150,647)	**–**	(117,000)
Cash paid for dividends, profit distribution or interest expenses		**(5,792)**	(8,792)	**(747)**	(5,629)
Including: Cash paid for profit distribution to minority interests by subsidiaries		**(239)**	(1,171)	**–**	–
Sub-total of cash outflows		**(5,792)**	(159,439)	**(747)**	(122,629)
Net cash outflow from financing activities		**(5,792)**	(39,830)	**(747)**	(5,629)
Net increase in cash and cash equivalents	*33(1)*	**397,279**	563,146	**414,190**	555,688
Add: Cash and cash equivalents at the beginning of the period		**1,051,153**	392,878	**910,845**	281,947
Cash and cash equivalents at the end of the period		**1,448,432**	956,024	**1,325,035**	837,635

The interim financial report has been approved by the Board of Directors of the Company on 30 August 2007.

Qian Heng-ge	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Legal Representative	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 55 to 108 form part of this interim financial report.

Consolidated statement of changes in equity *(unaudited)*

		For the six months ended 30 June 2007						
		Attributable to equity shareholders of the Company						
	Note	Share capital *Rmb'000*	Capital reserve *Rmb'000*	Surplus reserves *Rmb'000*	Accumulated losses *Rmb'000*	Total *Rmb'000*	Minority interests *Rmb'000*	Total shareholders' funds *Rmb'000*
As at the end of last period		4,000,000	3,116,808	1,456,004	(298,551)	8,274,261	–	8,274,261
Adjustment of minority interest presentation	4(2)	–	–	–	–	–	47,652	47,652
As restated, before opening balance adjustment of capitalisation of general borrowing costs		4,000,000	3,116,808	1,456,004	(298,551)	8,274,261	47,652	8,321,913
Opening balance adjustment of capitalisation of general borrowing costs	4(2)	–	–	–	16,599	16,599	–	16,599
As at the beginning of the period		4,000,000	3,116,808	1,456,004	(281,952)	8,290,860	47,652	8,338,512
Changes in equity for the period								
1. Net profit/(loss) for the period		–	–	–	50,029	50,029	1,469	51,498
2. Net income or loss recognised directly in equity								
– others		–	4,221	–	–	4,221	–	4,221
3. Capital injection or withdrawal from shareholders								
– addition of minority interests		–	–	–	–	–	–	–
4. Profit distributions								
– distributions to minority interests		–	–	–	–	–	(239)	(239)
As at the end of the period		**4,000,000**	**3,121,029**	**1,456,004**	**(231,923)**	**8,345,110**	**48,882**	**8,393,992**

The notes on pages 55 to 108 form part of this interim financial report.

Consolidated statement of changes in equity *(unaudited)* *(continued)*

		For the six months ended 30 June 2006						
		Attributable to equity shareholders of the Company						
	Note	Share capital Rmb'000	Capital reserve Rmb'000	Surplus reserves Rmb'000	Accumulated losses Rmb'000	Total Rmb'000	Minority interests Rmb'000	Total shareholders' funds Rmb'000
As at the end of last period		4,000,000	3,103,537	1,456,004	(335,966)	8,223,575	–	8,223,575
Adjustment of minority interest presentation	4(2)	–	–	–	–	–	52,104	52,104
As restated, before opening balance adjustment of capitalisation of general borrowing costs		4,000,000	3,103,537	1,456,004	(335,966)	8,223,575	52,104	8,275,679
Opening balance adjustment of capitalisation of general borrowing costs	4(2)	–	–	–	18,034	18,034	–	18,034
As at the beginning of the period		4,000,000	3,103,537	1,456,004	(317,932)	8,241,609	52,104	8,293,713
Changes in equity for the period								
1. Net profit/(loss) for the period		–	–	–	41,254	41,254	(2,052)	39,202
2. Net income or loss recognised directly in equity – others		–	4,408	–	–	4,408	–	4,408
3. Capital injection or withdrawal from shareholders – addition of minority interests		–	–	–	–	–	850	850
4. Profit distributions – distributions to minority interests		–	–	–	–	–	(1,171)	(1,171)
As at the end of the period		**4,000,000**	**3,107,945**	**1,456,004**	**(276,678)**	**8,287,271**	**49,731**	**8,337,002**

The interim financial report has been approved by the Board of Directors of the Company on 30 August 2007.

Qian Heng-ge	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Legal Representative	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 55 to 108 form part of this interim financial report.

Statement of changes in equity *(unaudited)*

	Note	Share capital Rmb'000	Capital reserve Rmb'000	Surplus reserves Rmb'000	Accumulated losses Rmb'000	Total Rmb'000
		For the six months ended 30 June 2007				
As at the end of last period		4,000,000	3,126,453	1,456,004	(300,226)	8,282,231
Opening balance adjustment of capitalisation of general borrowing costs	4(2)	–	–	–	16,599	16,599
As at the beginning of the period		4,000,000	3,126,453	1,456,004	(283,627)	8,298,830
Changes in equity for the period						
1. Net profit for the period		–	–	–	53,888	53,888
2. Net income or loss recognised directly in equity – others		–	4,221	–	–	4,221
As at the end of the period		**4,000,000**	**3,130,674**	**1,456,004**	**(229,739)**	**8,356,939**

	Note	Share capital Rmb'000	Capital reserve Rmb'000	Surplus reserves Rmb'000	Accumulated losses Rmb'000	Total Rmb'000
		For the six months ended 30 June 2006				
As at the end of last period		4,000,000	3,113,182	1,456,004	(331,931)	8,237,255
Opening balance adjustment of capitalisation of general borrowing costs	4(2)	–	–	–	18,034	18,034
As at the beginning of the period		4,000,000	3,113,182	1,456,004	(313,897)	8,255,289
Changes in equity for the period						
1. Net profit for the period		–	–	–	42,545	42,545
2. Net income or loss recognised directly in equity – others		–	4,408	–	–	4,408
As at the end of the period		**4,000,000**	**3,117,590**	**1,456,004**	**(271,352)**	**8,302,242**

The interim financial report has been approved by the Board of Directors of the Company on 30 August 2007.

Qian Heng-ge	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Legal Representative	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 55 to 108 form part of this interim financial report.

Notes to the interim financial report *(unaudited)*

1. Company status

Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**"), headquartered in Yizheng, Jiangsu province, was established in the People's Republic of China ("**PRC**") on 31 December 1993 as a joint stock limited company as part of the restructuring of Sinopec Asset and Management Corporation Yizheng Branch (formerly as "Yihua Group Corporation") ("**Yihua**"). On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

Pursuant to the directives on the reorganisation of certain companies involving the Company and Yihua as issued by the State Council and other government authorities of the PRC, China Eastern United Petrochemical (Group) Company Limited ("**CEUPEC**") became the largest shareholder of the Company on 19 November 1997, holding the 1,680,000,000 A shares (representing 42% of the Company's issued share capital) previously held by Yihua. China International Trust and Investment Corporation ("**CITIC**") continues to hold the 18% of the Company's issued share capital (in the form of A shares) that it held prior to the reorganisation, and the balance of 40% remains in public hands in the form of A shares and H shares.

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

The reorganisation of CPC was completed on 25 February 2000 and CPC set up a joint stock limited company, China Petroleum & Chemical Corporation ("**Sinopec Corp**"), in the PRC. From that date, the 1,680,000,000 A shares (representing 42% of the issued share capital of the Company), which were previously held by Yihua, were transferred to Sinopec Corp and Sinopec Corp became the largest shareholder of the Company.

By a special resolution passed in the Shareholders' Meeting on 18 October 2000, the name of the Company was changed from "Yizheng Chemical Fibre Company Limited" to "Sinopec Yizheng Chemical Fibre Company Limited".

The principal activities of the Company and its subsidiaries (the "**Group**") are the manufacturing and sale of chemical fibre and chemical fibre raw materials.

2. Basis of preparation

(1) Statement of compliance with the Accounting Standards for Business Enterprises ("ASBE")

These financial statements have been prepared in accordance with the requirements of ASBE (2006) issued by the Ministry of Finance of the PRC ("**MOF**"), and present truly and wholly the consolidated financial position and financial position, the consolidated results of operations and the results of operations and the consolidated cash flows and the cash flows of the Group and the Company.

(2) Accounting year

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

(3) Measurement basis

The financial statements of the Group have been prepared under the historical cost convention.

(4) Reporting currency

The Group's reporting and presentation currency are Renminbi.

3. Significant accounting policies

(1) Business combination and consolidated financial statements

(a) *Business combination of entities under common control*

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and the control is not temporary. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the carrying amount of the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in the capital reserve, or the retained profits in case of any shortfall in the capital reserve. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

(b) *Business combination of entities not under common control*

A business combination of entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. The consideration of the acquisition, including the assets paid and the liabilities incurred or assumed on the purchase date, is measured at fair value. The difference between the fair value and the carrying amount of the consideration is recognised in the income statement. The purchase date is the date on which the Group effectively obtains control of the acquiree.

The Group allocates the cost of a business combination and recognises the fair value of the acquiree's each identifiable asset, liability or contingent liability on the purchase date.

The excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill.

When the cost of acquisition is less than the fair value of identifiable net assets acquired, the Group will reassess the measurement of the fair value of each identifiable asset, liability or contingent liability acquired as well as the cost of acquisition. When the cost of acquisition is still less than the fair value of identifiable net assets acquired after reassessment, the difference is charged to the income statement.

(c) *Consolidated financial statements*

The scope of consolidation is governed by controlling interest and includes investee in which the Company, directly or indirectly through its subsidiaries, holds over 50% of the voting rights (except where evidence indicates that the Company cannot exercise control); or the Company holds 50% or less of the voting rights but can exercise control over the investees.

3. **Significant accounting policies** *(continued)*

(1) Business combination and consolidated financial statements *(continued)*

(c) Consolidated financial statements (continued)

Subsidiaries acquired by the Company through a business combination of entities under common control are accounted for in the consolidated financial statements as if the Company obtains control over the subsidiaries at the same time as the ultimate controlling party of the Group does. The results of operation of subsidiaries acquired through a business combination under common control are included in the consolidated income statement in the period when the ultimate controlling party of the Group obtains control over the subsidiaries. Prior periods' financial statements are restated accordingly.

The results of operation of subsidiaries acquired by the Company through a business combination of entities not under common control are included in the consolidated income statement from the purchase date. The results of operation of the acquired subsidiaries to be included in the consolidated income statement consider the fair values of each identifiable asset, liability, and contingent liability on the purchase date.

Minority interests are presented separately in the consolidated financial statements.

Where the accounting policies or accounting period adopted by the subsidiaries are different from those adopted by the Company, adjustments are made to the subsidiaries' financial statements according to the Company's accounting policies or accounting period. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

(2) Translation of foreign currencies

The capital received in foreign currency from investors is translated into Renminbi at the exchange rate on the receipt date. Other foreign currency transactions are translated into Renminbi on exchange rates prevailing on the transaction dates. The exchange rate is the foreign currency exchange rate quoted by the People's Bank of China ("**PBOC rates**").

Foreign currency monetary items are translated at the PBOC rates at the balance sheet date. Exchange differences, except for those directly related to the acquisition, construction or production of qualified assets (see note 3(14)), are recognised as income or expenses in the income statement. Non-monetary items denominated in foreign currency that are measured at historical cost are not translated. Non-monetary items denominated in foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined. The difference between the translated amount and the original carried amount is charged to the income statement, otherwise is recognised in capital reserve, if the items are classified as available-for-sale financial assets.

(3) Cash equivalents

Cash equivalents held by the Group are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

3. Significant accounting policies *(continued)*

(4) Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs comprise the costs of purchase and processing, and other costs. Inventories are measured at their actual cost upon acquisition. The borrowing costs directly arising from production of qualified assets are included in the costs of inventories. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of manufacturing overheads.

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

Consumables, packaging and other ancillary materials are expensed or recognised as the costs of related assets when being consumed.

The Group adopts a perpetual inventory system.

(5) Long-term equity investments

(a) Investment in subsidiaries

The initial investment cost of a long-term equity investment resulting from a business combination of entities under common control represents the amount of the share of subsidiary's shareholders' funds on the acquisition date. The difference between the initial investment cost, and the cash paid, non-monetary assets transferred and liabilities assumed by the Group, is recognised as share premium in capital reserve, or in the retained profits in case of any shortfall in share premium.

The initial investment cost of a long-term equity investment resulting from a business combination of entities not under common control is the cost of acquisition on the purchase date.

The Company adopts cost method to account for investment in subsidiaries.

Impairment losses on investment in subsidiaries are provided according to note 3(8).

(b) Investment in jointly controlled entities

A jointly controlled entity is an entity over which the Company can exercise joint control with other venturers. Joint control represents the contractually agreement of sharing of control over the entity's economic activities, limited to economic activities related to significant financial and operating policies that require agreement of all venturers.

The initial cost of investment in jointly controlled entities is stated at the consideration paid if the investment is made in cash, or at the fair value of the non-monetary asset exchanged for the investment. The difference between the fair value of the non-monetary asset being exchanged and its carrying amount is charged in the income statement.

3. Significant accounting policies *(continued)*

(5) Long-term equity investments (continued)

(b) Investment in jointly controlled entities (continued)

Investment in entities under joint control with other venturers are accounted for using the equity method.

- The cost of investment is recorded at the higher of the initial investment cost or the fair value of the Company's share of identifiable net assets of the investee. The difference between the cost of investment and the initial investment cost is charged in the income statement.

- The Company shares the results of operation of and profit or cash dividend declared by the jointly controlled entities in the income statement and adjust the carrying amount of long-term equity investments accordingly.

  When calculating the share of profit or loss of investees, the fair value of their identifiable net asset upon the purchase of the investment is considered. Where the accounting policies or the accounting periods of the investee enterprises differ from those of the Company, adjustments are made to the investee's financial statements in accordance with the Company's accounting policies or accounting period when being equity accounted for.

Impairment losses on investment in jointly controlled entities are provided according to note 3(8).

(6) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group for use in the production of goods, rendering of services and for operation and administrative purposes with useful lives over 1 accounting year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(8)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 3(8)).

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs for the acquisition, construction, and production of qualified fixed assets.

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

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

	Estimated useful lives	Estimated rate of residual value	Rate of depreciation
Plant and buildings	25 to 40 years	3%	2.4%-3.9%
Machinery equipment	8 to 22 years	3%	4.4%-12.1%
Motor vehicles and other fixed assets	4 to 10 years	3%	9.7%-24.3%

3. **Significant accounting policies** *(continued)*

(7) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 3(8)). The cost of intangible assets with finite useful lives less residual value and impairment losses is amortised on a straight-line basis over the expected useful lives. The amortisation periods of respective classes of intangible assets are as follows:

Land use right	44-50 years
Technology right	10 years
Patent right	10 years

As at balance sheet date, the Group had no intangible assets with indefinite useful lives.

(8) Provision for impairment of long-term assets

Internal and external sources of information are reviewed at each balance sheet date for indications that the following assets may be impaired, including:

– fixed assets

– construction in progress

– intangible assets with finite useful lives

– long-term equity investments (except for long-term equity investments which do not have quoted prices in active markets or reliably measured fair values, and are accounted for under the cost method)

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

An asset unit is the smallest identifiable group of assets that generates cash inflows largely independent from other assets or groups of assets. An asset unit comprises the related assets that generate cash inflows. In identifying an asset unit, the Group primarily considers whether the asset unit is able to generate cash inflows independently as well as the management style of production and operational activities, and the decision for the use or disposal of asset.

The recoverable amount is the higher of the fair value less costs to sell and the present value of expected future cash flows generated by the asset (or asset unit).

Fair value less costs to sell of an asset (or asset unit) is based on its selling price in an arm's length transaction less any direct costs attributable to the disposal. Present value of expected future cash flows is an estimation of future cash flows to be generated from the use and upon disposal of the asset (or asset unit), discounted at an appropriate discount rate over the asset's remaining useful life.

If the recoverable amount of an asset (or asset unit) is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is recognised as an impairment loss in the income statement.

Impairment losses of long-term assets are not reversed.

3. Significant accounting policies *(continued)*

(9) Financial instruments

The Group's financial instruments include cash and cash equivalents, receivables, payables and share capital, etc.

(a) Recognition and measurement of financial assets and financial liabilities

The Group recognises a financial asset or a financial liability on its balance sheet when the Group enters into and becomes a party to the underlining contract of the financial instrument.

Financial assets and financial liabilities are initially recognised at fair value. For a financial asset or financial liability of which the change in its fair value is recognised the income statement, the relevant transaction cost is recognised in the income statement. The transaction costs for other financial assets or financial liabilities are included in the initially recognised amount.

– Receivables

Receivables are non-derivative financial assets with fixed or determinable recoverable amount and with no quoted price in active market.

After the initial recognition, receivables are stated at amortised cost using the effective interest rate method.

– Other financial liabilities

Other financial liabilities are financial liabilities other than those stated at fair value through profit or loss.

Other financial liabilities are stated at amortised cost using the effective interest method upon initial recognition. The effective interest rate is the rate which discounts estimated future cash flows over the expected life of the financial liability, or a shorter period, where appropriate, to the net carrying amount of the financial liability.

(b) Impairment of financial assets

The carrying amount of financial assets (except those financial assets stated at fair value with changes in the fair values charged to profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

– Receivables

If evidence suggests that the receivables at amortised cost are impaired, the carrying amount of receivables is reduced to the present value, when the present value of the estimated future cash flows of receivables (excluding unrealised future credit loss), which was discounted at the original effective interest rate, is lower than the carrying amount. This amount being reduced is recognised as the impairment loss and is charged to the income statement.

Impairment loss of receivables is reversed in the income statement if evidence suggests that the financial assets' carrying amounts have increased and the reason for the increase is objectively as a result of an event occurred after the recognition of the impairment loss. The reversed carrying amount, which is recognised in the income statement, shall not exceed the amortised cost of the financial assets had no impairment been recognised.

3. **Significant accounting policies** *(continued)*

(9) *Financial instruments* *(continued)*

(c) *Determination of fair value*

Fair value of financial assets and financial liabilities is determined with reference to quoted market price in the active market, or is estimated by valuation if there is no active market for the financial instrument.

Valuation includes making reference to recent market price based on arm's length transactions, reference to the fair value of another financial instrument that is substantially the same in circumstances and discounted cash flow analysis. The Group regularly assesses its valuation methods and test their effectiveness.

(d) *Derecognition of financial assets and financial liabilities*

The Group derecognises a financial asset when the contractual right to receive cash flows from the financial asset expires, or where the Group transfers substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the following amounts is recognised in the income statement:

– the carrying amount; and

– the sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity.

If a part of the financial assets qualifies for derecognition, the carrying amount of the financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognition, based on the fair values of the respective parts. The difference between the following amounts is recognised in the income statement:

– the carrying amount of the part that qualifies for derecognition; and

– the sum of the consideration received and any cumulative gain or loss that had been recognised in equity in relation to the part that qualifies for derecognition.

Where the obligations for financial liabilities are completely or partially discharged, the financial liabilities or part of financial liabilities are derecognised.

(10) Employee benefits

Employee benefits include various payments and other related expenses paid in exchange for services rendered by employees. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the employee benefits (other than termination benefits) as a liability and charged to the cost of an asset or as an expense in the same time.

3. Significant accounting policies *(continued)*

(10) Employee benefits (continued)

(a) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group participates in various defined contribution retirement plans organised by the respective divisions in municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans in accordance with the contribution rates and basis as defined by the municipal and provincial governments. The contributions are charged to the income statement on an accrual basis. When employees retire, the respective divisions are responsible for paying their basic retirement benefits. The Group does not have any other obligations in this respect.

(b) Housing fund and other social insurance

In addition to retirement benefits, the Group makes contributions to housing fund and other social insurance such as basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, etc. for its employees in accordance with the relevant rules and regulations. The Group makes monthly contributions to the housing fund and the above insurance based on the applicable rates of employees' salaries. The contributions are charged to the income statement on an accrual basis.

(c) Termination benefits

The Group recognises termination benefits if it decides to terminate an employee's employment before the employment contract has expired, or makes an offer to an employee for voluntary redundancy. The termination benefits, which are liabilities payable on termination, are recognised in the income statement when both of the following conditions have been satisfied:

– the Group has a detailed formal plan for the termination of employment or has made an offer to an employee for voluntary redundancy, which will be implemented shortly; and

– the Group is not allowed to withdraw from the termination of employment or voluntary redundancy being offered unilaterally.

(11) Income tax

Current tax and deferred tax are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case, they are recognised in equity.

Deferred tax assets and liabilities are recognised based on deductible and taxable temporary differences respectively. Temporary difference is the difference between the carrying amounts of assets and liabilities and their tax bases including unused tax losses and unused tax credits able to be utilised in subsequent years. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available to offset deductible temporary differences.

Temporary differences arise in a transaction, which is not a business combination, and at the time of transaction, does not affect the accounting profit or taxable profit (or unused tax losses), will not result in deferred tax. Temporary differences arising from the initial recognition of goodwill will not result in deferred tax.

3. Significant accounting policies *(continued)*

(11) Income tax (continued)

Current tax liabilities (assets) for the current and prior periods are recognised based on the expected tax payable (tax recoverable) as calculated under the relevant tax laws and tax rates that have been enacted at the balance sheet date.

The amounts of deferred tax assets and liabilities are recognised based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted and relevant tax laws at the balance sheet date.

(12) Provisions and contingent liabilities

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

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of future events, or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

(13) Revenue recognition

Revenue is the total inflow of economic benefits generated from the Group's normal activities, which causes shareholders' funds to increase but is unrelated to a shareholder's injection of capital. Revenue is recognised only when it is probable that economic benefits will flow to the enterprise and cause assets to increase or liabilities to decrease, and that the amount of the economic benefits' inflow can be measured reliably. Revenue is recognised based on the following:

(a) Revenue from sales of goods

Revenue from the sales of goods is recognised when all the following conditions are satisfied:

- significant risks and rewards of ownership and title have been transferred to buyers
- the Group does not retain the management right, which is normally associated with owner, on goods sold and has no control over the goods sold
- the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably
- it is probable that economic benefits associated with the transaction will flow to the Group

3. **Significant accounting policies** *(continued)*

(13) Revenue recognition *(continued)*

(b) Revenue from rendering services

Revenue from rendering of services is recognised in the income statement upon completion. If the rendering of services lasts more than one accounting years, when the outcome of rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed; or when the outcome of rendering of services cannot be estimated reliably, revenues are recognised only to the extent that the costs incurred are expected to be recoverable. If the costs of rendering of services are not expected to be recoverable, the costs are charged to the income statement when incurred, and revenues are not recognised.

(c) Interest income

Interest income is recognised on a time proportion basis based on the principal amount and the applicable interest rate.

(14) Capitalisation of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualified assets are capitalised into the cost of the related assets.

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

During the capitalisation period, the amount of interest to be capitalised (including amortisation of any discount or premium) for each accounting period is determined as follows:

– To the extent that funds are borrowed specifically for the purpose of obtaining qualified assets, the amount of borrowing costs eligible for capitalisation on the related assets shall be determined as the actual borrowing costs incurred on that borrowing during the period less any interest income on the unused funds or any investment income on the temporary investment of those borrowings.

– To the extent that funds are borrowed generally and used for the purpose of obtaining qualified assets, the amount of borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average interest rate of the general borrowing costs.

Capitalisation period is the period from the date of commencement of capitalisation of borrowing costs to the date of cessation of capitalisation, excluding any period over which capitalisation is suspended. Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of qualified assets are interrupted abnormally, and the interruption is for a continuous period of more than three months.

(15) Repairs and maintenance expenses

Repairs and maintenance expenses are recognised in the income statement when incurred.

3. **Significant accounting policies** *(continued)*

(16) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations is expensed as incurred.

(17) Research and development costs

Research and development costs are recognised in the income statement when incurred.

(18) Dividends

Dividends are recognised in the period in which they are declared. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements.

(19) Related parties

If the Group controls, jointly controls or exercises significant influence over another party, or vice versa, or where the Group and one party are subject to control, joint control or significant influence from another party, they are considered to be the related parties. Related parties may be individuals or enterprises. Where enterprises are subject to state control but are otherwise unrelated, they are not related parties.

Related parties of the Group include but not limited to the followings:

(a) the holding company of the Company;

(b) the subsidiaries of the Company;

(c) the parties that are subject to common control with the Company;

(d) investors which exercise significant influence over the Group;

(e) jointly controlled entities of the Group;

(f) the major individual investors of the Group and a close family member of such individuals;

(g) the member of key management personnel of the Group and a close family member of such individuals;

(h) the member of key management personnel of the Company's holding company;

(i) close family members of key management personnel of the Company's holding company; and

(j) an entity which is under control, joint control or significant influence of major individual investor, key management personnel or a close family of such individuals.

(20) Segment reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments.

4. Explanation on changes in significant accounting policies

(1) Changes in significant accounting policies

The Group adopts ASBE (2006) effective from 1 January 2007. Significant accounting policies are summarised in note 3.

The Group has issued H-shares. The financial statements in previous years were reported by using the PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("**IFRSs**"). Pursuant to the requirements of the Opinions of Expert Team on the Implementation of Accounting Standards for Business Enterprises ("**the Opinions**") issued on 1 February 2007 by the Expert Team on the Implementation of Accounting Standards for Business Enterprises set up by the China Accounting Standards Committee, the Group, on the date of first adoption of ASBE (2006), made retrospective adjustments to those items affected by the changes in accounting policies according to the following principles.

Where the principles stipulated in ASBE (2006) differ from those of the applicable PRC Accounting Rules and Regulations and if the Group had already adopted these principles in preparing the financial statements in accordance with the IFRSs in prior years, the Group, based on the information used in preparing the financial statements in accordance with IFRSs, made retrospective adjustments to those items affected by the changes in accounting policies. In addition, retrospective adjustments were made to other items in accordance with the related requirements of "ASBE No. 38 – First-time adoption of Accounting Standards for Business Enterprises".

Except for the retrospective adjustments made to the following items in accordance with the requirements of the Opinions and "ASBE No. 38 – First-time adoption of Accounting Standards for Business Enterprises", there were no other retrospective adjustments resulted from the changes in accounting policies.

(a) Capitalisation of general borrowing costs

Borrowing costs on general borrowings for the acquisition and construction of fixed assets, previously recognised in the income statement as incurred, are capitalised as part of the cost of the qualifying assets when the relevant conditions could be satisfied. Retrospective adjustments were made to the carrying amounts of the fixed assets as at 1 January 2007, resulting in a decrease in accumulated losses.

(b) Income tax

Due to retrospective adjustments made to the above item (a), the Group adjusted the deferred tax as at 1 January 2007.

(c) Minority interests

In accordance with ASBE (2006), minority interests are presented in the total shareholders' funds, separately from the shareholders' funds attributable to the equity shareholders of the Company, leading to an increase in total shareholders' funds. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit between minority interests and the equity shareholders of the Company.

(d) Investment in jointly controlled entities

Investment in jointly controlled entities, previously accounted for in the consolidated financial statements on a proportionate consolidation basis, are accounted for by using the equity method. Retrospective adjustments made to the comparative figures did not have an impact on the Group's net profit and shareholders' funds.

4. **Explanation on changes in significant accounting policies** *(continued)*

(2) The effects of the above changes in significant accounting policies on the Group's and the Company's net profits for the six months ended 30 June 2006 and the shareholders' funds in prior years are summarised as follows:

The Group

	Note	For the six months ended 30 June 2006 Net profit *Rmb'000*	2006 Shareholders' funds at the end of the year *Rmb'000*	2006 Shareholders' funds at the beginning of the year *Rmb'000*
Net profit and shareholders' funds before adjustments		42,689	8,274,261	8,223,575
Capitalisation of general borrowing costs	*(1)(a)*	(1,689)	19,528	21,217
Income tax	*(1)(b)*	254	(2,929)	(3,183)
Minority interests	*(1)(c)*	(2,052)	47,652	52,104
Total		(3,487)	64,251	70,138
Net profit and shareholders' funds after adjustments		**39,202**	**8,338,512**	**8,293,713**

The Company

	Note	For the six months ended 30 June 2006 Net profit *Rmb'000*	2006 Shareholders' funds at the end of the year *Rmb'000*	2006 Shareholders' funds at the beginning of the year *Rmb'000*
Net profit and shareholders' funds before adjustments		43,980	8,282,231	8,237,255
Capitalisation of general borrowing costs	*(1)(a)*	(1,689)	19,528	21,217
Income tax	*(1)(b)*	254	(2,929)	(3,183)
Total		(1,435)	16,599	18,034
Net profit and shareholders' funds after adjustments		**42,545**	**8,298,830**	**8,255,289**

4. Explanation on changes in significant accounting policies *(continued)*

(2) The effects of the above changes in significant accounting policies on the Group's and the Company's net profits for the six months ended 30 June 2006 and the shareholders' funds in prior years are summarised as follows: *(continued)*

Influenced balance sheet items as at 31 December 2006:

			The Group	
	Note	**Before adjustments** *Rmb'000*	**Adjustments** *Rmb'000*	**After adjustments** *Rmb'000*
Cash at bank and on hand		1,059,263	(8,110)	1,051,153
Bills receivable		983,526	(4,109)	979,417
Accounts receivable		302,635	(786)	301,849
Payments in advance		66,159	1,084	67,243
Other receivables		80,908	1,047	81,955
Inventories		1,383,553	(27,653)	1,355,900
Long-term equity investments		–	180,711	180,711
Fixed assets	*(i)*	5,875,170	(513,381)	5,361,789
Construction in progress		121,818	(7,781)	114,037
Intangible assets	*(i)*	168,925	289,178	458,103
Short-term loans		(82,500)	82,500	–
Accounts payable		(1,144,022)	2,602	(1,141,420)
Receipts in advance		(320,542)	3,566	(316,976)
Accrued payroll	*(i)*	(155,143)	155,143	–
Staff welfare payable	*(i)*	(60,215)	60,215	–
Staff costs payable	*(i)*	–	(222,315)	(222,315)
Taxes payable	*(i)*	161,070	(1,527)	159,543
Other payables	*(i)*	(12,013)	12,013	–
Other creditors		(167,491)	4,297	(163,194)
Deferred tax liabilities		–	(2,929)	(2,929)
Long-term liabilities due within one year		(6,079)	6,079	–
Long-term payables		(6,755)	6,755	–
Total		8,248,267	16,599	8,264,866

			The Company	
	Note	**Before adjustments** *Rmb'000*	**Adjustments** *Rmb'000*	**After adjustments** *Rmb'000*
Fixed assets	*(i)*	5,636,251	(291,599)	5,344,652
Intangible assets	*(i)*	146,976	311,127	458,103
Accrued payroll	*(i)*	(145,992)	145,992	–
Staff welfare payable	*(i)*	(51,926)	51,926	–
Staff costs payable	*(i)*	–	(206,969)	(206,969)
Taxes payable	*(i)*	174,509	(1,850)	172,659
Other payables	*(i)*	(10,901)	10,901	–
Deferred tax liabilities		–	(2,929)	(2,929)
Total		5,748,917	16,599	5,765,516

(i) In accordance with note 4(1), the Group and the Company made retrospective adjustments to the balance sheet items as at 31 December 2006 and reclassified the balance sheet items as at 31 December 2006 in accordance with the requirements of "ASBE No. 38-First-time adoption of Accounting Standards for Business Enterprises".

5. Taxation

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

Business tax rate	3% or 5%
VAT rate	17%
City development tax rate	7%
Education surcharge rate	4%

(2) Income tax

It has come to the Company's attention that the State Administration of Taxation issued a notice in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorized by the State Council to issue shares in Hong Kong in 1993 which is still being applied. The notice stated that the difference in enterprise income tax ("**EIT**") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and has applied the preferential EIT rate of 15% in prior years. At present, the Company is actively communicating with the relevant tax authority to assess the specific situation, and up to now, has been informed that the EIT rate for the Company would be adjusted from the original 15% to 33% in 2007. At this stage, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional EIT from the Company in respect of any prior years, and it is not possible to reliably estimate the eventual outcome of this matter. Accordingly, no provision in respect of the EIT differences has been made in the financial statements.

The charge for PRC income tax for the period is therefore calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes.

The subsidiary granted with tax concession is set out below:

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

In this period, the tax concession and the income tax rate applicable to the Group's subsidiaries are consistent with last year.

Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008.

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 30 June 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled.

5. Taxation *(continued)*

(3) Taxes payable

	The Group		The Company	
	At 30 June 2007 **Rmb'000**	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007** **Rmb'000**	At 31 December 2006 *Rmb'000* (restated)
Prepaid VAT	**(149,594)**	(185,420)	**(148,692)**	(188,545)
City development tax payable	**848**	5,841	**771**	5,463
Income tax payable	**2,702**	8,356	**–**	–
Education surcharge payable	**1,798**	2,962	**1,757**	1,850
Others	**10,671**	8,718	**9,448**	8,573
Total	**(133,575)**	(159,543)	**(136,716)**	(172,659)

6. Business combination and consolidated financial statements

As at 30 June 2007, details of major subsidiaries included in the scope of the Group's consolidated financial statements, all of which are companies limited established and operating in the PRC, whose controlling party is Sinopec Yizheng Chemical Fibre Company Limited, are as follows:

Name of company	Principal activity	Registered capital at 30 June 2007 *Rmb'000*	Investment by the actual controlling party *Rmb'000*	Percentage of equity held directly/ indirectly by the Company
Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**")	Investment holding and trading of polyester chips and polyester fibre	60,000	60,000	100%
Ningbo Yizheng Chemical Fibre Kangqi Company Limited	Trading	12,000	9,000	75%
Xi'an Yihua Kangqi Chemical Fibre Company Limited	Trading	5,000	3,250	65%
Yizheng Chemical Fibre Anhui Kangqi Company Limited	Trading	5,000	4,750	95%
Yizheng Chemical Fibre Dalian Kangqi Company Limited	Trading	5,000	3,250	65%
Yizheng Chemical Fibre Guangzhou Kangqi Company Limited	Trading	5,000	4,000	80%
Yizheng Chemical Fibre Qingdao Kangqi Company Limited	Trading	5,000	3,750	75%
Shanghai Yihua Kangqi Trading Company Limited	Trading	5,000	4,000	80%
Yizheng Chemical Fibre Sunan Kangqi Company Limited	Trading	10,000	7,300	73%
Yizheng Chemical Fibre Wuhan Kangqi Technical Trading Company Limited	Trading	10,000	7,000	70%

6. Business combination and consolidated financial statements *(continued)*

Name of company	Principal activity	Registered capital at 30 June 2007 *Rmb'000*	Investment by the actual controlling party *Rmb'000*	Percentage of equity held directly/ indirectly by the Company
Yizheng Chemical Fibre Xiamen Kangqi Company Limited	Trading	5,000	4,750	95%
Yizheng Chemical Fibre Yangzhou Subei Kangqi Company Limited	Trading	10,000	7,000	70%
Yizheng Chemical Fibre Zhengzhou Kangqi Company Limited	Trading	5,000	3,250	65%
Shaoxing Yihua Kangqi Chemical Fibre Company Limited	Trading	5,000	3,500	70%

The analysis of minority interests of major subsidiaries is as follows:

Name of company	Minority interests at the beginning of the period *Rmb'000*	**Minority interests at the end of the period** ***Rmb'000***
Yizheng Chemical Fibre Wuhan Kangqi Technical Trading Company Limited	11,038	**11,653**
Yizheng Chemical Fibre Sunan Kangqi Company Limited	8,211	**8,673**
Yizheng Chemical Fibre Dalian Kangqi Company Limited	7,433	**7,752**
Ningbo Yizheng Chemical Fibre Kangqi Company Limited	5,126	**5,289**
Shaoxing Yihua Kangqi Chemical Fibre Company Limited	4,507	**4,532**
Others	11,337	**10,983**
Total	47,652	**48,882**

7. Cash at bank and on hand

	The Group At 30 June 2007		
	Original currency *('000)*	**Exchange rate**	**Rmb/ Rmb equivalent *('000)***
Cash on hand			
– Renminbi			**33**
Cash at bank			
– Renminbi			**1,032,320**
– Hong Kong Dollars	**138**	**0.974**	**134**
– US Dollars	**13,387**	**7.616**	**101,961**
Cash at bank and on hand			**1,134,448**
Deposits with related companies			
– Renminbi			**313,984**
Total			**1,448,432**

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

	The Group At 31 December 2006 (restated)		
	Original currency *('000)*	Exchange rate	Rmb/ Rmb equivalent *('000)*
Cash on hand			
– Renminbi			25
Cash at bank			
– Renminbi			981,218
– Hong Kong Dollars	631	1.005	634
– US Dollars	1,086	7.809	8,484
Cash at bank and on hand			990,361
Deposits with related companies			
– Renminbi			60,792
Total			1,051,153

As at 30 June 2007 and 31 December 2006, the time deposits held by the Group were not pledged as security.

	The Company At 30 June 2007		
	Original currency *('000)*	**Exchange rate**	**Rmb/ Rmb equivalent *('000)***
Cash on hand			
– Renminbi			**18**
Cash at bank			
– Renminbi			**921,059**
– Hong Kong Dollars	**138**	**0.974**	**134**
– US Dollars	**13,387**	**7.616**	**101,961**
Cash at bank and on hand			**1,023,172**
Deposits with related companies			
– Renminbi			**301,863**
Total			**1,325,035**

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

	The Company At 31 December 2006		
	Original currency *('000)*	Exchange rate	Rmb/ Rmb equivalent *('000)*
Cash on hand			
– Renminbi			16
Cash at bank			
– Renminbi			846,423
– Hong Kong Dollars	137	1.005	138
– US Dollars	1,086	7.809	8,484
Cash at bank and on hand			855,061
Deposits with related companies			
– Renminbi			55,784
Total			910,845

The deposits with related companies represent deposits with China CITIC Bank and Sinopec Finance Company Limited ("**Sinopec Finance**"). Deposit interest is calculated at market rate.

8. Bills receivable

	The Group		**The Company**	
	At 30 June 2007 ***Rmb'000***	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007** ***Rmb'000***	At 31 December 2006 *Rmb'000*
Bank acceptance bills	**883,158**	979,417	**799,116**	904,599

As at 30 June 2007 and 31 December 2006, the above bills receivable were not pledged.

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

The above bills receivable of the Group were all due within one year.

9. Accounts receivable

(1) The analysis of accounts receivable by client is as follows:

	The Group		The Company	
	At 30 June 2007	At 31 December 2006	**At 30 June 2007**	At 31 December 2006
	Rmb'000	*Rmb'000* (restated)	***Rmb'000***	*Rmb'000*
Amount due from a jointly controlled entity	**2,567**	334	**2,567**	334
Amounts due from CPC and its subsidiaries	**6,518**	22,120	**6,518**	22,120
Amounts due from other customers	**374,708**	301,151	**343,837**	274,623
Sub-total	**383,793**	323,605	**352,922**	297,077
Less: Provision for bad and doubtful debts	**2,665**	21,756	**489**	489
Net balance	**381,128**	301,849	**352,433**	296,588

The Group and the Company had accounts receivable due from related companies amounting to Rmb 9,085,000 (as at 31 December 2006: Rmb 22,454,000), which account for 2.37% and 2.57% of the total accounts receivable respectively (as at 31 December 2006: 6.94% and 7.56% respectively).

Accounts receivable due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 38.

The amount and proportion of the Group's and Company's five largest accounts receivable over the total accounts receivable were as follows:

	The Group		The Company	
	At 30 June 2007	At 31 December 2006	**At 30 June 2007**	At 31 December 2006
Amount (Rmb'000)	**177,843**	144,149	**177,843**	144,149
Ageing	**within one year**	within one year	**within one year**	within one year
Proportion over the total accounts receivable	**46.34%**	44.54%	**50.39%**	48.52%

9. **Accounts receivable** *(continued)*

(2) *The ageing analysis of accounts receivable is as follows:*

	The Group		The Company	
	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007 *Rmb'000***	At 31 December 2006 *Rmb'000*
Within 1 year (including 1 year)	**378,115**	300,306	**350,099**	296,315
Between 1 to 2 years (including 2 years)	**3,374**	2,138	**2,100**	437
Between 2 to 3 years (including 3 years)	**984**	16,621	**437**	46
Over 3 years	**1,320**	4,540	**286**	279
Sub-total	**383,793**	323,605	**352,922**	297,077
Less: Provision for bad and doubtful debts	**2,665**	21,756	**489**	489
Net balance	**381,128**	301,849	**352,433**	296,588

Details of movement of provision for bad and doubtful debts of the Group and the Company are set out in note 18.

(3) *The analysis of provision for bad and doubtful debts is as follows:*

The Group

	At 30 June 2007				At 31 December 2006 (restated)			
	Amount *Rmb'000*	**Percentage of total amount %**	**Bad debt provision *Rmb'000***	**Rate of provision %**	Amount *Rmb'000*	Percentage of total amount %	Bad debt provision *Rmb'000*	Rate of provision %
Accounts receivable	**383,793**	**100.00**	**2,665**	**0.69**	323,605	100.00	21,756	6.72

The Company

	At 30 June 2007				At 31 December 2006			
	Amount *Rmb'000*	**Percentage of total amount %**	**Bad debt provision *Rmb'000***	**Rate of provision %**	Amount *Rmb'000*	Percentage of total amount %	Bad debt provision *Rmb'000*	Rate of provision %
Accounts receivable	**352,922**	**100.00**	**489**	**0.14**	297,077	100.00	489	0.16

During the six months ended 30 June 2007, the Group and the Company had no individually significant accounts receivable been fully or substantially provided for.

The Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

As at 30 June 2007, the Group and the Company had no individually significant accounts receivable due over 3 years.

During the six months ended 30 June 2007, the Group wrote off bad debts, which had been fully provided for in prior years, amounting to Rmb 19,064,000 as some third-party debtors were declared bankrupt by the courts.

10. Payments in advance

The ageing analysis of payments in advance is as follows:

	The Group		The Company	
	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007** *Rmb'000*	At 31 December 2006 *Rmb'000*
Within 1 year (including 1 year)	**71,750**	66,343	**68,280**	61,509
Between 1 to 2 years (including 2 years)	**–**	544	**–**	544
Between 2 to 3 years (including 3 years)	**656**	112	**656**	112
Over 3 years	**241**	244	**68**	68
Total	**72,647**	67,243	**69,004**	62,233

The Group and the Company had payments in advance due from related companies amounting to Rmb 70,052,000 and Rmb 66,134,000 respectively (as at 31 December 2006: Rmb 67,029,000 and Rmb 59,634,000 respectively), which account for 96.43% and 95.84% of the total payments in advance respectively (as at 31 December 2006: 99.68% and 95.82% respectively).

Payments in advance due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 38.

As at 30 June 2007, the major payments in advance of the Group are as follows:

Name of company	**Reason of payments in advance**	**Amount** *Rmb'000*	**Proportion over the total payments in advance**
Sinopec Chemicals Sales Branch	Purchases of raw materials	67,623	93%

11. Other receivables

(1) *The analysis of other receivables by client is as follows:*

	The Group		The Company	
	At 30 June 2007 Rmb'000	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007 Rmb'000**	At 31 December 2006 *Rmb'000*
Amount due from a subsidiary	**–**	–	**–**	48,602
Amount due from a jointly controlled entity	**4**	2,929	**4**	2,929
Amounts due from CPC and its subsidiaries	**331**	451	**331**	451
Amounts due from other customers	**75,175**	99,796	**67,519**	87,829
Sub-total	**75,510**	103,176	**67,854**	139,811
Less: Provision for bad and doubtful debts	**12,693**	21,221	**12,693**	69,823
Net balance	**62,817**	81,955	**55,161**	69,988

The Group and the Company had other receivables due from related companies amounting to Rmb 335,000 (as at 31 December 2006: Rmb 3,380,000 and Rmb 51,982,000 respectively), which account for 0.44% and 0.49% of the total other receivables respectively (as at 31 December 2006: 3.28% and 37.18% respectively).

Other receivables due from shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 38.

The amount and proportion of the Group's and Company's five largest other receivables over the total other receivables are as follows:

	The Group		The Company	
	At 30 June 2007	At 31 December 2006	**At 30 June 2007**	At 31 December 2006
Amount (Rmb'000)	**54,035**	70,502	**54,035**	70,502
Ageing	**within one year**	within one year	**within one year**	within one year
Proportion over the total other receivables	**71.56%**	68.33%	**79.63%**	50.43%

11. Other receivables *(continued)*

(2) The ageing analysis of other receivables is as follows:

	The Group		The Company	
	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)	**At 30 June 2007 Rmb'000**	At 31 December 2006 Rmb'000
Within 1 year (including 1 year)	**55,314**	71,746	**48,472**	69,666
Between 1 to 2 years (including 2 years)	**6,170**	4,740	**6,170**	235
Between 2 to 3 years (including 3 years)	**35**	87	**35**	87
Over 3 years	**13,991**	26,603	**13,177**	69,823
Sub-total	**75,510**	103,176	**67,854**	139,811
Less: Provision for bad and doubtful debts	**12,693**	21,221	**12,693**	69,823
Net balance	**62,817**	81,955	**55,161**	69,988

Details of movement of provision for bad and doubtful debts of the Group and the Company are set out in note 18.

(3) The analysis of provision for bad and doubtful debts is as follows:

The Group

	At 30 June 2007				At 31 December 2006 (restated)			
	Amount Rmb'000	**Percentage of total amount %**	**Bad debt provision Rmb'000**	**Rate of provision %**	Amount Rmb'000	Percentage of total amount %	Bad debt provision Rmb'000	Rate of provision %
Other receivables	**75,510**	**100.00**	**12,693**	**16.81**	103,176	100.00	21,221	20.57

The Company

	At 30 June 2007				At 31 December 2006			
	Amount Rmb'000	**Percentage of total amount %**	**Bad debt provision Rmb'000**	**Rate of provision %**	Amount Rmb'000	Percentage of total amount %	Bad debt provision Rmb'000	Rate of provision %
Other receivables	**67,854**	**100.00**	**12,693**	**18.71**	139,811	100.00	69,823	49.94

During the six months ended 30 June 2007, the Group and the Company made a full provision of Rmb 10,317,000 against the irrecoverable compensation receivable in relation to the bills loss.

During the six months ended 30 June 2007, the Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

During the six months ended 30 June 2007, the Company wrote off the amounts due from a subsidiary and certain third-party customers amounting to Rmb 48,602,000 and Rmb 18,845,000 respectively (total Rmb 67,447,000), which had been fully provided for in prior years, due to the liquidation of these entities.

12. Inventories

	The Group		The Company	
	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)	**At 30 June 2007 Rmb'000**	At 31 December 2006 Rmb'000
Raw materials	**534,283**	531,195	**534,283**	531,195
Work in progress	**120,150**	97,650	**120,150**	97,650
Finished goods	**394,168**	275,751	**352,807**	241,001
Consumables, packaging and other ancillary materials	**158,141**	182,195	**158,141**	182,195
Goods in transit	**303,792**	326,972	**303,792**	326,972
Sub-total	**1,510,534**	1,413,763	**1,469,173**	1,379,013
***Less:* Provision for diminution in value of inventories**				
Raw materials	**–**	4,600	**–**	4,600
Finished goods	**–**	4,523	**–**	4,523
Consumables, packaging and other materials	**48,740**	48,740	**48,740**	48,740
Sub-total	**48,740**	57,863	**48,740**	57,863
Total	**1,461,794**	1,355,900	**1,420,433**	1,321,150

The analysis of provision for diminution in values of inventories is as follows:

	The Group			The Company		
	Raw materials Rmb'000	Work in progress Rmb'000	Consumables, packaging and other ancillary materials Rmb'000	Raw materials Rmb'000	Work in progress Rmb'000	Consumables, packaging and other ancillary materials Rmb'000
As at the end of last period	4,974	5,571	48,740	4,600	4,523	48,740
Opening balance adjustment of change in consolidation scope	(374)	(1,048)	-	-	-	-
As at the beginning of the period	4,600	4,523	48,740	4,600	4,523	48,740
Less: Written back for the period	4,600	4,523	-	4,600	4,523	-
As at the end of the period	**-**	**-**	**48,740**	**-**	**-**	**48,740**

As at 30 June 2007 and 31 December 2006, no borrowing costs of the Group were capitalised in the ending balances of inventories.

As at 30 June 2007 and 31 December 2006, the above inventories were not pledged or guaranteed.

13. Long-term equity investments

	The Group		The Company	
	At 30 June 2007 Rmb'000	At 31 December 2006 *Rmb'000* (restated)	**At 30 June 2007 Rmb'000**	At 31 December 2006 *Rmb'000*
Investment in subsidiaries	**–**	–	**215,725**	220,687
Investment in a jointly controlled entity	**169,036**	180,711	**180,341**	192,016
Total	**169,036**	180,711	**396,066**	412,703

(1) *As at 30 June 2007, the analysis of the Company's investment in major subsidiaries is as follows:*

	Yihua Kangqi ***Rmb'000***
Investment cost	**60,456**
Carrying amount at the beginning and at the end of the period	**215,725**

Details of major subsidiaries are set out in note 6.

The Company had no contingent liabilities related to the investment in subsidiaries.

(2) *As at 30 June 2007, the analysis of the Group's and the Company's investment in a jointly controlled entity is as follows:*

	The Group ***Rmb'000***	**The Company** ***Rmb'000***
Investment cost	**241,836**	**241,836**
Movement of carrying amount		
Carrying amount at the beginning of the period	180,711	192,016
Less: Investment loss accounted for under the equity method *(note 29)*	11,675	11,675
Carrying amount at the end of the period	**169,036**	**180,341**

The particulars of the jointly controlled entity are as follows:

Name of company	Registered place	Principal activity	Registered capital by *('000)*	Percentage of equity held the Company	Total assets at the end of the period *('000)*	Total assets at the beginning of the period *('000)*	Operating income for the period *('000)*	Net loss for the year *('000)*
Yihua Unifi Industry Fibre Company Limited ("**Yihua Unifi**")	PRC	Manufacturing processing and selling of differentiated polyester textile filament products.	USD 60,000	50%	Rmb 660,731	Rmb 614,970	Rmb 506,255	Rmb 23,350

The Group had no contingent liabilities related to investment in the jointly controlled entity.

The Group had no unrecognised investment losses for the period and for the prior periods.

14. Fixed assets

	The Group			
	Plant and buildings *Rmb'000*	Machinery equipment *Rmb'000*	Motor vehicles and other fixed assets *Rmb'000*	Total *Rmb'000*
Cost or valuation:				
Opening balance				
– as at the end of last period	2,416,077	9,826,257	794,630	13,036,964
– opening balance adjustment of capitalisation of general borrowing costs *(note 4)*	–	23,643	–	23,643
– opening balance adjustment of change in consolidation scope *(note 4)*	(63,022)	(174,616)	(5,244)	(242,882)
– opening balance adjustment of reclassification of land use right *(note 4,16)*	(395,398)	–	–	(395,398)
– as at the beginning of the period	1,957,657	9,675,284	789,386	12,422,327
Additions	4,000	14	349	4,363
Transfer from construction in progress *(note 15)*	4,100	43,141	3,541	50,782
Disposals	(7,692)	(143,678)	(51,565)	(202,935)
As at the end of the period	**1,958,065**	**9,574,761**	**741,711**	**12,274,537**
Accumulated depreciation:				
Opening balance				
– as at the end of last period	848,773	5,727,741	559,918	7,136,432
– opening balance adjustment of capitalisation of general borrowing costs *(note 4)*	–	4,115	–	4,115
– opening balance adjustment of change in consolidation scope *(note 4)*	(3,387)	(16,659)	(1,054)	(21,100)
– opening balance adjustment of reclassification of land use right *(note 4,16)*	(84,271)	–	–	(84,271)
– as at the beginning of the period	761,115	5,715,197	558,864	7,035,176
Charge for the period	35,471	255,321	23,851	314,643
Written back on disposal	(3,148)	(99,056)	(47,120)	(149,324)
As at the end of period	**793,438**	**5,871,462**	**535,595**	**7,200,495**
Provision for impairment:				
As at the beginning of the period	–	24,631	731	25,362
Written off on disposal	–	(15,806)	(167)	(15,973)
As at the end of the period	**–**	**8,825**	**564**	**9,389**
Carrying amount:				
As at the end of the period	**1,164,627**	**3,694,474**	**205,552**	**5,064,653**
As at the beginning of the period	1,196,542	3,935,456	229,791	5,361,789
As at the end of the last period	1,567,304	4,073,885	233,981	5,875,170

14. Fixed assets *(continued)*

	The Company			
	Plant and buildings	**Machinery equipment**	**Motor vehicles and other fixed assets**	**Total**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost or valuation:				
Opening balance				
– as at the end of last period	2,334,627	9,649,962	778,952	12,763,541
– opening balance adjustment of capitalisation of general borrowing costs *(note 4)*	–	23,643	–	23,643
– opening balance adjustment of reclassification of land use right *(note 4,16)*	(395,398)	–	–	(395,398)
– as at the beginning of the period	1,939,229	9,673,605	778,952	12,391,786
Additions	4,000	–	–	4,000
Transfer from construction in progress *(note 15)*	4,100	43,141	3,541	50,782
Disposals	(4,924)	(143,124)	(49,326)	(197,374)
As at the end of the period	**1,942,405**	**9,573,622**	**733,167**	**12,249,194**
Accumulated depreciation:				
Opening balance				
– as at the end of last period	840,893	5,708,721	552,314	7,101,928
– opening balance adjustment of capitalisation of general borrowing costs *(note 4)*	–	4,115	–	4,115
– opening balance adjustment of reclassification of land use right *(note 4,16)*	(84,271)	–	–	(84,271)
– as at the beginning of the period	756,622	5,712,836	552,314	7,021,772
Charge for the year	35,241	255,256	23,455	313,952
Written back on disposal	(2,356)	(98,520)	(44,891)	(145,767)
As at the end of the period	**789,507**	**5,869,572**	**530,878**	**7,189,957**
Provision for impairment:				
As at the beginning of the period	–	24,631	731	25,362
Written off on disposal	–	(15,806)	(167)	(15,973)
As at the end of the period	**–**	**8,825**	**564**	**9,389**
Carrying amount:				
As at the end of the period	**1,152,898**	**3,695,225**	**201,725**	**5,049,848**
As at the beginning of the period	1,182,607	3,936,138	225,907	5,344,652
As at the end of last period	1,493,734	3,916,610	225,907	5,636,251

14. Fixed assets *(continued)*

(1) As at 30 June 2007 and 31 December 2006, the above fixed assets were not pledged or guaranteed.

(2) As at 30 June 2007, there were no significant fixed assets to be disposed of.

(3) As at 30 June 2007, the original cost of fully depreciated fixed assets in use was Rmb 2,700,129,000 (as at 31 December 2006: Rmb 1,773,866,000).

(4) The temporarily idle fixed assets of the Group are depreciated using the straight-line method over their estimated useful lives. As at 30 June 2007, the cost, the accumulated depreciation, the provision for impairment and the carrying amount of the Group's temporarily idle fixed assets were Rmb 47,480,000, Rmb 32,783,000, Rmb 9,389,000 and Rmb 5,308,000 respectively (as at 31 December 2006: the cost, the accumulated depreciation, the provision for impairment and the carrying amount of the Group's temporarily idle fixed assets were Rmb 94,364,000, Rmb 55,863,000, Rmb 25,362,000 and Rmb 13,139,000 respectively).

15. Construction in progress

	The Group		The Company	
	At 30 June 2007 *RMB'000*	At 31 December 2006 *RMB'000*	**At 30 June 2007 *RMB'000***	At 31 December 2006 *RMB'000*
Cost				
Opening balance				
– as at the end of last period	**121,818**	270,963	**114,037**	269,215
– opening balance adjustment of change in consolidation scope *(note 4)*	**(7,781)**	–	**–**	–
– as at the beginning of the period	**114,037**	270,963	**114,037**	269,215
Additions	**13,503**	48,993	**13,503**	37,746
Transferred out due to the disposal of a subsidiary	**–**	(1,748)	**–**	–
Transferred to fixed assets *(note 14)*	**(50,782)**	(196,390)	**(50,782)**	(192,924)
As at the end of the period	**76,758**	121,818	**76,758**	114,037

As at 30 June 2007 and 31 December 2006, no borrowing costs of the Group were capitalised in the ending balances of construction in progress.

15. Construction in progress *(continued)*

As at 30 June 2007, the Group and the Company's major construction in progress are as follows:

Project	Budgeted amount *Rmb'000*	Balance as at 1 January 2007 *Rmb'000* (restated)	Additions *Rmb'000*	Transferred to fixed assets *Rmb'000* *(note 14)*	**Balance as at 30 June 2007** ***Rmb'000***	Source of fund	Percentage of completion *%*
Improvements of stove desulphurization of thermoelectricity center	17,170	–	5,471	–	**5,471**	Own fund	32
Upgrade of heat coal stove	9,928	7,999	1,578	(9,577)	**-**	Own fund	96
Optimisation of supply chain	12,000	8,270	–	–	**8,270**	Own fund	69
Improvements of existing plants and equipment	129,537	97,768	6,454	(41,205)	**63,017**	Own fund	80
Total		114,037	13,503	(50,782)	**76,758**		

16. Intangible assets

	The Group			
	Land use right	Technology right	Patent right	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost				
Opening balance				
– as at the end of last period	–	233,210	142,435	375,645
– opening balance adjustment of change in consolidation scope *(note 4)*	–	(24,317)	–	(24,317)
– opening balance adjustment of reclassification of land use right *(note 4,14)*	395,398	–	–	395,398
– as at the beginning of the period	395,398	208,893	142,435	746,726
Disposals	(2,024)	–	–	(2,024)
As at the end of the period	**393,374**	**208,893**	**142,435**	**744,702**
***Less*: Accumulated amortisation**				
Opening balance				
– as at the end of last period	–	70,259	136,461	206,720
– opening balance adjustment of change in consolidation scope *(note 4)*	–	(2,368)	–	(2,368)
– opening balance adjustment of reclassification of land use right *(note 4,14)*	84,271	–	–	84,271
– as at the beginning of the period	84,271	67,891	136,461	288,623
Charge for the period	4,127	13,489	571	18,187
Written back on disposal	(546)	–	–	(546)
As at the end of the period	**87,852**	**81,380**	**137,032**	**306,264**
Carrying amount				
As at the end of the period	**305,522**	**127,513**	**5,403**	**438,438**
As at the beginning of the period	311,127	141,002	5,974	458,103
As at the end of last period	–	162,951	5,974	168,925

16. **Intangible assets** *(continued)*

	The Company			
	Land use right	**Technology right**	**Patent right**	**Total**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Cost:				
Opening balance				
– as at the end of last period	–	208,893	142,435	351,328
– opening balance adjustment of reclassification of land use right *(note 4,14)*	395,398	–	–	395,398
– as at the beginning of the period	395,398	208,893	142,435	746,726
Disposals	(2,024)	–	–	(2,024)
As at the end of the period	**393,374**	**208,893**	**142,435**	**744,702**
***Less*: Accumulated amortisation**				
Opening balance				
– as at the end of last period	–	67,891	136,461	204,352
– opening balance adjustment of reclassification of land use right *(note 4,14)*	84,271	–	–	84,271
– as at the beginning of the period	84,271	67,891	136,461	288,623
Charge for the period	4,127	13,489	571	18,187
Written back on disposal	(546)	–	–	(546)
As at the end of the period	**87,852**	**81,380**	**137,032**	**306,264**
Carrying amount				
As at the end of the period	**305,522**	**127,513**	**5,403**	**438,438**
As at the beginning of the period	311,127	141,002	5,974	458,103
As at the end of last period	–	141,002	5,974	146,976

As at 30 June 2007 and 31 December 2006, no borrowing costs of the Group were capitalised in the ending balances of intangible assets.

As at 30 June 2007 and 31 December 2006, the above intangible assets were not pledged or guaranteed.

The Company acquired land use right in 1993 and 2001 respectively. Their average remaining amortisation period is 37 years.

The Company acquired technology licenses to operate the 450,000-tonne PTA plant from third parties, and their average remaining amortisation period is 6 years.

The Company acquired patent right from third parties and their average remaining amortisation period is 5 years.

17. Deferred tax assets and liabilities

The analysis of deferred tax assets is as follows:

	The Group and the Company			
	At 30 June 2007		At 31 December 2006	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Provision for bad and doubtful debts	**2,176**	**544**	6,944	1,041
Provision for diminution in value of inventories	**48,740**	**12,185**	57,863	8,679
Provision for impairment of fixed assets	**9,389**	**2,347**	25,362	3,804
Fixed assets depreciation variance arising between accounting and tax policy	**49,813**	**12,453**	46,355	6,953
Tax losses	**354,460**	**88,615**	354,460	53,169
Total	**464,578**	**116,144**	490,984	73,646

As at 30 June 2007, the Group has not recognised deferred tax assets in respect of cumulative unutilised tax losses amounting to Rmb 55,293,000 (as at 31 December 2006: Rmb 52,000,000). Except for this, there are no other significant deferred tax assets that have not been provided for in the financial statements.

The analysis of deferred tax liabilities is as follows:

	The Group and the Company			
	At 30 June 2007		At 31 December 2006	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000* (restated)
Capitalisation of general borrowing costs	**18,684**	**4,671**	19,527	2,929

18. Provision for impairment

As at 30 June 2007, the provision for impairment of the Group is as follows:

Project	Note	Balance as at the end of last period Rmb'000	Opening balance adjustment of change in consolidation scope Rmb'000 (note 4)	Balance as at the beginning of the period Rmb'000	Provision for the period Rmb'000	Written-back for the period Rmb'000	Written-off for the period Rmb'000	**Balance as at the end of the period Rmb'000**
Provision for bad and doubtful debts								
– Accounts receivable	9	21,756	–	21,756	–	(27)	(19,064)	**2,665**
– Other receivables	11	21,221	–	21,221	10,317	–	(18,845)	**12,693**
Provision for diminution in value of inventories	12	59,285	(1,422)	57,863	–	(9,123)	–	**48,740**
Provision for impairment of fixed assets	14	25,362	–	25,362	–	–	(15,973)	**9,389**
Total		127,624	(1,422)	126,202	10,317	(9,150)	(53,882)	**73,487**

As at 30 June 2007, the provision for impairment of the Company is as follows:

Project	Note	Balance as at the end of last period and the beginning of this period Rmb'000	Provision for the period Rmb'000	Written-back for the period Rmb'000	Written-off for the period Rmb'000	**Balance as at the end of the period Rmb'000**
Provision for bad and doubtful debts						
– Accounts receivable	9	489	–	–	–	**489**
– Other receivables	11	69,823	10,317	–	(67,447)	**12,693**
Provision for diminution in value of inventories	12	57,863	–	(9,123)	–	**48,740**
Provision for impairment of fixed assets	14	25,362	–	–	(15,973)	**9,389**
Total		153,537	10,317	(9,123)	(83,420)	**71,311**

The reasons for provision for impairment are set out in the notes of respective assets.

19. Accounts payable, receipts in advance and other creditors

As at 30 June 2007, there were no individually significant balances aged over one year included in the Group's and the Company's accounts payable, receipts in advance and other creditors.

In the accounts of accounts payable, receipts in advance and other creditors, balances due to shareholders who hold 5% or more of the voting shares of the Company are disclosed in note 38.

20. Staff costs payable

	The Group			
	As at the beginning of the period *Rmb'000* (restated)	**Additions** *Rmb'000*	**Payments** *Rmb'000*	**As at the end of the period** ***Rmb'000***
Salary, bonus and allowance	151,173	170,058	(199,739)	**121,492**
Staff welfare	59,971	305	(24,439)	**35,837**
Social insurance premium				
– basic pension insurance	8,335	31,017	(39,352)	**–**
– unemployment insurance	867	2,559	(3,426)	**–**
– work injury insurance	93	1,124	(957)	**260**
Housing fund	–	86	(86)	**–**
Labour union fee and staff training fee	1,876	5,474	(2,828)	**4,522**
Termination welfare	–	95,726	(93,985)	**1,741**
Total	222,315	306,349	(364,812)	**163,852**

	The Company			
	As at the beginning of the period *Rmb'000* (restated)	**Additions** *Rmb'000*	**Payments** *Rmb'000*	**As at the end of the period** ***Rmb'000***
Salary, bonus and allowance	145,992	163,970	(193,383)	**116,579**
Staff welfare	51,682	–	(24,266)	**27,416**
Social insurance premium				
– basic pension insurance	8,335	30,849	(39,184)	**–**
– unemployment insurance	867	2,545	(3,412)	**–**
– work injury insurance	93	1,118	(951)	**260**
Labour union fee and staff education fee	–	5,396	(2,812)	**2,584**
Termination welfare	–	93,985	(93,985)	**–**
Total	206,969	297,863	(357,993)	**146,839**

During the six months ended 30 June 2007, in accordance with the Group's and the Company's employee reduction plans, the Group and the Company incurred Rmb 95,726,000 and Rmb 93,985,000 respectively (2006: both Rmb 5,037,000) on the reduction of 1,213 and 1,190 respectively (2006: 63) employees, which were mainly included in "General and administrative expenses".

21. Share capital

	The Group and the Company	
	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of Rmb 1.00 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of Rmb 1.00 each	**200,000**	200,000
1,400,000,000 "H" shares of Rmb 1.00 each	**1,400,000**	1,400,000
Total	**4,000,000**	4,000,000

KPMG Huazhen had verified the above paid-in capital. The capital verification reports were issued on 20 July 1994, 28 March 1995 and 15 May 1995 respectively.

22. Capital reserve

	The Group		
	At 1 January 2007 *Rmb'000*	Addition during the period *Rmb'000*	**At 30 June 2007** *Rmb'000*
Share premium	3,078,825	–	**3,078,825**
Reserve for equity investment	9,644	–	**9,644**
Other capital reserve	28,339	4,221	**32,560**
	3,116,808	4,221	**3,121,029**

	The Company		
	At 1 January 2007 *Rmb'000*	Addition during the period *Rmb'000*	**At 30 June 2007** *Rmb'000*
Share premium	3,078,825	–	**3,078,825**
Reserve for equity investment	19,289	–	**19,289**
Other capital reserve	28,339	4,221	**32,560**
	3,126,453	4,221	**3,130,674**

23. Surplus reserves

	The Group and The Company		
	Statutory surplus reserve	Discretionary surplus reserve	Total
	Rmb'000	*Rmb'000*	*Rmb'000*
As at 1 January 2007 and 30 June 2007	**861,457**	**594,547**	**1,456,004**

24. Operating income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000* (restated)	***Rmb'000***	*Rmb'000* (restated)
Income from principal activities	**8,413,851**	8,100,067	**8,209,244**	7,613,539
Income from other operations	**68,806**	59,821	**70,304**	54,343
Total	**8,482,657**	8,159,888	**8,279,548**	7,667,882

The Group's and the Company's income from principal activities represent income earned in relation to sales of chemical fibre and chemical fibre raw materials.

During the six months ended 30 June 2007, revenue from sales to the top five customers is Rmb 795,398,000 (2006: Rmb 774,060,000) which accounts for 9% (2006: 9%) of the total operating income of the Group.

25. Cost of sales

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000* (restated)	***Rmb'000***	*Rmb'000* (restated)
Cost of sales from principal activities	**7,928,031**	7,757,115	**7,755,911**	7,290,928
Cost of other operations	**70,824**	57,935	**72,322**	53,383
Total	**7,998,855**	7,815,050	**7,828,233**	7,344,311

The Group's and the Company's cost of sales from principal activities represent cost incurred in relation to sales of chemical fibre and chemical fibre raw materials.

26. Business taxes and surcharges

	Calculation basis	The Group For the six months ended 30 June 2007 Rmb'000	The Group 2006 Rmb'000 (restated)	The Company For the six months ended 30 June 2007 Rmb'000	The Company 2006 Rmb'000 (restated)
Business tax	3% or 5% of operating income	**125**	–	**115**	–
City development tax	7% of the sum of business tax payable and VAT payable	**13,228**	13,164	**12,957**	12,986
Education surcharge	4% of the sum of business tax payable and VAT payable	**7,559**	7,523	**7,404**	7,421
Total		**20,912**	20,687	**20,476**	20,407

27. (Net financial income)/financial expenses

	The Group For the six months ended 30 June 2007 Rmb'000	The Group 2006 Rmb'000 (restated)	The Company For the six months ended 30 June 2007 Rmb'000	The Company 2006 Rmb'000
Interest expenses for loans and payables	**5,465**	7,610	**747**	5,552
Less: Capitalised interest expenses	**–**	–	**–**	–
Net interest expenses	**5,465**	7,610	**747**	5,552
Interest income from deposits and receivables	**(13,386)**	(3,966)	**(12,707)**	(5,914)
Net exchange gains	**(1,643)**	(1,216)	**(1,643)**	(1,283)
Other financial expenses	**1,163**	836	**1,071**	702
Total	**(8,401)**	3,264	**(12,532)**	(943)

28. Impairment losses of assets

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
		(restated)		
Losses of bad and doubtful debts	**10,290**	569	**10,317**	–
(Reversal of losses)/losses of diminution in value of inventories	**(9,123)**	1,799	**(9,123)**	–
Total	**1,167**	2,368	**1,194**	–

29. Investment (losses)/income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
		(restated)		
Long-term equity investments – accounted for under the equity method *(note 13(2))*	**(11,675)**	(15,019)	**(11,675)**	(18,044)
Gains on transfer of long-term equity investments	**–**	20,155	**–**	19,500
Total	**(11,675)**	5,136	**(11,675)**	1,456

30. Non-operating income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007	2006	**2007**	2006
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
		(restated)		
Gains on disposal of fixed assets	**1,571**	2,098	**1,510**	2,098
Gains on disposal of intangible assets	**7,008**	–	**7,008**	–
Gains on disposal of non-current assets	**8,579**	2,098	**8,518**	2,098
Forfeited deposit	**–**	14,950	**–**	14,950
Written back of employee reduction expenses over-accrued in prior year	**–**	14,076	**–**	–
Others	**690**	9,386	**503**	7,015
Total	**9,269**	40,510	**9,021**	24,063

31. Non-operating expenses

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007 **Rmb'000**	2006 *Rmb'000* (restated)	**2007** **Rmb'000**	2006 *Rmb'000* (restated)
Losses on disposal of fixed assets	**26,524**	4,162	**26,442**	2,984
Flood prevention fees	**4,322**	3,130	**4,322**	3,130
Others	**3,132**	2,402	**2,753**	2,030
Total	**33,978**	9,694	**33,517**	8,144

32. Income tax

Income tax in the income statement represents:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007 **Rmb'000**	2006 *Rmb'000* (restated)	**2007** **Rmb'000**	2006 *Rmb'000* (restated)
Provision for the period	**3,705**	3,581	**–**	–
Under-provision in respect of prior years	**459**	2,178	**–**	–
Deferred taxation	**(40,756)**	9,510	**(40,756)**	9,510
Total	**(36,592)**	15,269	**(40,756)**	9,510

33. Supplemental information to the cash flow statements

(1) Supplemental information to the Group's and the Company's cash flow statements

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

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007 **Rmb'000**	2006 *Rmb'000* (restated)	**2007** **Rmb'000**	2006 *Rmb'000* (restated)
Net profit	**51,498**	39,202	**53,888**	42,545
Add: Provision for bad and doubtful debts	**10,317**	569	**10,317**	–
Write-back of provision for bad and doubtful debts	**(27)**	–	**–**	–
Provision for inventories	**–**	1,799	**–**	–
Write-back of provision for inventories	**(9,123)**	–	**(9,123)**	–
Depreciation of fixed assets	**314,643**	339,662	**313,952**	328,072
Amortisation of intangible assets	**18,187**	14,123	**18,187**	14,123
Net losses on disposal of fixed assets and intangible assets	**17,945**	2,064	**17,924**	886
(Financial income)/ financial expenses	**(7,921)**	3,644	**(11,960)**	(362)
Investment losses/ (income)	**11,675**	(5,136)	**11,675**	(1,456)
(Increase)/decrease in deferred tax assets	**(42,498)**	9,510	**(42,498)**	9,510
Increase in deferred tax liabilities	**1,742**	–	**1,742**	–
(Increase)/decrease in gross inventories	**(96,771)**	116,576	**(90,160)**	131,287
Decrease/(increase) in gross operating receivables	**16,838**	(137,880)	**48,753**	(156,032)
Increase in operating payables	**109,108**	139,772	**87,081**	116,305
Net cash inflow from operating activities	**395,613**	523,905	**409,778**	484,878

33. Supplemental information to the cash flow statements *(continued)*

(1) Supplemental information to the Group's and the Company's cash flow statements (continued)

(b) Net increase in cash and cash equivalents

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007 **Rmb'000**	2006 *Rmb'000* (restated)	**2007** **Rmb'000**	2006 *Rmb'000*
Cash and cash equivalents at the end of the period	**1,448,432**	956,024	**1,325,035**	837,635
Less: Cash and cash equivalents at the beginning of the period	**1,051,153**	392,878	**910,845**	281,947
Net increase in cash and cash equivalents	**397,279**	563,146	**414,190**	555,688

(2) The analysis of cash and cash equivalents held by the Group and the Company is as follows:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2007 **Rmb'000**	2006 *Rmb'000* (restated)	**2007** **Rmb'000**	2006 *Rmb'000*
Cash				
– Cash on hand	**33**	52	**18**	33
– Demand deposits	**1,448,399**	955,972	**1,325,017**	837,602
Readily convertible cash and cash equivalents at the end of the period/year	**1,448,432**	956,024	**1,325,035**	837,635

34. 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.

35. Risk analysis and sensitivity analysis on financial instruments

(1) Credit risk

The Group's credit risk is mainly arisen from accounts receivable and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

For accounts receivable and other receivables, the Group will assess customers' credit to determine limits for credit sale. The due date of related accounts receivable is stipulated in sales contract. As for the overdue account, a collection note would be sent to the customer. The customer would be asked to sign and seal on the acknowledgement of receipt to ensure the recourse of payment would not expire due to time limit for action. The Group does not require collateral on receivables.

(2) Liquidity risk

The Group is responsible for its cash management, including short-term investment of cash surplus and financing activities to meet expected cash flow requirements. The Group's policy is to monitor short-term and long-term liquidity needs periodically and check whether it is consistent with the loan agreements so as to maintain adequate cash reserve and readily liquidable securities, while acquire the commitment of major financial institutions to provide adequate reserve funds so as to meet both short-term and longer-term liquidity needs.

(3) Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China ("**PBOC**") or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC.

The PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005.

Other than the deposits denominated in foreign currency as disclosed in the notes to the accounts, the amounts of other financial assets and liabilities of the Group are substantially denominated in Renminbi.

(4) Sensitivity analysis

In managing currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the long-term, however, permanent changes in foreign exchange will have an impact on profit.

(5) Fair value

The financial assets and liabilities of the Group are carried at amounts not materially different from their fair values as at 30 June 2007 and 31 December 2006.

36. Capital commitments

The Group and the Company had capital commitments outstanding as follows:

	As at 30 June 2007		As at 31 December 2006	
	Book value	**Fair value**	Book value	Fair value
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Authorised but not contracted for	**325,150**	**325,150**	81,590	81,590

37. Contingent liabilities

As discussed in note 5, the Group has certain income tax exposures with regard to prior years. At this stage, the Company is still in the process of communicating with the relevant tax authorities over this matter and is not in a position to reliably estimate the eventual outcome.

38. Related parties and related party transactions

(1) The information of the Company's holding company is as follows:

Name of company	:	China Petroleum & Chemical Corporation
Registered address	:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal activities	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Registered capital	:	Rmb 86.7 billion (2006: Rmb 86.7 billion)
Percentage of equity interest and voting interest	:	42%

There was no change of the above registered capital during the period.

The equity interest held by China Petroleum & Chemical Corporation is as follows:

	Number of shares	**Percentage**
As at 30 June 2007 and 31 December 2006	1,680,000,000	42%

(2) Please refer to note 6 for information of the Company's subsidiaries.

(3) Transactions between the Group and key management personnel:

	The Group For the six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
Short-term employee benefits	**1,223**	1,297
Retirement scheme contributions	**82**	63

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

(4) Transactions between the Group and other related parties:

(a) Relationships between the Group and related parties without immediate controlling relationships

Name of company	**Relationship with the Company**
CPC	Ultimate holding company
CITIC	Shareholder
Yihua	With a common ultimate holding company
Sinopec Finance	With a common ultimate holding company
China CITIC Bank	Subsidiary of CITIC
China Petroleum & Chemical Corporation, Zhenhai Branch ("**Zhenhai**")	With a common immediate holding company
Sinopec Yangzi Petrochemical Company Limited ("**Yangzi**")	With a common immediate holding company
Sinopec International Company Limited	With a common immediate holding company
Yihua Unifi	Jointly controlled entity

(b) Significant transactions between the Group and the related parties excluding key management personnel are summarised as follows:

	The Group For the six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries		
Purchases of raw materials	**4,531,930**	3,751,957
Including: Yangzi	**2,142,624**	2,050,412
Zhenhai	**1,658,314**	1,282,890
Service charges for the purchases of raw materials	**15,228**	17,938
Yihua and its subsidiaries ("Yihua Group")		
Sales	**119,803**	128,721
Miscellaneous service fee charges *(see note below)*	**4,800**	6,300

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

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

(4) ***Transactions between the Group and other related parties:*** *(continued)*

(b) *Significant transactions between the Group and the related parties excluding key management personnel are summarised as follows: (continued)*

	The Group For the six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
		(restated)
Sinopec Finance		
Interest income	**1,634**	83
CPC and its subsidiaries (excluding Yihua Group, Sinopec Corp and its subsidiaries, Sinopec Finance)		
Insurance premium	**11,951**	14,379
Investment income	**–**	19,500
China CITIC Bank		
Interest income	**775**	557
Yihua Unifi		
Sales of finished goods	**454,130**	445,634
Purchases of finished goods	**58,079**	–

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

(c) *Details of amounts due from/(to) Yihua Unifi are as follows:*

	The Group	
	At 30 June 2007	At 31 December 2006
	Rmb'000	*Rmb'000*
		(restated)
Accounts receivable	**2,567**	334
Other receivables	**4**	2,929
Payments in advance	**–**	3,046
Accounts payable	**(1,512)**	–
Other creditors	**(7,574)**	(6,308)
	(6,515)	1

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

(4) ***Transactions between the Group and other related parties:*** *(continued)*

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

	The Group	
	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*
Accounts receivable	**–**	18,416
Payments in advance	**70,052**	63,983
Other receivables	**331**	431
Accounts payable	**(177,020)**	(76,457)
Other creditors	**(13,574)**	(1,612)
Receipts in advance	**(106)**	(161)
	(120,317)	4,600

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

	The Group	
	At 30 June 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*
Accounts receivable	**6,518**	3,704
Other receivables	**–**	20
Receipts in advance	**(9,637)**	(7,233)
Other creditors	**(4,800)**	(5,045)
	(7,919)	(8,554)

39. **Comparative figures**

Certain comparative figures have been adjusted or reclassified as a result of first-time adoption of the PRC ASBE (2006) on 1 January 2007 by the Group, details of which are set out in note 4.

40. Significant accounting estimates and judgements

Uncertainties in the Group's accounting estimates are as follows:

(1) Provision for impairment of long-term assets

As set out in note 3(8), the carrying amounts of the long-term assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. If circumstances indicate that the carrying amount of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised.

The recoverable amount is the higher of the fair value less the costs to sell and the present value of the expected future cash flows generated by the asset (or asset unit). It is difficult to precisely estimate fair value because quoted market prices for the Group's assets are not readily available. Determining the present value of the expected future cash flows generated by the asset (or asset unit) requires significant judgement relating to level of sale volume, selling price, amount of operating costs and discounting rate used in calculating the present value. The Group uses all readily available information in determining recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(2) Depreciation

As set out in note 3(6) and 3(7), fixed assets and intangible assets 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 estimated useful lives are determined by the Group's historical experience with similar kinds of assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(3) Provision for bad and doubtful debts

The Group estimates provision 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 receivable balances, customer credit-worthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, actual write-offs would be higher than estimated.

(4) 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 period to the extent that such events confirm conditions existing at the end of the period.

41. Non-recurring items

In accordance with "Standard questions and answers on the preparation of information disclosures by companies issuing public shares, No. 1 – Non-recurring items" (2007 Revised), the Group's non-recurring items are summarised as follows:

	For the six months ended 30 June	
	2007	2006
	Rmb'000	*Rmb'000*
		(restated)
Non-recurring items for the period		
Net losses on disposal of fixed assets	**24,953**	2,064
Employee reduction expenses	**95,726**	5,037
Written back of employee reduction expenses over-accrued in prior period	**–**	(14,076)
Forfeited deposit	**–**	(14,950)
Gains on disposal of intangible assets	**(7,008)**	–
Other non-operating expenses (excluding losses on disposal of fixed assets)	**7,454**	5,532
Other non-operating income (excluding forfeited deposit, written back of employee reduction expenses over-accrued in prior period and gains on disposal of fixed assets and intangible assets)	**(690)**	(9,386)
Sub-total	**120,435**	(25,779)
Less: Tax effect on above items	**(39,744)**	3,867
Total	**80,691**	(21,912)
Including:		
Non-recurring item affecting net profit attributable to equity shareholders of the Company	**80,384**	(21,449)
Non-recurring item affecting net profit attributable to minority shareholders	**307**	(463)

Note: The Group has restated the above comparative figures as a result of first-time adoption of ASBE (2006), details of which are set out in note 4.

42. Return on net assets ratio and earnings per share

In accordance with "Regulation on the preparation of information disclosures by companies issuing public shares, No.9 – Calculation and disclosure of the return on net assets ratio and earnings per share" (2007 Revised), the Group's return on net assets ratio and earnings per share are summarised as follows:

(1) Return on net assets ratio of the Group

	For the six months ended 30 June			
	2007		2006 (restated)	
	Fully diluted	**Weighted average**	Fully diluted	Weighted average
(a) Return on net assets attributable to equity shareholders of the Company after non-recurring items	**0.600%**	**0.601%**	0.498%	0.499%
– net profit attributable to equity shareholders of the Company (Rmb'000)	**50,029**	**50,029**	41,254	41,254
– net assets attributable to equity shareholders of the Company at the end of the period (Rmb'000)	**8,345,110**	**8,345,110**	8,287,271	8,287,271
– weighted average net assets of the period attributable to equity shareholders of the Company (Rmb'000)	**8,317,985**	**8,317,985**	8,264,440	8,264,440
(b) Return on net assets attributable to equity shareholders of the Company before non-recurring items	**1.563%**	**1.568%**	0.239%	0.240%
– net profit attributable to equity shareholders of the Company before non-recurring items (Rmb'000)	**130,413**	**130,413**	19,805	19,805
– net assets attributable to equity shareholders of the Company at the end of the period (Rmb'000)	**8,345,110**	**8,345,110**	8,287,271	8,287,271
– weighted average net assets of the period attributable to equity shareholders of the Company (Rmb'000)	**8,317,985**	**8,317,985**	8,264,440	8,264,440

42. Return on net assets ratio and earnings per share *(continued)*

(2) Basic and diluted earnings per share of the Group

		For the six months ended 30 June	
		2007	2006 (restated)
(a)	Earnings per share after non-recurring items (in Rmb)	**0.013**	0.010
	– net profit attributable to equity shareholders of the Company (Rmb'000)	**50,029**	41,254
	– weighted average outstanding shares of the Company	**4,000,000,000**	4,000,000,000
(b)	Earnings per share before non-recurring items (in Rmb)	**0.033**	0.005
	– net profit attributable to equity shareholders of the Company before non-recurring items (Rmb'000)	**130,413**	19,805
	– weighted average outstanding shares of the Company	**4,000,000,000**	4,000,000,000

During six months ended 30 June 2007, there were no dilutive potential ordinary shares in existence.

43. Pro forma income statement for the six months ended 30 June 2006

In accordance with "Standard questions and answers on the preparation of information disclosure of companies issuing public shares, No.7 – The preparation and disclosure of comparative figures in the transitional period of the adoption of ASBE (2006)" issued by the China Securities Regulatory Committee on 15 February 2007, the Group prepared the pro forma income statement for the six months ended 30 June 2006 under the assumption that ASBE (2006) issued by the MOF was effective from 1 January 2006. The difference between the pro forma income statement and the income statement in the financial statements is as follows:

	For the six months ended 30 June 2006 *Rmb'000*
Net profit in the consolidated financial statements	39,202
Adjustment assuming ASBE (2006) was effective from 1 January 2006	–
Pro forma net profit after adjustment	39,202

44. Reconciliation of significant difference between the financial statements of the Group prepared in accordance with ASBE (2006) and IFRSs:

(1) Reconciliation of the net profit attributable to equity shareholders of the Company in the financial statements prepared in accordance with ASBE (2006) and IFRSs are summarised below:

		The Group For the six months ended 30 June	
	Note	**2007** ***Rmb'000***	2006 *Rmb'000* (restated)
Net profit attributable to equity shareholders of the Company under ASBE (2006)		**50,029**	41,254
Adjustments:			
Reversal of amortisation of revaluation of land use rights	*(a)*	**4,111**	2,640
Reversal of depreciation and amortisation of assets held for sale	*(b)*	**–**	10,400
Impairment loss of assets held for sale	*(b)*	**–**	(10,400)
Effects of the above adjustments on taxation		**(1,357)**	(396)
Total		**2,754**	2,244
Net profit attributable to equity shareholders of the Company under IFRSs		**52,783**	43,498

44. Reconciliation of significant difference between the financial statements of the Group prepared in accordance with ASBE (2006) and IFRSs: *(continued)*

(2) Reconciliation of the total equity attributable to equity shareholders of the Company in the financial statements prepared in accordance with ASBE (2006) and IFRSs, are summarised below:

		The Group	
	Note	**At June 30 2007** ***Rmb'000***	At 31 December 2006 *Rmb'000* (restated)
Total equity attributable to equity shareholders of the Company under ASBE (2006)		**8,345,110**	8,290,860
Adjustments:			
Revaluation of land use rights	*(a)*	**(190,369)**	(194,480)
Reversal of depreciation and amortisation of assets held for sale	*(b)*	**–**	11,943
Impairment loss of assets held for sale	*(b)*	**–**	(11,943)
Effects of the above adjustments on taxation		**47,592**	29,172
Total		**(142,777)**	(165,308)
Total equity attributable to equity shareholders of the Company under IFRSs		**8,202,333**	8,125,552

Note:

(a) Under ASBE (2006), land use rights are carried at revalued amount less accumulated amortisation and impairment losses. Under IFRSs, land use rights are carried at historical cost less accumulated amortisation and impairment losses.

(b) Under ASBE (2006), there is no specific guidance on assets held for sale and the depreciation and amortisation for the disposal group should be continued. Under IFRSs, the non-current assets reclassified as held for sale shall not be depreciated or amortised.

Hence, the carrying amount of non-current assets reclassified as held for sale under IFRSs was higher than that under ASBE (2006). Since there is a different basis of calculation of impairment loss, the amount of impairment loss recognised in the income statement is also different under IFRSs and ASBE (2006).

(C) Significant differences between the interim financial reports of the Group prepared in accordance with ASBE (2006) and IFRSs:

Other than the differences in the classifications of certain financial statement captions and the accounting treatment of the items described below, there are no material differences between the Group's interim financial reports prepared in accordance with ASBE (2006) and IFRSs. The reconciliation presented below is included as supplemental information, is not required as part of the interim financial report and does not include differences related to classification, presentation or disclosures. Such information has not been subject to independent review. A summary of the major differences is as follows:

(i) Under IFRSs, land use rights are carried at historical cost less accumulated amortisation and impairment losses. Under ASBE (2006), land use rights are carried at revalued amount less accumulated amortisation and impairment losses.

(ii) Under IFRSs, the non-current assets reclassified as held for sale shall not be depreciated or amortised. Under ASBE (2006), there is no specific guidance on assets held for sale and the depreciation and amortisation for the disposal group should be continued.

Hence, the carrying amount of non-current assets reclassified as held for sale under IFRSs was higher than that under ASBE (2006). Since there is a different basis of calculation of impairment loss, the amount of impairment loss recognised in the income statement is also different under IFRSs and ASBE (2006).

Reconciliation of the profit for the period and total equity of the Group in the interim financial reports prepared in accordance with ASBE (2006) and IFRSs are summarised below:

		Six months ended 30 June	
		2007	2006
	Note	***Rmb'000***	*Rmb'000* (restated)
Profit for the period under ASBE (2006)		**51,498**	39,202
Adjustments:			
– Reversal of amortisation of revaluation of land use rights	*(i)*	**4,111**	2,640
– Reversal of depreciation and amortisation of assets held for sale	*(ii)*	**–**	10,400
– Impairment loss of assets held for sale	*(ii)*	**–**	(10,400)
– Effects of the above adjustments on taxation		**(1,357)**	(396)
Profit for the period under IFRSs		**54,252**	41,446

(C) Significant differences between the interim financial reports of the Group prepared in accordance with ASBE (2006) and IFRSs: *(continued)*

	Note	At 30 June 2007 Rmb'000	At 31 December 2006 Rmb'000 (restated)
Total equity under ASBE (2006)		**8,393,992**	8,338,512
Adjustments:			
– Revaluation of land use rights	*(i)*	**(190,369)**	(194,480)
– Reversal of depreciation and amortisation of assets held for sale	*(ii)*	**–**	11,943
– Impairment loss of assets held for sale	*(ii)*	**–**	(11,943)
– Effects of the above adjustments on taxation		**47,592**	29,172
Total equity under IFRSs		**8,251,215**	8,173,204

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

The Directors of the Company are not aware of any information that would reasonably indicate that the Company has not complied with the Code on Corporate Governance Practices as set out by the HKSE in Appendix 14 to the Listing Rules during the reporting period.

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

10. DOCUMENTS FOR INSPECTION

The following documents will be available for inspection at the legal address of the Company from 31 August 2007 (Friday) upon requests from related supervisory institutes and shareholders in accordance with the Articles of Association of the Company and the relevant regulations:

1. The original copy of the interim report for the six months ended 30 June 2007 signed by the Chairman and the General Manager of the Company;

2. The financial report of the Company for the six months ended 30 June 2007 signed by the Legal Representative, General Manager, Chief Financial Officer and the person in charge of the accounts;

3. The Articles of Association of the Company;

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

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