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 2008

Contents

Company Profile	1
Financial Summary	2
Changes in Share Capital and Shareholdings of Major Shareholders	7
Directors, Supervisors and Senior Management	11
Business Review and Prospects	12
Management Discussion and Analysis	18
Significant Events	25
Interim Financial Report (Unaudited)	30
Compliance with the Code on Corporate Governance Practice and the Model Code	104
Documents for Inspection	104

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 subsidiary ("**the Group**") for the six months ended 30 June 2008. 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.	Domestic newspapers disclosing information	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by The Stock Exchange of Hong Kong Limited ("**HKSE**") to disclosure information	:	http://www.hkexnews.hk
	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	:	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	
	2008	2007
	Rmb'000	*Rmb'000*
Turnover	**8,548,609**	8,482,657
(Loss)/profit before taxation	**(213,935)**	19,017
Income tax expense/(credit)	**47,826**	(35,235)
(Loss)/profit attributable to equity shareholders of the Company	**(261,761)**	52,783
Basic and diluted (loss)/earnings per share	**Rmb(0.065)**	Rmb0.013

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 2008 ***Rmb'000***	As at 31 December 2007 *Rmb'000*	Increase/ (decrease) from last year *(%)*
Total assets	**10,265,644**	9,877,221	3.9
Total equity attributable to equity shareholders of the Company	**8,044,928**	8,308,677	(3.2)
Net assets per share attributable to equity shareholders of the Company	**Rmb2.011**	Rmb2.077	(3.2)

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

(Consolidated and unaudited)

	For the six months ended 30 June 2008 *Rmb'000*	For the six months ended 30 June 2007 *Rmb'000*	Increase/ (decrease) from corresponding period of last year *(%)*
Operating (loss)/profit	**(210,604)**	39,615	(631.6)
(Loss)/profit before income tax	**(216,586)**	14,906	(1,553.0)
Net (loss)/profit attributable to equity shareholders of the Company	**(263,749)**	50,029	(627.2)
Net (loss)/profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**(252,717)**	130,413	(293.8)
Basic (loss)/earnings per share	**Rmb(0.066)**	Rmb0.013	(627.2)
Diluted (loss)/earnings per share	**Rmb(0.066)**	Rmb0.013	(627.2)
Basic (loss)/earnings per share net of extraordinary gain and loss	**Rmb(0.063)**	Rmb0.033	(293.8)
Return on net assets	**(3.28%)**	0.60%	Decreased by 3.88 percentage points
Net cash (outflow)/inflow from operating activities	**(186,787)**	395,613	(147.2)
Net cash (outflow)/inflow from operating activities per share	**Rmb(0.047)**	Rmb0.099	(147.2)

1.3 Extraordinary gain and loss 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)

Extraordinary gain and loss items	**Amount** *(Rmb'000)*
Gain on disposal of fixed assets and intangible assets	1,527
Employee reduction expenses	(8,727)
Other non-operating income excluding gain on disposal of fixed assets and intangible assets	644
Non-operating expenses	(8,153)
Effect of income tax	3,677
Total	(11,032)

1.4 Significant differences between the interim financial report of the Group 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) *Rmb'000*	IFRSs *Rmb'000*
Net loss attributable to equity shareholders of the Company	263,749	261,761
Shareholder's funds attributable to the Company	8,044,928	7,906,088

Explanations for difference: Please refer to the section on "Reconciliation Statement of Differences in the Financial Statements Prepared Under Different GAAPs" 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 *(%)*		Loss per share *(Rmb)*	
Loss during the reporting period	**Fully diluted**	**Weighted average**	**Basic loss per share**	**Diluted loss per share**
Net loss attributable to equity shareholders of the Company	(3.278)	(3.226)	(0.066)	(0.066)
Net loss deducted extraordinary gain and loss attributable to equity shareholders of the Company	(3.141)	(3.091)	(0.063)	(0.063)

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)

	At 1 January 2008 *Rmb'000*	Increase for the period *Rmb'000*	Decrease for the period *Rmb'000*	**At 30 June 2008** ***Rmb'000***
1. Total provisions for bad and doubtful debts	8,511	2,710	5,072	**6,149**
Including: Accounts receivable	1,258	1,986	1,697	**1,547**
Prepayments	0	724	0	**724**
Other receivables	7,253	0	3,375	**3,878**
2. Total provision for diminution in value of inventories	12,599	10,875	0	**23,474**
Including: Raw materials	0	2,991	0	**2,991**
Finished goods	0	2,633	0	**2,633**
Spare parts and consumables	12,599	5,251	0	**17,850**
3. Total provision for impairment of fixed assets	12,302	0	893	**11,409**
Including: Plant and buildings	1,140	0	893	**247**
Machinery, equipment and others	11,162	0	0	**11,162**
Total	33,412	13,585	5,965	**41,032**

Statement of impairment of assets of the Company

	At 1 January 2008 *Rmb'000*	Increase for the period *Rmb'000*	Decrease for the period *Rmb'000*	**At 30 June 2008** ***Rmb'000***
1. Total provisions for bad and doubtful debts	7,723	2,710	4,284	**6,149**
Including: Accounts receivable	470	1,986	909	**1,547**
Prepayments	0	724	0	**724**
Other receivables	7,253	0	3,375	**3,878**
2. Total provision for diminution in value of inventories	12,599	10,875	0	**23,474**
Including: Raw materials	0	2,991	0	**2,991**
Finished goods	0	2,633	0	**2,633**
Spare parts and consumables	12,599	5,251	0	**17,850**
3. Total provision for impairment of fixed assets	11,409	0	0	**11,409**
Including: Plant and buildings	247	0	0	**247**
Machinery, equipment and others	11,162	0	0	**11,162**
Total	31,731	13,585	4,284	**41,032**

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

(Consolidated and unaudited)

Item	At 30 June 2008 Rmb'000	At 31 December 2007 Rmb'000	Change %	Reason for Change
Cash at bank and on hand	**1,601,636**	1,034,747	54.8	Increase in pledged deposits during the period
Accounts receivable	**289,076**	199,910	44.6	Increase in export credit sales during the period
Prepayments	**41,331**	72,674	(43.1)	Decrease in prepayments for purchasing raw materials at the period end
Fixed assets to be disposed of	**4,618**	0	Not applicable	Increase in fixed assets to be disposed of during the period
Construction in progress	**146,104**	89,566	63.1	The Company started new construction projects during the period
Deferred tax assets	**47,779**	95,449	(49.9)	The Company wrote off certain deferred tax assets arising from tax losses in prior years during the period
Accounts payable	**2,060,453**	1,279,510	61.0	Increase in purchase payment terms during the period
Taxes payable	**(278,881)**	(187,840)	48.5	Increase in prepayments for value-added tax at the period end
Deferred income	**11,000**	0	Not applicable	The Company received a government grant related to a project under construction
Accumulated losses	**(518,240)**	(254,491)	103.6	Net loss for the period

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

Item	For the six months ended 30 June 2008 Rmb'000	2007 Rmb'000	Change %	Reason for Change
Business taxes and surcharges	**6,237**	20,912	(70.2)	Decrease in city development tax and education surcharge during the period
Net financial income	**21,772**	8,401	159.2	Increase in net exchange gains during the period
Impairment loss	**2,069**	1,167	77.3	Increase in provision for diminution in value of inventories during the period
Investment loss	**76,263**	11,675	553.2	Increase in loss of jointly controlled entity during the period
Non-operating income	**2,171**	9,269	(76.6)	Decrease in gain on disposal of intangible assets during the period
Non-operating expenses	**8,153**	33,978	(76.0)	No loss on disposal of fixed assets during the period
Income tax expenses	**47,163**	(36,592)	Not applicable	The Company wrote off certain deferred tax assets arising from tax losses in prior years 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 2008 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	49,089
"H" share	572
Total	49,663

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

As at 30 June 2008, 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	49,663

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	1,385,162,283	34.63	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	4,019,847	0.10	Circulating shares	Not applicable
Guangzhou Yidian Engineering & equipment Install Corporation	Domestic circulating shares	2,001,873	0.05	Circulating shares	Not applicable
Agricultural Bank of China – China Post Core Growing Share-type Securities Investment Fund	Domestic circulating shares	1,764,459	0.044	Circulating shares	Not applicable
Agricultural Bank of China – China Post Core Well-chosen Share-type Securities Investment Fund	Domestic circulating shares	1,680,925	0.042	Circulating shares	Not applicable
Lu Bao-hong	Domestic circulating shares	1,325,000	0.033	Circulating shares	Not applicable
Fortune Trust Investment Company Limited – Aggregate Capital Trust No.16 2006	Domestic circulating shares	1,219,200	0.03	Circulating shares	Not applicable
Beijing Buchang Pharm-Biology Technology Company Limited	Domestic circulating shares	1,140,000	0.029	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***	1,385,162,283	"H" shares
China Minsheng Banking Corporation – Orient Well-chosen Mix-type Open-end Securities Investment Fund	4,019,847	Circulating "A" shares
Guangzhou Yidian Engineering & equipment Install Corporation	2,001,873	Circulating "A" shares
Agricultural Bank of China – China Post Core Growing Share-type Securities Investment Fund	1,764,459	Circulating "A" shares
Agricultural Bank of China – China Post Core Well-chosen Share-type Securities Investment Fund	1,680,925	Circulating "A" shares
Lu Bao-hong	1,325,000	Circulating "A" shares
Fortune Trust Investment Company Limited – Aggregate Capital Trust No.16 2006	1,219,200	Circulating "A" shares
Beijing Buchang Pharm-Biology Technology Company Limited	1,140,000	Circulating "A" shares
Cheung Kwong Kwan	1,000,000	"H" shares
Zhou Gao-feng	856,780	Circulating "A" shares

Explanation of connected relationship or activities in concert among the above shareholders	Other than Agricultural Bank of China-China Post Core Growing Share-type Securities Investment Fund and Agricultural Bank of China-China Post Core Well-chosen Share-type Securities Investment Fund are subsidiary Fund of China Post & Capital Fund Management Company Limited. 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 2008, (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	Not applicable	–
CITIC	720,000,000	18.00	27.69	Not applicable	–

* *As at 30 June 2008, China Petrochemical Corporation ("**CPC**") holds 75.84% of the equity interest in Sinopec.*

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware, as at 30 June 2008, no substantial shareholder (as such term is defined in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rules**") of the Company or other person held any interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 Part XV of the SFO.

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

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

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors, Supervisors and Senior Management

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

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

According to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance (the "**SDI Ordinance**") of Hong Kong, and under the relevant PRC laws and regulations concerning details of shares of the Company held by the Directors, Supervisors and Senior Management as at 30 June 2008 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 2008, 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 2008, the Company has four Independent Directors, two of whom are professionals in the accounting field and have experience in financial management. The Company revised "Performance System of Independent Directors" and established reporting system on annual report and correspondence on 7 April, 2008.

The Audit Committee of the Board of the Company has been founded in accordance with requirements under the Listing Rules. The Company revised "Performance Rules of Audit Committee" on 7 April, 2008, which has been implemented since the auditing of 2007 annual report, and added several duties and procedures on auditing committee for examining annual report.

5. BUSINESS REVIEW & 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

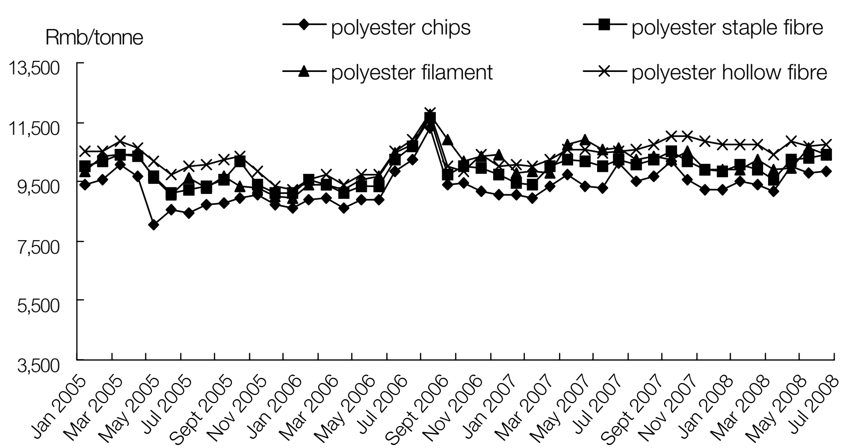
For the six months ended 30 June 2008, the Group's consolidated turnover amounted to Rmb8,548,609,000, increased by 0.8 per cent compared with Rmb8,482,657,000 for the corresponding period of last year. Due to the significant increase in cost of the Company's products as a result of substantial increase in the prices of global crude oil and domestic coal, the loss attributable to equity shareholders of the Company was Rmb261,761,000 and basic loss per share was Rmb0.065, while the profit attributable to equity shareholders of the Company was Rmb52,783,000 and basic earnings per share was Rmb0.013 in the first half of 2007.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2008 (interim dividend for 2007: Nil).

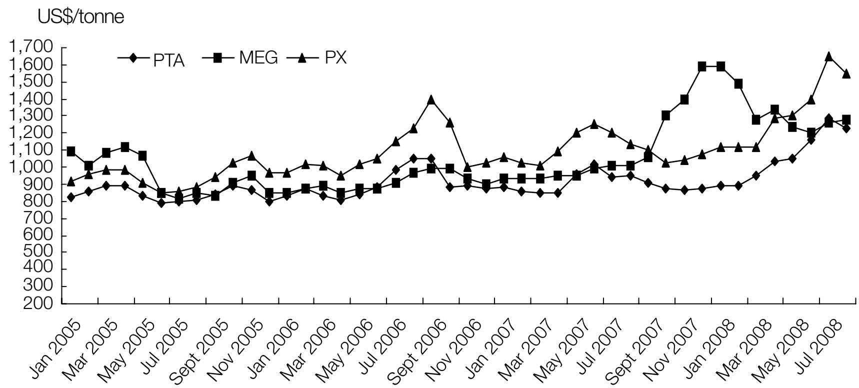
Market review

In the first half of 2008, the domestic polyester industry entered a phase of high costs of raw materials and low demand for downstream textiles. Therefore, the profit margin of polyester products became narrower and the operational environment for polyester industry was still tough. In the first half of 2008, as the global market price of crude oil has been soaring, the costs of polyester raw materials increased substantially. Meanwhile, the increase of the selling prices of polyester products was much lower than the increment of raw material costs because of the severely operational environment and slowing down of demand for downstream textiles. As a result, certain polyester products suffered losses.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



Market review *(continued)*

In the first half of 2008, domestic polyester production capacity increased slowly and the total domestic polyester capacity increased by almost 700,000 tonnes. Total domestic supply volume of polyester fibre was 10,145,000 tonnes, an increase of 6.3 per cent compared with the corresponding period of last year, of which, the domestic production volume increased by 9.2 per cent compared with the corresponding period of last year. Meanwhile, the slowdown growth of PRC textile and clothes exports drove export volume to 83.85 billion dollars, 11.1 per cent higher than the first half of 2007, while the increase in the growth rate was 6.5 percentage points lower than that of the first half of 2007. Total domestic consumption volume of polyester fibre reached 9,319,500 tonnes, an increase of 9.1 per cent compared with the corresponding period of 2007. The domestic demand for polyester fibre has been slowing down.

Domestic supply and demand of polyester fibre

	Polyester filament			**Polyester staple fibre**			**Polyester fibre**		
	First half of 2008 *'000 tonnes*	First half of 2007 *'000 tonnes*	+/– *(%)*	**First half of 2008 *'000 tonnes***	First half of 2007 *'000 tonnes*	+/- *(%)*	**First half of 2008 *'000 tonnes***	First half of 2007 *'000 tonnes*	+/– *(%)*
Production volume	**6,298.6**	5,723.8	10.0	**3,543.0**	3,290.1	7.7	**9,841.6**	9,013.9	9.2
Import volume	**96.0**	123.5	(22.3)	**75.0**	113.2	(33.7)	**171.0**	236.7	(27.8)
Export volume	**431.2**	289.2	49.1	**227.2**	188.3	20.7	**658.4**	477.5	37.9
Net import	**(335.2)**	(165.7)	102.3	**(152.2)**	(75.1)	102.7	**(487.4)**	(240.8)	102.4
Inventories at the beginning of the period	**69.7**	221.1	(68.5)	**62.7**	70.0	(10.4)	**132.4**	291.1	(54.5)
Inventories at the end of the period	**86.9**	331.7	(73.8)	**80.2**	188.3	(57.4)	**167.1**	520.0	(67.9)
Total supply volume	**6,464.3**	6,068.4	6.5	**3,680.7**	3,473.3	6.0	**10,145.0**	9,541.7	6.3
Total consumption volume	**5,946.2**	5,447.5	9.2	**3,373.3**	3,096.7	8.9	**9,319.5**	8,544.2	9.1

Source: The Chemical Fibre Association of China

Result review

In the first half of 2008, faced with a difficult operating environment, the Group put efforts in strengthening fine management, optimizing production and operations, further reducing costs and expenses, and optimizing products structure. As a result, positive progress was achieved in various fields concerning production and operation.

Production and marketing

In the first half of 2008, the Group's production facilities maintained safe and stable operations. Production volume and sales volume of main products increased compared with the corresponding period of 2007. The total production volume of polyester products was 1,090,748 tonnes, an increase of 1.8 per cent compared with 1,071,917 tonnes for the corresponding period of 2007. The capacity utilisation rate of polyester utilities reached 99.2 per cent. The total production volume of purified terephthalic acid ("**PTA**") was 507,361 tonnes, an increase of 1.0 per cent compared with 502,496 tonnes for the corresponding period of last year. In the first half of 2008, The Group's total sales volume of polyester products reached 859,289 tonnes, an increase of 0.4 per cent compared with 855,823 tonnes in the corresponding period of 2007. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.4 per cent. In the first half of 2008, the Group took measures to expand the export of polyester products, resulting in the Group's export volume of polyester products rising to 77,752 tonnes, an increase of 4.9 per cent compared with 74,099 tonnes for the corresponding period of 2007.

New product development and technological innovation

In the first half of 2008, 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 eight kinds of new polyester products, began development of seven products, and launched nineteen products for market promotion. In the first half of 2008, the Group's total production volume of specialized polyester chips amounted to 427,482 tonnes and the specialized rate was 80.1 per cent, 1.7 percentage points lower than that of the corresponding period of 2007. The total production volume of differential polyester fibre amounted to 243,677 tonnes and the differential rate of polyester fibre was 70.4 per cent, 2.9 percentage points higher than that of the corresponding period of 2007.

Cost control

In the first half of 2008, the weighted average prices (excluding VAT) of the Group's polyester products increased by 0.4 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 parxylene ("**PX**"), increased by 3.5 per cent compared with the corresponding period of 2007. 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 2.2 per cent compared with the corresponding period of 2007. In the first half of 2008, mainly due to the improvement of the proportion of direct selling, the reduction of expenses of management, procurement and sales, and no payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre, the Group's selling and administrative expenses decreased by 9.2 per cent and 32.2 per cent respectively from those of the first half of 2007. Due to the increase in net exchange gains and decrease in discounted bills, the net finance income increased by 159.2 per cent from those of the first half of 2007. The total reduction in selling expenses, administrative expenses and net finance income was 29.6 per cent from that of the first half of 2007.

Internal reform and management

In the first half of 2008, the employment and remuneration system reforms were continually advanced. "Compete for Appointment" was carried out and the position performance evaluation was further extended. The quality of management was strengthened, and quality standards were enhanced to further regulate and improve product quality. The Group extended overall budget control and firmly manage unplanned expenses so as to realise its cost reduction targets.

Capital expenditure

In the first half of 2008, the Group's capital expenditure (additions to construction in progress) was Rmb68,540,000. To maximize investment contribution, the Group strengthened investment management in accordance with the prudence principle. The construction of the two key projects such as the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes was smoothly advanced, and are expected to be completed and put into operation in 2008.

Business prospects

In the second half of 2008, the Group will continue to face a tough operating situation, and the domestic polyester industry still stays a phase of high costs of raw materials and low demand for downstream textiles. In the second half of 2008, as the global crude oil price will continue to fluctuate immoderately at a high level, the prices of polyester raw materials will also remain high. Meanwhile, as the factors of Renminbi appreciation and tight credit control still exist, the phase of severely operational environment for downstream textiles will not improve in the second half of 2008. Therefore, the increase in demand for downstream textiles will slow down and the operation for polyester enterprises will be more difficult.

In the second half of 2008, faced with a difficult operation environment, the Group will continue to strengthen fine management, reduce costs and expenses and optimize products structure to answer diversified market risks. The following will be set as priorities in the second half of 2008:

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

   To ensure safe and stable operation of production facilities, the Group will further strengthen spot management, implement strict measures and controls over key facilities and areas, and try to reduce unexpected production cessation. Priorities will be given to the PTA facility to ensure safe and stable production, and to achieve the target of increasing PTA production volume. In the second half of 2008, the Group's projected production volume of polyester products is 1,071,000 tonnes, and the projected 2008 annual production volume of polyester products is 2,162,000 tonnes, 1.4 per cent higher than production volume in 2007. The Group's production volume of PTA for the second half of 2008 is projected at 519,000 tonnes. The projected 2008 annual production volume of PTA is 1,026,000 tonnes, 0.1 per cent more than production volume in 2007.

Business prospects *(continued)*

II. Pay close attention to market change and strengthen raw material purchase and marketing so as to reduce operational risks

The Group will pay close attention to market changes, and adjust purchase plan in a timely manner based on the situation of cost, profit and production so as to keep a constant balance of raw materials supply and reduce the purchase costs. Meanwhile, the Group will make greater efforts in selling products, specially differential and specialized products, to strive for greater profit. In the second half of 2008, the Group's projected sales volume of polyester products is 852,000 tonnes. The 2008 projected sales volume of polyester products is 1,711,000 tonnes, a decrease of 0.2 per cent from that of 2007. The ratio of sales to production is expected to reach 100 per cent in the second half of 2008.

III. Improve product structure and profit contribution from differential products

The Group will further optimize product structure, and concentrate the market expansion of new products and stable sales of key products. 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 2008, the Group's projected production volume of specialized polyester chips and differential fibre products is 444,000 tonnes and 237,000 tonnes respectively. Specialized rates are expected to be 85.0 per cent and differential rates are expected to be 71.9 per cent.

IV. Strictly fine management and greatly reduce cost and expenses

The Group will continue to carry out the measures drafted at the beginning of 2008 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. The Group will also organize to design some key projects saving energy and expedite to implement these projects to strive to be completed and create profits as soon as possible.

V. Concentrate new projects construction and promote the adjustment of industrial structure

The Group will accelerate effective development and actively advanced the upgrade of industrial structure. To ensure to be completed and put into operation in 2008 and strive to create profits, the Group will meticulously organize the construction of the two new projects such as the aramid fiber project and the high performance polyethylene project.

6. MANAGEMENT DISCUSSION & 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 2008, due to substantial increase in the costs of raw materials and fuels as a result of the significant increase in the prices of global crude oil and domestic coal and due to the fact that the increase of the selling prices of polyester products was much lower than the increment of raw material costs because of the severely operational environment and slowing down of demand for downstream textiles, the loss attributable to equity shareholder of the Company was Rmb261,761,000, while the profit attributable to equity shareholder of the Company was Rmb52,783,000 in the first half of 2007.

(1) Turnover

In the first half of 2008, the Group's production facilities maintained safe and stable operations. Production volume of polyester products and PTA increased compared with the corresponding period of 2007. The Group's total production volume of polyester products was 1,090,748 tonnes, an increase of 1.8 per cent compared to 1,071,917 tonnes for the corresponding period of 2007. The Group's capacity utilization rate reached 99.2 per cent. The Group's total production volume of PTA was 507,361 tonnes, an increase of 1.0 per cent compared with 502,496 tonnes for the corresponding period of 2007.

Production volume

	For the six months ended 30 June			
	2008		2007	
	Production volume *(tonnes)*	**Percentage of total production volume *(%)***	Production volume *(tonnes)*	Percentage of total production volume *(%)*
Polyester products				
Chips	**744,565**	**68.3**	735,964	68.7
Including: bottle-grade chips	**210,828**	**19.3**	212,713	19.8
Staple fibre	**230,956**	**21.2**	224,230	20.9
Hollow fibre	**24,146**	**2.2**	25,117	2.3
Filament	**91,081**	**8.3**	86,606	8.1
Total	**1,090,748**	**100.0**	1,071,917	100.0

In the first half of 2008, the Group's total sales volume of polyester products amounted to 859,289 tonnes, an increase of 0.4 per cent compared with 855,823 tonnes for the corresponding period of 2007. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.4 per cent. The Group's export volume of polyester products was 77,752 tonnes, an increase of 4.9 per cent compared to 74,099 tonnes for the corresponding period of 2007. 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 Rmb9,669/tonne for the corresponding period of 2007 to Rmb9,709/tonne for the first half of 2008, a 0.4 per cent increase. The increase in prices of polyester products, however, was less than that of polyester raw material.

(1) **Turnover** *(continued)*

Sales volume

	For the six months ended 30 June			
	2008		2007	
	Sales volume *(tonnes)*	**Percentage of total Sales volume *(%)***	Sales volume *(tonnes)*	Percentage of total Sales volume *(%)*
Polyester products				
Chips	**519,558**	**60.5**	511,535	59.8
Including: bottle-grade chips	**207,686**	**24.2**	210,675	24.6
Staple fibre	**225,260**	**26.2**	227,399	26.5
Hollow fibre	**23,456**	**2.7**	24,485	2.9
Filament	**91,015**	**10.6**	92,404	10.8
Total	**859,289**	**100.0**	855,823	100.0

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

	For the six months ended 30 June		
	2008	2007	Change (%)
Polyester products			
Chips	**9,498**	9,338	1.7
Staple fibre	**9,896**	9,983	(0.9)
Hollow fibre	**10,947**	10,549	3.8
Filament	**10,127**	10,501	(3.6)
Weighted average price	**9,709**	9,669	0.4

Turnover

	For the six months ended 30 June			
	2008		2007	
	Turnover *Rmb'000*	**Percentage of turnover *(%)***	Turnover *Rmb'000*	Percentage of turnover *(%)*
Polyester products				
Chips	**4,935,003**	**57.7**	4,776,612	56.3
Staple fibre	**2,229,190**	**26.1**	2,270,063	26.8
Hollow fibre	**256,781**	**3.0**	258,300	3.1
Filament	**921,685**	**10.8**	970,310	11.4
Others	**205,950**	**2.4**	207,372	2.4
Total	**8,548,609**	**100.0**	8,482,657	100.0

(1) Turnover *(continued)*

In the first half of 2008, due to the increase in sales volume and the weighted average price of polyester products by 0.4 per cent and 0.4 per cent respectively compared with the corresponding period of 2007, the Group's turnover amounted to Rmb8,548,609,000, an increase of 0.8 per cent compared with Rmb8,482,657,000 for the corresponding period of 2007.

(2) Cost of sales

In the first half of 2008, the Group's cost of sales was Rmb8,441,391,000, an increase of Rmb352,282,000 compared with Rmb8,089,109,000 for the corresponding period of 2007, representing 98.7 per cent of turnover. The increase in cost of sales was mainly due to substantial increase in the costs of raw materials and fuels. Total costs of raw materials increased by 6.9 per cent, from Rmb7,381,637,000 to Rmb7,888,713,000, compared with the corresponding period of 2007, accounting for 93.5 per cent of the cost of sales. The increase was mainly due to the significant increase in the purchase costs of MEG. In the first half of 2008, the weighted average price of external purchased polyester raw materials increased by 3.5 per cent compared with the corresponding period of 2007. Of this decrease, the average purchase costs of PX and PTA decreased by 1.8 per cent, and 4.4 per cent respectively, while the average purchase cost of MEG increased by 18.4 per cent, compared with the corresponding period of 2007. To mitigate the effect of 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 2008, turnover increased by 0.8 per cent compared with the corresponding period of 2007, while cost of sales increased by 4.4 per cent compared with the corresponding period of last year. As a result, the Group's gross profit decreased by Rmb286,330,000 to Rmb107,218,000 compared with the corresponding period of 2007. The Group's gross margin was 1.3 per cent, a decrease of 3.4 percentage points compared with the corresponding period of 2007.

(3) Selling expenses, administrative expenses and net financial income

	For the six months ended 30 June		
	2008	2007	Change
	Rmb'000	*Rmb'000*	*(%)*
Selling expenses	**98,261**	108,270	(9.2)
Administrative expenses	**162,450**	239,756	(32.2)
Net financial income	**(21,772)**	(8,401)	159.2
Total	**238,939**	339,625	(29.6)

(3) Selling, administrative and financial expenses *(continued)*

In the first half of 2008, selling expenses and administrative expenses decreased by 9.2 per cent and 32.2 per cent, respectively, compared with the corresponding period of 2007. These decreases were mainly due to the improvement of the proportion of direct selling, the reduction of expenses of management, procurement and sales, and no payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre. Due to a significant increase in net exchange gains and decrease in discounted bills, the net finance income increased by 159.2 per cent from those of the first half of 2007. The total reduction in selling expenses, administrative expenses and net finance income was 29.6 per cent from that of the first half of 2007.

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

	For the six months ended 30 June		
	2008	2007	Change
	Rmb'000	*Rmb'000*	*(%)*
Operating (loss)/profit	**(159,444)**	22,291	(815.3)
(Loss)/profit before taxation	**(213,935)**	19,017	(1,225.0)
Income tax expense /(credit)	**47,826**	(35,235)	Not applicable
(Loss)/profit attributable to equity shareholders of the Company	**(261,761)**	52,783	(595.9)
Basic (loss)/earnings per share (in Rmb)	**(0.065)**	0.013	(595.9)

In the first half of 2008, though the Company has made great efforts in strengthening fine management, optimizing production and operations, endeavoring to further reduce costs and expenses, and optimizing the products structure, the Group's loss before taxation and loss attributable to equity shareholders of the Company was Rmb213,935,000 and Rmb261,761,000 respectively, while the Group's profit before taxation and profit attributable to equity shareholders of the Company for the first half of 2007 was Rmb19,017,000 and Rmb52,783,000 respectively, which was due to substantial increase in the costs of raw materials and fuels as a result of the significant increase in the prices of global crude oil and domestic coal and due to the fact that the increase of the selling prices of polyester products was much lower than the increment of raw material costs because of the severely operational environment and slowing down of demand for downstream textiles.

(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 2008 in accordance with the PRC Accounting Standards for Business Enterprises (2006).

Products	Operating income	Cost of sales	Gross profit margin	Increase in operating income as compared with the corresponding period of last year	Increase 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
	Rmb'000	*Rmb'000*	*(%)*	*(%)*	*(%)*	
Polyester products	8,342,659	8,078,931	3.2	0.8	4.1	Decreased by 3.0 percentage points
Including: connected transactions	98,847	96,125	2.8	0.5	4.2	Decreased by 3.4 percentage points

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

(6) Reasons for the significant changes in the gross margin compared to that of 2007 (based on financial information included in the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

In the first half of 2008, the Group's gross margin from principal operations decreased to 2.8 per cent, by 2.4 percentage points compared with 2007. The decrease was mainly due to substantial increase in the costs of raw materials and fuels as a result of the significant increase in the prices of global crude oil and domestic coal.

(7) Operations of jointly controlled entity in the first half of 2008 (based on financial information included in the interim financial report prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

Yihua Unifi Fibre Industry Company Limited("**Yihua UNIFI**") is the jointly controlled entity of the Company. The Company and UNIFI Asia Holding SRL ("**UNIFI Asia**") holds 50 per cent of the equity interest of Yihua UNIFI respectively. Yihua UNIFI's 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 2008, the Company's share of loss of Yihua UNIFI was Rmb76,263,000, which accounted for 28.9 per cent of the loss attributable to equity shareholders of the Company. During the six months ended 30 June 2008, Yihua UNIFI assessed the recoverable amount of its non-current assets and impairment losses were recognised in the income statement. The impairment losses shared by the Group were Rmb51,729,000 during the six months ended 30 June 2008.

2. Financial Analysis

The Group's primary sources of funds come from operating activities, and the funds are primarily used for working capital and capital expenditures.

(1) Assets, liabilities and shareholders' equity analysis

	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*	Changes *Rmb'000*
Total assets	**10,407,266**	9,931,984	475,282
Current assets	**5,317,265**	4,468,311	848,954
Non-current assets	**5,090,001**	5,463,673	(373,672)
Total liabilities	**2,501,178**	1,764,135	737,043
Current liabilities	**2,490,178**	1,764,135	726,043
Non-Current liabilities	**11,000**	0	11,000
Total equity attributable to equity shareholders of the Company	**7,906,088**	8,167,849	(261,761)

As at 30 June 2008, the Group's total assets were Rmb10,407,266,000, total liabilities were Rmb2,501,178,000, and total equity attributable to equity shareholders of the Company was Rmb7,906,088,000. Compared with the assets and liabilities as at 31 December 2007 (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 Rmb10,407,266,000, an increase of Rmb475,282,000 compared with the end of last year. Current assets were Rmb5,317,265,000, an increase of Rmb848,954,000 compared with the end of last year. The increase was mainly due to the increase in the Group's deposits with banks and other financial institutions by Rmb583,318,000, and the increase in average purchase cost of inventories increased by Rmb91,697,000 owing to the increase in costs of raw materials in the first half of 2008. Meanwhile, trade and other receivables increased by Rmb190,368,000 owing to the increase in export credit sales during the period. Non-current assets were Rmb5,090,001,000, a decrease of Rmb373,672,000 compared with the end of last year, mainly due to ordinary depreciation and amortization.

Total liabilities were Rmb2,501,178,000, an increase of Rmb737,043,000 compared with the end of last year. Current liabilities were Rmb2,490,178,000, an increase of Rmb726,043,000 compared with the end of last year, mainly due to the increase of Rmb726,052,000 in trade and other payables owing to the increase in purchase payment terms during the period. Non-current liabilities were Rmb11,000,000, an increase of Rmb11,000,000 compared with the end of last year, mainly due to the increase of Rmb11,000,000 in deferred income in the first half of 2008.

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

Total equity attributable to equity shareholders of the Company was Rmb7,906,088,000, a decrease of Rmb261,761,000 compared with the end of last year, mainly due to the loss attributable to equity shareholders of the Group amounting to Rmb261,761,000 in the first half of 2008.

As at 30 June 2008, total liabilities to total assets ratio was 24.0 per cent, whereas 17.8 per cent as at 31 December 2007.

(2) Cash flow analysis

In the first half of 2008, cash and cash equivalents decreased by Rmb16,429,000 (decreased from Rmb459,747,000 as at 31 December 2007 to Rmb443,318,000 as at 30 June 2008). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2008 and 2007.

Major items in cash flow statement	**For the six months ended 30 June**		
	2008	2007	Changes
	Rmb'000	*Rmb'000*	*Rmb'000*
Net cash (used in)/generated from operating activities	**(188,506)**	390,060	(578,566)
Net cash generated from/(used in) investing activities	**172,077**	(287,542)	459,619
Net cash used in financing activities	**0**	(239)	239
Net (decrease)/increase in cash and cash equivalents	**(16,429)**	102,279	(118,708)
Cash and cash equivalents at the beginning of the period	**459,747**	933,153	(473,406)
Cash and cash equivalents at the end of the period	**443,318**	1,035,432	(592,114)

In the first half of 2008, the Group's net cash outflow from operating activities was Rmb188,506,000, representing a decrease of cash inflow by Rmb578,566,000 compared with the corresponding period of 2007. This was mainly due to the following:

- The increase in trade and other receivables was Rmb190,368,000 in the first half of 2008, while there had been a decrease of Rmb69,665,000 in the first half of 2007. As a result, the net cash inflow from operating activities decreased by Rmb260,033,000.

- The decrease in gross profit from Rmb393,548,000 in the first half of 2007 to Rmb107,218,000 in the first half of 2008. The net cash inflow from operating activities decreased by Rmb286,330,000.

In the first half of 2008, the Group's net cash inflow from investing activities was Rmb172,077,000, a decrease of cash outflow by Rmb459,619,000 compared with the corresponding period of 2007. This was mainly due to a decrease of Rmb265,000,000 in the deposits with banks and other financial institutions in the first half of 2008 (not including pledged deposits), while there had been an increase of Rmb295,000,000 in the first half of 2007. As a result, the net cash outflow from investing activities decreased by Rmb560,000,000.

(2) Cash flow analysis *(continued)*

In the first half of 2008, the Group's net cash outflow from financing activities was zero, a decrease of cash outflow by Rmb239,000 compared with the corresponding period of 2007.It mainly caused by there were no profits paid to minority shareholders in the first half of 2008.

(3) Bank borrowings

As at 30 June 2008, the Group's bank loans were nil (as at 31 December 2007: nil).

(4) Debt-equity ratio

The debt-equity ratio of the Group was nil for the first half of 2008 (first half of 2007: nil). 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 2008, there was not any charge in the Group's assets.

(6) Management of foreign exchange risk

The Group's operations are mainly denominated in Renminbi and foreign currency needed was mainly denominated in US dollars. Receivables and payable items of the Group are settled immediately under current items. Therefore, there is no material adverse effect on the Group as a result of the fluctuations in foreign exchange rates.

3. Capital Expenditure

In the first half of 2008, the Group's capital expenditure amounted to Rmb68,540,000. The amount was mainly invested in the construction of the two major projects, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes, and the other projects that increased profit margin by improving safety and environment, and reducing costs, and expenses, and saving energy consumption.

The Group's capital expenditure for the second half of 2008 is projected to be approximately Rmb388,920,000. In the second half of 2008, in order to maximize return on investment, the Group will arrange the schedule of capital expenditure in accordance with the prudent principle. The planned capital expenditure 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 27th meeting of the fifth term of the Board held on 30 July 2008 considered and approved "Explanation on Improvement Status of Corporate Governance" (for more information about it, visit http://www.sse.com.cn).

2. The Company had set up management and functional departments of the internal control system in March 2003 to lead and develop this special work. On 1 January 2005, the Company formally implemented its internal control system, which covers the Company's production and operational chain and key business sectors. The Company carried through yearly and half-yearly checkup and evaluation of the deployment and therewith revised it. In light of the new regulatory requirements both locally and overseas, the system was examined, revised and approved by the 25th meeting of the fifth term of the Board held on 7 April 2008. Meanwhile, the Board made a plan for the execution of internal control system in 2008.

3. According relative 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 promulgated by CSRC, State-Owned Assets Supervision and Administration Commission of the State Council, Ministry of Finance, People's Bank of China and Ministry of Commerce, the Company's non-circulating shareholders brought forward the proposal of share reform on 30 November 2007. After performing the operation process of share reform, the "Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" was not passed by the shareholders' meeting of A share market relating to the share reform scheme held on 15 January 2008.

   The non-circulating shareholders has not brought forward new proposal of share reform at present.

4. As approved by 2007 AGM held on 28 May 2008, to make up the losses of the previous years, the Company did not pay a final cash dividend for the year ended 31 December 2007, 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 ending 31 December 2008.

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 acquisition or disposals of assets, nor any merger and acquisitions activities.

   The Company is in negotiation with UNIFI Asia, a limited liability company incorporated in Barbados and a subsidiary of Unifi, Inc,. in respect of the possible purchase of UNIFI Asia's 50.0% shareholding in Yihua UNIFI, a jointly controlled entity of the Company. There is no letter of intent or agreement signed for this transaction at present. As negotiations are still in progress, the above proposed transaction may or may not proceed.

   The Company and UNIFI Asia holds 50 per cent of the equity interest of Yihua UNIFI respectively. Yihua UNIFI, whose registered capital is USD 60,000,000, is a jointly controlled entity. Its principal activities are the production and sales of differential polyester filament and relative products, research and development of polyester and textile products, and after sales services for its products. Yihua UNIFI was established in Yizheng City, Jiangsu Province on 28 July 2005.

   The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 1 August 2008.

7. Information on connected transactions

At the 2007 AGM held on 28 May 2008, independent shareholders discussed and approved the resolution of 2008 ordinary connected transactions in terms of the existing connected transaction agreement.

The Group's material connected transactions entered into during the period ended 30 June 2008 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	Proportion of the same type of transaction
		Rmb'000	*(%)*
Purchase of raw materials	Sinopec and its subsidiaries	4,226,140	54.2%
	Of which:		
	Sinopec Yangzi Petrochemical Company Limited	2,325,356	29.8%
	China Petroleum & Chemical Corporation, Zhenhai Branch	1,513,876	19.4%

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 39 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 subsidiary.

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.

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

11. As at 30 June 2008, 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. In order to refine the core business, during the period ended 30 June 2008, the Company liquidated Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**") (the Company's wholly-owned subsidiary). As at 30 June 2008, all the required liquidation procedures were completed and the net assets of Yihua Kangqi were all transferred to the Company. As the operation results and financial position of Yihua Kangqi were reflected in each of the Group's prior years' consolidated financial statements, the liquidation had no significant impact on the consolidated income statement for the six months ended 30 June 2008. Meanwhile, as investment in Yihua Kangqi was accounted for using the cost method in the Company's financial statements in prior years, a disposal income of Rmb158,668,000 has been recognised and included in the Company's income statement for the six months ended 30 June 2008.

14. As stated in 2007 annual report, the State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing was 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 applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company was adjusted from the original 15% to 33% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of prior years. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in this interim financial report in respect of the EIT differences arising from prior years.

15. Constructions of the aramid fiber project with an annual capacity of 100 tonnes, the high performance polyethylene project with an annual capacity of 300 tonnes and improvements project of stove desulphrization of thermoelectricity center were approved for investment in the 25th meeting of the Board of the fifth term held on 7 April 2008. The estimated investment of the aramid fiber project amounted to Rmb118,520,000 and is expected to be completed and put into operation in December 2008. The estimated investment of the high performance polyethylene project amounted to Rmb62,850,000 and is expected to be completed and put into operation in November 2008. The estimated investment of improvements project of stove desulphrization of thermoelectricity center amounted to Rmb96,040,000 and is expected to be completed and put into operation by the year end of 2009.

Presently, the above projects are implemented on schedule.

16. 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.

17. 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.

18. 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 31 to 44 which comprises the consolidated balance sheet of Sinopec Yizheng Chemical Fibre Company Limited as of 30 June 2008 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 2008 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

25 August 2008

Consolidated income statement

for the six months ended 30 June 2008 – unaudited

	Note	Six months ended 30 June 2008 Rmb'000	2007 Rmb'000
Turnover		**8,548,609**	8,482,657
Cost of sales		**(8,441,391)**	(8,089,109)
Gross profit		**107,218**	393,548
Other income		**923**	9,176
Selling expenses		**(98,261)**	(108,270)
Administrative expenses		**(162,450)**	(239,756)
Other expenses		**(6,874)**	(32,407)
Operating (loss)/profit before net finance income		**(159,444)**	22,291
Financial income		**24,318**	15,029
Financial expenses		**(2,546)**	(6,628)
Net finance income		**21,772**	8,401
Share of loss of a jointly controlled entity		**(76,263)**	(11,675)
(Loss)/profit before taxation	*3*	**(213,935)**	19,017
Income tax (expense)/credit	*4*	**(47,826)**	35,235
(Loss)/profit for the period		**(261,761)**	54,252
Attributable to:			
Equity shareholders of the Company		**(261,761)**	52,783
Minority interests		**–**	1,469
(Loss)/profit for the period		**(261,761)**	54,252
Basic and diluted (loss)/earnings per share (in Rmb)	*6*	**(0.065)**	0.013

The notes on pages 36 to 44 form part of this interim financial report.

Consolidated Balance Sheet

as at 30 June 2008 – unaudited

	Note	At 30 June 2008 Rmb'000	At 31 December 2007 Rmb'000
Non-current assets			
Property, plant and equipment	7	**4,649,378**	4,953,561
Construction in progress		**146,104**	89,566
Lease prepayments		**124,788**	126,430
Interest in jointly controlled entity		**79,921**	156,184
Deferred tax assets		**89,810**	137,932
		5,090,001	5,463,673
Current assets			
Inventories		**1,348,884**	1,257,187
Trade and other receivables	8	**2,366,745**	2,176,377
Deposits with banks and other financial institutions	9	**1,158,318**	575,000
Cash and cash equivalents	10	**443,318**	459,747
		5,317,265	4,468,311
Current liabilities			
Trade and other payables	11	**2,490,178**	1,764,126
Income tax payable		**–**	9
		2,490,178	1,764,135
Net current assets		**2,827,087**	2,704,176
Total assets less current liabilities		**7,917,088**	8,167,849
Non-current liabilities			
Deferred government grants	12	**11,000**	–
Net assets		**7,906,088**	8,167,849

The notes on pages 36 to 44 form part of this interim financial report.

Consolidated Balance Sheet

as at 30 June 2008 – unaudited (continued)

	Note	**At 30 June 2008 Rmb'000**	At 31 December 2007 Rmb'000
Equity			
Share capital		**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*13*	**1,279,928**	1,279,928
Retained profits		**107,327**	369,088
Total equity		**7,906,088**	8,167,849

Approved and authorised for issue by the Board of Directors on 25 August 2008.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 36 to 44 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008 – unaudited

	Attributable to equity shareholders of the Company						
	Share capital *Rmb'000*	Share premium *Rmb'000*	Reserves *Rmb'000*	Retained profits *Rmb'000*	Total *Rmb'000*	Minority interests *Rmb'000*	Total equity *Rmb'000*
As at 1 January 2007	4,000,000	2,518,833	1,259,943	346,776	8,125,552	47,652	8,173,204
Income recognised directly in equity							
– adjustment of deferred tax on land use rights due to change in income tax rate	–	–	19,777	–	19,777	–	19,777
– realisation of deferred tax on land use rights	–	–	(5,317)	5,317	–	–	–
– others	–	–	4,221	–	4,221	–	4,221
Profit for the period	–	–	–	52,783	52,783	1,469	54,252
Total recognised income for the period	–	–	18,681	58,100	76,781	1,469	78,250
Dividends paid to minority shareholders	–	–	–	–	–	(239)	(239)
As at 30 June 2007	4,000,000	2,518,833	1,278,624	404,876	8,202,333	48,882	8,251,215
As at 1 January 2008	4,000,000	2,518,833	1,279,928	369,088	8,167,849	–	8,167,849
Loss for the period	–	–	–	(261,761)	(261,761)	–	(261,761)
As at 30 June 2008	**4,000,000**	**2,518,833**	**1,279,928**	**107,327**	**7,906,088**	**-**	**7,906,088**

The notes on pages 36 to 44 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008 – unaudited

		Six months ended 30 June	
		2008	2007
	Note	***Rmb'000***	*Rmb'000*
Cash (used in)/generated from operations		**(188,497)**	399,878
Income tax paid		**(9)**	(9,818)
Net cash (used in)/generated from operating activities		**(188,506)**	390,060
Net cash generated from/(used in) investing activities		**172,077**	(287,542)
Net cash used in financing activities		**–**	(239)
Net (decrease)/increase in cash and cash equivalents		**(16,429)**	102,279
Cash and cash equivalents at 1 January	*10*	**459,747**	933,153
Cash and cash equivalents at 30 June	*10*	**443,318**	1,035,432

The notes on pages 36 to 44 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 subsidiary ("**the Group**") are principally engaged in the production and sale of chemical fibre and chemical fibre raw materials in the People's Republic of China ("**the PRC**"). China Petroleum & Chemical Corporation ("**Sinopec Corp**") is the Company's immediate parent company and China Petrochemical Corporation ("**CPC**") is the Company's ultimate parent company.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting, adopted by the International Accounting Standards Board ("**IASB**"). This interim financial report was authorised for issuance on 25 August 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 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 Hong Kong 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 30.

The financial information relating to the financial year ended 31 December 2007 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 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 April 2008. The 2007 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) ("**CAS (2006)**") and IFRSs are summarised in the section on "Reconciliation Statement of Differences in the Financial Statements Prepared Under Different GAAPs" of this interim report.

2. 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.

3. **(Loss)/profit before taxation**

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

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Cost of inventories	**8,441,391**	8,089,109
Interest on borrowings	**395**	–
Depreciation	**311,737**	328,703
Amortisation of lease prepayments	**1,642**	1,494
Write-down/(reversal of) of inventories	**5,624**	(9,123)
Employee reduction expenses	**8,727**	95,726
Net (gain)/loss on disposal of property, plant and equipment	**(1,279)**	24,953
Interest income	**(10,145)**	(13,386)

4. **Income tax**

		Six months ended 30 June	
		2008	2007
	Note	***Rmb'000***	*Rmb'000*
Current tax			
– Provision for the period		**–**	3,705
– (Over)/under-provision in respect of prior periods		**(296)**	459
		(296)	4,164
Reversal/(origination) of deferred tax assets	*(b)*	**48,122**	(39,399)
Income tax expense/(credit)		**47,826**	(35,235)

(a) The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was 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 applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of prior years. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in this interim financial report in respect of the EIT differences arising from prior years.

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 were unified at 25% and were effective from 1 January 2008 (2007: 33%).

The Group did not carry on business in Hong Kong or overseas and therefore does not incur Hong Kong Profits Tax or overseas income taxes.

(b) The Group assessed the future taxable profits that would allow the deferred tax assets to be recovered. Based on the assessment, the Group reduced the carrying amount of deferred tax assets to Rmb89,810,000 as at 30 June 2008 and made the above reversal.

5. Dividend

No final dividend in respect of the financial year 2007 was approved during the period (financial year 2006: Rmb nil).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Rmb nil).

6. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of Rmb261,761,000 for the six months ended 30 June 2008 (six months ended 30 June 2007: profit of Rmb52,783,000) and the weighted average number of ordinary shares of 4,000,000,000 (2007: 4,000,000,000) in issue during the period.

(b) Diluted (loss)/earnings per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2008.

7. 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 2008 are as follows:

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Cost of acquisitions and transfer from construction in progress	**12,086**	55,145
Disposals (net carrying amount)	**9,150**	37,638

8. Trade and other receivables

	At 30 June 2008	At 31 December 2007
	Rmb'000	*Rmb'000*
Trade receivables	**216,285**	194,780
Bills receivable	**1,643,275**	1,583,804
Amounts due from parent company and fellow subsidiaries – trade	**37,370**	73,255
Amounts due from jointly controlled entity – trade	**99,589**	30,561
	1,996,519	1,882,400
Amounts due from parent company and fellow subsidiaries-non-trade	**230**	273
Amounts due from jointly controlled entity – non-trade	**–**	480
Other receivables, deposits and prepayments	**369,996**	293,224
	2,366,745	2,176,377

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

8. Trade and other receivables *(continued)*

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

	At 30 June 2008 Rmb'000	At 31 December 2007 Rmb'000
Current	**1,995,638**	1,880,420
Less than 12 months past due	**881**	1,980
	1,996,519	1,882,400

9. Deposits with banks and other financial institutions

	Note	**At 30 June 2008 Rmb'000**	At 31 December 2007 Rmb'000
Balances with banks and other financial institutions (related parties)			
– Sinopec Finance Company Limited ("**Sinopec Finance**")		**47,295**	50,328
– China CITIC Bank		**45,673**	56,135
– State-controlled banks in the PRC (excluding China CITIC Bank)	*(a)*	**1,508,651**	928,278
		1,601,619	1,034,741
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 10)*		**(443,301)**	(459,741)
		1,158,318	575,000

(a) At 30 June 2008, deposits of Rmb848,318,000 (2007: Rmb nil) were pledged for payables in respect of imported raw materials (see note 11).

10. Cash and cash equivalents

	At 30 June 2008 Rmb'000	At 31 December 2007 Rmb'000
Cash in hand	**17**	6
Balances with banks and other financial institutions with an initial term of less than three months *(note 9)*	**443,301**	459,741
Cash and cash equivalents in the consolidated cash flow statement	**443,318**	459,747

11. Trade and other payables

	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*
Trade payables	**1,205,750**	1,255,775
Amounts due to parent company and fellow subsidiaries-trade *(note 9(a))*	**972,298**	133,478
Amounts due to jointly controlled entity – trade	**10,471**	11,067
	2,188,519	1,400,320
Amounts due to parent company and fellow subsidiaries – non-trade	**17,671**	4,908
Other payables and accrued expenses	**283,988**	358,898
	2,490,178	1,764,126

The maturity analysis of trade payables is as follows:

	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*
Due within 1 month or on demand	**1,194,209**	1,243,148
Due after one month but within 12 months	**11,541**	12,627
	1,205,750	1,255,775

The maturity analysis of amounts due to the parent company and fellow subsidiaries – trade and amounts due to the jointly controlled entity – trade is as follows:

	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*
Due within 1 month or on demand	**134,451**	144,545
Due after 1 month but within 3 months	**494,524**	–
Due after 3 months but within 6 months	**129,616**	–
Due after 6 months but within 12 months	**224,178**	–
	982,769	144,545

12. Deferred government grants

During the six months ended 30 June 2008, the Company received a government grant amounting to Rmb11,000,000 related to a project under construction. The grant was recognised initially as deferred income and will be amortised to profit or loss on a straight-line basis over the useful life of the related assets when they are ready for use.

13. Reserves

For the six months ended 30 June 2008, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (2007: Rmb nil).

14. Related party transactions

Sinopec Corp, CPC and CITIC Group 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, China Petrochemical International Company Limited, Sinopec Chemicals Sales Branch and other subsidiaries of Sinopec Corp, CPC or CITIC are considered to be related parties as they are subject to the common significant influence of Sinopec Corp, CPC or CITIC.

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

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

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**4,226,140**	4,531,930
Including: Yangzi	**2,325,356**	2,142,624
Zhenhai	**1,513,876**	1,658,314
Service charges for the purchase of raw materials	**16,678**	15,228
Yihua and its subsidiaries		
Sales	**116,255**	119,803
Miscellaneous service fee charges (see note below)	**6,000**	4,800

Note: The above service fee charges were accrued in accordance with the terms of the agreements signed between the Company and Yihua in October 2007.

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Sinopec Finance		
Interest income	**654**	1,634
Interest espenses	**1,719**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Yihua and its subsidiaries and Sinopec Finance)		
Insurance premium	**3,490**	11,951

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	
	2008	2007
	Rmb'000	*Rmb'000*
China CITIC Bank		
Interest income	**358**	775
Yihua Unifi		
Sales of finished goods	**382,606**	454,130
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 deposits money in other state-controlled entities.

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

The Group deposits its cash with several state-controlled banks in the PRC. The interest rates of the bank deposits are regulated by the People's Bank of China. The Group's interest income from these state-controlled banks in the PRC is as follows:

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Interest income	**9,133**	10,977

14. Related party transactions *(continued)*

(c) Key management personnel compensation

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

	Six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Short-term employee benefits	**1,223**	1,223
Retirement scheme contributions	**82**	82

(d) Contributions to defined contribution retirement scheme

As stipulated by the regulations of the PRC, the Company and its subsidiary 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:

		Contribution rate	
Administrator	**Beneficiary**	**2008**	2007
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.

In addition to 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. 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 2008 was 9% (2007: 9%).

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

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 2008 not provided for in the interim financial report as follows:

	At 30 June 2008	At 31 December 2007
	Rmb'000	*Rmb'000*
Contracted for	**304,100**	–
Authorised but not contracted for	**3,728,847**	3,743,753
	4,032,947	3,743,753

16. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2008

Up to the date of issue of this interim financial report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2008 and which have not been adopted in this interim financial report:

	Effective for accounting periods beginning on or after
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 16, Hedges of a net investment in a foreign operation	1 October 2008
IFRS 8, Operating segments	1 January 2009
Revised IAS 1, Presentation of financial statements	1 January 2009
Revised IAS 23, Borrowing costs	1 January 2009
Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards, and IAS 27, Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly-controlled entity or associate	1 January 2009
Amendment to IFRS 2, Share-based payment – Vesting conditions and cancellations	1 January 2009
Amendments to IAS 32, Financial instruments: Presentation and IAS 1, Presentation of financial instruments – Puttable financial instruments and obligations arising on liquidation	1 January 2009
IFRIC 15, Agreements for the construction of real estate	1 January 2009
Improvements to IFRSs	1 January 2009 or 1 July 2009
Revised IFRS 3, Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Amendments to IAS 27, Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39, Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009

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 this interim financial report, the Group believes that the adoption of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

17. Subsequent events

The Company announced on 1 August 2008 that it is in negotiation with its joint venture partner, UNIFI Asia Holding SRL ("**UNIFI Asia**"), in respect of the possible purchase of UNIFI Asia's 50% ownership interest in Yihua Unifi, the jointly controlled entity. There is no letter of intent or agreement signed for this transaction at the date of this report.

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

Balance sheets *(unaudited)*

(Expressed in thousands of Renminbi yuan)

		The Group		The Company	
	Note	**At 30 June 2008**	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
Assets					
Current assets					
Cash at bank and on hand	*7*	**1,601,636**	1,034,747	**1,601,636**	946,953
Bills receivable	*8*	**1,673,275**	1,612,417	**1,673,275**	1,584,092
Accounts receivable	*9*	**289,076**	199,910	**289,076**	199,910
Prepayments	*10*	**41,331**	72,674	**41,331**	72,674
Other receivables	*11*	**78,352**	91,325	**78,352**	90,835
Inventories	*12*	**1,348,884**	1,257,187	**1,348,884**	1,257,187
Total current assets		**5,032,554**	4,268,260	**5,032,554**	4,151,651
Non-current assets					
Long-term equity investments	*13*	**79,921**	156,184	**79,921**	216,640
Fixed assets	*14*	**4,533,875**	4,831,660	**4,533,875**	4,829,186
Construction in progress	*15*	**146,104**	89,566	**146,104**	89,566
Fixed assets to be disposed of	*14(2)*	**4,618**	–	**4,618**	–
Intangible assets	*16*	**420,793**	436,102	**420,793**	436,102
Deferred tax assets	*17*	**47,779**	95,449	**47,779**	95,449
Total non-current assets		**5,233,090**	5,608,961	**5,233,090**	5,666,943
Total assets		**10,265,644**	9,877,221	**10,265,644**	9,818,594

The notes on pages 52 to 103 form part of this interim financial report.

Balance sheets *(unaudited)* *(continued)*
(Expressed in thousands of Renminbi yuan)

	Note	The Group At 30 June 2008	The Group At 31 December 2007	The Company At 30 June 2008	The Company At 31 December 2007
Liabilities and shareholders' funds					
Current liabilities					
Accounts payable	19	**2,060,453**	1,279,510	**2,060,453**	1,279,510
Advances from customers	19	**119,131**	109,743	**119,131**	109,695
Employee benefits payable	20	**101,523**	136,101	**101,523**	136,101
Taxes payable	5(3)	**(278,881)**	(187,840)	**(278,881)**	(187,849)
Other payables	19	**203,241**	226,570	**203,241**	325,796
Total current liabilities		**2,205,467**	1,564,084	**2,205,467**	1,663,253
Non-current liabilities					
Deferred income	21	**11,000**	–	**11,000**	–
Deferred tax liabilities	17	**4,249**	4,460	**4,249**	4,460
Total non-current liabilities		**15,249**	4,460	**15,249**	4,460
Total liabilities		**2,220,716**	1,568,544	**2,220,716**	1,667,713
Shareholders' equity					
Share capital	22	**4,000,000**	4,000,000	**4,000,000**	4,000,000
Capital reserve	23	**3,107,164**	3,107,164	**3,107,164**	3,107,164
Surplus reserve	24	**1,456,004**	1,456,004	**1,456,004**	1,456,004
Accumulated losses		**(518,240)**	(254,491)	**(518,240)**	(412,287)
Total equity		**8,044,928**	8,308,677	**8,044,928**	8,150,881
Total liabilities and shareholders' equity		**10,265,644**	9,877,221	**10,265,644**	9,818,594

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2008.

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 52 to 103 form part of this interim financial report.

Income statement *(unaudited)*

For the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

	Note	The Group 2008	The Group 2007	The Company 2008	The Company 2007
Operating income	25	**8,548,609**	8,482,657	**8,548,609**	8,279,548
Less: Operating costs	26	**8,305,392**	7,998,855	**8,305,392**	7,828,233
Business taxes and surcharges	27	**6,237**	20,912	**6,237**	20,476
Selling and distribution expenses		**98,261**	108,270	**98,216**	90,430
General and administrative expenses		**292,763**	310,564	**292,679**	302,444
Net financial income	28	**(21,772)**	(8,401)	**(21,519)**	(12,532)
Impairment loss	29	**2,069**	1,167	**2,069**	1,194
Add: Investment (loss)/income	30	**(76,263)**	(11,675)	**82,405**	(11,675)
(Including: Loss from investment in jointly controlled entity)		**(76,263)**	(11,675)	**(76,263)**	(11,675)
Operating (loss)/profit		**(210,604)**	39,615	**(52,060)**	37,628
Add: Non-operating income	31	**2,171**	9,269	**1,678**	9,021
Less: Non-operating expenses	32	**8,153**	33,978	**8,112**	33,517
(Including: Loss from disposal of non-current assets)		**–**	26,524	**–**	26,442
(Loss)/profit before income tax expenses		**(216,586)**	14,906	**(58,494)**	13,132
Less: Income tax expenses	33	**47,163**	(36,592)	**47,459**	(40,756)
Net (loss)/profit for the period		**(263,749)**	51,498	**(105,953)**	53,888
Attributable to:					
Equity shareholders of the Company		**(263,749)**	50,029	**(105,953)**	53,888
Minority shareholders		**–**	1,469	**–**	–
(Loss)/earnings per share					
Basic and diluted (loss)/ earnings per share *(in Rmb)*	41(1)	**(0.066)**	0.013	**(0.026)**	0.013

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2008.

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 52 to 103 form part of this interim financial report.

Cash flow statements *(unaudited)*

For the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

		The Group		The Company	
	Note	**2008**	2007	**2008**	2007
Cash flows from operating activities:					
Cash received from sale of goods and rendering of services		**9,456,461**	9,946,174	**9,428,184**	9,420,015
Refund of taxes		**5,833**	–	**5,833**	–
Other cash received relating to operating activities		**151**	690	**151**	503
Sub-total of cash inflows		**9,462,445**	9,946,864	**9,434,168**	9,420,518
Cash paid for goods and services		**(8,989,428)**	(8,660,651)	**(8,989,428)**	(8,245,911)
Cash paid to and for employees		**(293,146)**	(364,812)	**(293,146)**	(357,993)
Cash paid for all types of taxes		**(270,448)**	(342,295)	**(270,439)**	(319,161)
Other cash paid relating to operating activities		**(96,210)**	(183,493)	**(96,024)**	(87,675)
Sub-total of cash outflows		**(9,649,232)**	(9,551,251)	**(9,649,037)**	(9,010,740)
Net cash (outflow)/inflow from operating activities	*34(1)*	**(186,787)**	395,613	**(214,869)**	409,778
Cash flows from investing activities:					
Cash received from disposal of subsidiary	*34(3)*	**–**	–	**116,170**	–
Net cash received from disposal of fixed assets and intangible assets		**6,091**	21,171	**6,091**	19,188
Other cash received relating to investing activities		**21,145**	12,972	**20,851**	12,293
Sub-total of cash inflows		**27,236**	34,143	**143,112**	31,481
Cash paid for acquisition of fixed assets and construction in progress		**(120,159)**	(26,685)	**(120,159)**	(26,322)
Sub-total of cash outflows		**(120,159)**	(26,685)	**(120,159)**	(26,322)
Net cash (outflow)/inflow from investing activities		**(92,923)**	7,458	**22,953**	5,159

The notes on pages 52 to 103 form part of this interim financial report.

Cash flow statements *(unaudited)* *(continued)*
For the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

		The Group		The Company	
	Note	**2008**	2007	**2008**	2007
Cash flows from financing activities:					
Cash received from borrowings		**716,000**	–	**716,000**	–
Sub-total of cash inflows		**716,000**	–	**716,000**	–
Cash repayments of borrowings		**(716,000)**	–	**(716,000)**	–
Cash paid for dividends, profits distribution or interest		**(1,719)**	(5,792)	**(1,719)**	(747)
(Including: Profits paid to minority shareholders by subsidiaries		**–**	(239)	**–**	–
Sub-total of cash outflows		**(717,719)**	(5,792)	**(717,719)**	(747)
Net cash outflow from financing activities		**(1,719)**	(5,792)	**(1,719)**	(747)
Net (decrease)/increase in cash and cash equivalents	*34(1)*	**(281,429)**	397,279	**(193,635)**	414,190
Add: Cash and cash equivalents at the beginning of the period		**1,034,747**	1,051,153	**946,953**	910,845
Cash and cash equivalents at the end of the period		**753,318**	1,448,432	**753,318**	1,325,035

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2008.

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 52 to 103 form part of this interim financial report.

Consolidated statement of changes in shareholder's equity *(unaudited)*

For the six months ended 30 June
(Expressed in thousands of Renminbi yuan)

		2008							2007						
		Attributable to equity shareholders of the Company							Attributable to equity shareholders of the Company						
	Note	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
As at the end of last period		4,000,000	3,107,164	1,456,004	(254,491)	8,308,677	–	8,308,677	4,000,000	3,116,808	1,456,004	(281,952)	8,290,860	47,652	8,338,512
Changes in accounting policies	4	–	–	–	–	–	–	–	–	(9,644)	–	9,644	–	–	–
As at the beginning of the period		4,000,000	3,107,164	1,456,004	(254,491)	8,308,677	–	8,308,677	4,000,000	3,107,164	1,456,004	(272,308)	8,290,860	47,652	8,338,512
Changes in equity for the period															
1. Net (loss)/profit for the period		–	–	–	(263,749)	(263,749)	–	(263,749)	–	–	–	50,029	50,029	1,469	51,498
2. Gain and loss recognised directly in equity															
– Others		–	–	–	–	–	–	–	–	4,221	–	–	4,221	–	4,221
3. Appropriation of profits															
– Distributions to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(239)	(239)
As at the end of the period		**4,000,000**	**3,107,164**	**1,456,004**	**(518,240)**	**8,044,928**	**-**	**8,044,928**	4,000,000	3,111,385	1,456,004	(222,279)	8,345,110	48,882	8,393,992

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2008.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 52 to 103 form part of this interim financial report.

Statement of changes in shareholders' equity *(unaudited)*

For the six months ended 30 June

(Expressed in thousands of Renminbi yuan)

		2008					2007				
	Note	**Share capital**	**Capital reserve**	**Surplus reserve**	**Accumulated losses**	**Total**	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total
As at the end of last period		4,000,000	3,107,164	1,456,004	(412,287)	8,150,881	4,000,000	3,126,453	1,456,004	(283,627)	8,298,830
Changes in accounting policies	4	–	–	–	–	–	–	(19,289)	–	(147,285)	(166,574)
As at the beginning of the period		4,000,000	3,107,164	1,456,004	(412,287)	8,150,881	4,000,000	3,107,164	1,456,004	(430,912)	8,132,256
Changes in equity for the period											
1. Net (loss)/profit for the period		–	–	–	(105,953)	(105,953)	–	–	–	53,888	53,888
2. Gain and loss recognised directly in equity											
– Others		–	–	–	–	–	–	4,221	–	–	4,221
As at the end of the period		**4,000,000**	**3,107,164**	**1,456,004**	**(518,240)**	**8,044,928**	4,000,000	3,111,385	1,456,004	(377,024)	8,190,365

The interim financial report has been approved by the Board of Directors of the Company on 25 August 2008.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 52 to 103 form part of this interim financial report.

Notes to the financial statements

(Expressed in thousands of Renminbi yuan unless otherwise indicated)

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 "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.

The Company issued 1,000,000,000 H shares in March 1994, 200,000,000 A shares in January 1995 and a further 400,000,000 new H shares in April 1995. The Company's H shares and new H shares were listed and commenced trading on the Stock Exchange of Hong Kong Limited on 29 March 1994 and 26 April 1995 respectively. The Company's A shares were listed and commenced trading on the Shanghai Stock Exchange on 11 April 1995.

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.

The immediate parent of the Company is Sinopec Corp, and the ultimate controlling party of the Company is CPC.

Pursuant to 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 subsidiary (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 ("CAS (2006)")

The Group and the Company have prepared these financial statements in accordance with the requirements of CAS (2006) issued by the Ministry of Finance ("MOF"), which present truly and completely the consolidated financial position and financial position, the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Group and the Company.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission ("CSRC") in 2007.

(2) Accounting year

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

(3) Measurement basis

The measurement basis used in the preparation of the financial statements is historical cost basis.

(4) Functional currency and presentation currency

The Company's and the Group's functional currency is renminbi. These financial statements are presented in renminbi.

3. Significant accounting policies and accounting estimates

(1) Business combination and consolidated financial statements

(a) Business combination involving entities under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and the control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being absorbed at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which the Group effectively obtains control of the enterprise being absorbed.

(b) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The cost of a business combination paid by the Company and the Group is the aggregate of the fair value at the acquisition date of assets given, liabilities incurred or assumed, and equity securities issued by the Company and the Group, in exchange for control of the acquiree plus any cost directly attributable to the business combination. The difference between the fair value and the carrying amount of the assets given is recognised in profit or loss. The acquisition date is the date on which the Company and the Group effectively obtain control of the acquiree.

The Company and the Group, at the acquisition date, allocate the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that date.

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

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

(b) Business combinations involving entities not under common control *(continued)*

Any excess of the cost of a business combination over the Company's and the Group's interest in the fair value of the acquiree's identifiable net assets is recognised as goodwill.

Any excess of the Company's and the Group's interest in the fair value of the acquiree's identifiable net assets over the cost of a business combination is recognised in profit or loss.

(c) Consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Where the Company combines a subsidiary during the reporting period through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated income statement, respectively, based on their carrying amounts in the subsidiary's financial statements, from the date that common control was established.

Where the Company acquires a subsidiary during the reporting period through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into consolidated financial statements from the date that control commences, base on the fair value of those identifiable assets and liabilities at the acquisition date.

Minority interest is presented separately in the consolidated balance sheet within equity. Net profit or loss attributable to minority shareholders is presented separately in the consolidated income statement below the net profit line item.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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

(2) Translation of foreign currencies

When the Company and the Group receive capital in foreign currencies from investors, the capital is translated to renminbi at the spot exchange rate on the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to renminbi at the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the People's Bank of China.

Monetary items denominated in foreign currencies are translated to renminbi at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 3(15)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(4) Inventories

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

Cost of inventories comprises all costs of purchase, costs of conversion and other costs. Inventories are initially measured at their actual cost. Cost of inventories is calculated using the weighted average method. In addition to the purchasing cost of raw materials, work in progress and finished goods include direct labour costs and an appropriate allocation of production overheads.

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

Reusable materials, such as low-value consumables, packaging materials and other materials, are amortised in full when received for use. The amounts of the amortisation are included in the cost of the related assets or profit or loss.

The Company and the Group maintain a perpetual inventory system.

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

(5) Long-term equity investments

(a) Investments in subsidiaries

In the Group's consolidated financial statements, investment in subsidiaries are accounted for in accordance with the principles described in Note 3(1)(c).

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. The investments are stated at cost less impairment losses (see Note 3(8)) in the balance sheet. At initial recognition, such investments are measured as follows:

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the absorbing enterprise's share of the subsidiary's equity at the combination date. The difference between the initial investment cost and the carrying amounts of the consideration given is adjusted to share premium in capital reserve. If the balance of the share premium is insufficient, any excess is adjusted to retained earnings.

- The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of acquisition determined at the acquisition date.

- An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Company acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by investor.

(b) Investments in jointly controlled entities

A jointly controlled entity is an enterprise which operates under joint control in accordance with a contractual agreement between the Company and Group and other parties. Joint control is the contractual agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control.

An investment in a jointly controlled entity is accounted for using the equity method, unless the investment is classified as held for sale. The investment is classified as held for sale when the Company and the Group have made a decision and signed a non-cancellable agreement on the transfer of the investment with the transferee, and the transfer is expected to be completed within one year. The investment held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Any excess of its carrying amount over fair value less costs to sell is recognised as a provision for impairment loss of the investment.

At period-end, the Company and the Group make provision for impairment loss of investments in jointly controlled entities (see Note 3(8)).

An investment in a jointly controlled entity is initially recognised at actual payment cost if the Company and the Group acquire the investment by cash, at the fair value of the equity securities issued if an investment is acquired by issuing equity securities, or at the value stipulated in the investment contract or agreement if an investment is contributed by an investor.

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

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

(b) Investments in jointly controlled entities *(continued)*

The Company and the Group make the following accounting treatments when using the equity method:

- Where the initial investment cost of a long-term equity investment exceeds the Company's and the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Company's and the Group's interest in the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

- After the acquisition of the investment, the Company and the Group recognise their share of the investee's net profit or loss as investment income or loss, and adjust the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that attributable to the Company and the Group.

  The Company and the Group recognise their share of the investee's net profit or loss after making appropriate adjustments to align the accounting policies or accounting periods with those of the Company and the Group based on the fair values of the investee's individual separately identifiable assets at the time of acquisition. Unrealised profit and loss resulting from transactions between the Company and the Group and their jointly controlled entities are eliminated for the part attributable to the Company and the Group calculated based on their share of the jointly controlled entities. Unrealised loss resulting from transactions between the Company and the Group and the jointly controlled entities are eliminated in the same way as unrealised profit but only to the extent that there is no evidence of impairment.

- The Company and the Group discontinue recognising their share of net loss of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Company's and the Group's net investment in the jointly controlled entity is reduced to zero, except to the extent that the Company and the Group have an obligation to assume additional loss. Where net profit is subsequently made by the jointly controlled entity, the Company and the Group resume recognising their share of those profit only after their share of the profit exceeds the share of loss not recognised.

(6) Fixed assets and construction in progress

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

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

(6) Fixed assets and construction in progress *(continued)*

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(15)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

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

Where the individual component parts of an item of fixed asset have different useful lives or provide benefits to the Company and the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

	Estimated useful life	**Estimated residual value**	**Depreciation rate**
Plant and buildings	25–40 years	3%	2.4% – 3.9%
Machinery and equipment	8–22 years	3%	4.4% – 12.1%
Motor vehicles and other fixed assets	4–10 years	3%	9.7% – 24.3%

Useful lives, residual values and depreciation methods are reviewed at as least each year-end.

(7) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Nee note 3(8)). For an intangible asset with finite useful life, its cost less residual value and impairment losses is amortised on a straight-line method over its estimated useful lives. The respective amortisation periods for such intangible assets are as follows:

	Estimated useful lives
Land use rights	44–50 years
Technology right	10 years
Patent right	10 years

(7) Intangible assets *(continued)*

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company and the Group. At the balance sheet date, the Company and the Group don't have any intangible assets with indefinite useful lives.

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Company and the Group intend to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 3(8)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(8) Impairment of non-financial long-term assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

– fixed assets

– construction in progress

– intangible assets with finite useful lives

– long-term equity investments in subsidiaries and jointly controlled entities

If any indication exists that an asset may be impaired, recoverable amount of the asset is estimated.

An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly relating to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Company and the Group also consider how management monitors the Company's and the Group's operations and how management makes decisions about continuing or disposing of the Company's and the Group's assets.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows.

(8) Impairment of non-financial long-term assets *(continued)*

An asset's fair value less costs to sell is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

An impairment loss is not reversed in subsequent periods.

(9) Financial instruments

Financial instruments comprise cash at bank and on hand, investments in debt and equity securities other than long-term equity investments, receivables, payables and share capital, etc.

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

A financial asset or financial liability is recognised in the balance sheet when the Company and the Group become a party to the contractual provisions of a financial instrument.

The Company and the Group classify financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs. Subsequent to initial recognition financial assets and liabilities are measured as follows:

– Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

  A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is a derivative.

  Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

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

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

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

– Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition, receivables are subsequently stated at amortised cost using the effective interest method.

– Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company and the Group have the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

– Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sales and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.

Besides investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets, which are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss.

– Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(b) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through 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

Receivables are assessed for impairment both on an individual basis and on a collective group basis.

Where impairment is assessed on an individual basis, an impairment loss in respect of a receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observative figures reflecting present economic conditions.

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

(c) Determination of fair values

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price and, for a financial asset to be acquired or a financial liability assumed, it is the current asking price.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis. The Company and the Group calibrate the valuation technique and test it for validity periodically.

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Company's and the Group's contractual rights to the cash flows from the financial asset expire or if the Company and the Group transfer substantially all the risks and rewards of ownership of the financial asset to another party.

Where a transfer of a financial asset in its entirely meets the criteria of the derecognition, the difference between the two amounts below is recognised in profit or loss:

– carrying amount of the financial asset transferred.

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

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

(9) Financial instruments *(continued)*

(e) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Company.

The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve.

(10) Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Company and the Group have joined a defined contribution basic retirement scheme for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. The Company and the Group do not have any other obligations in this respect.

(b) Housing fund and other social insurance

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Company and the Group have joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Company and the Group make contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Company and the Group terminate the employment relationship with employees before the employment contracts have expired, or provide compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

– The Company and the Group have a formal plan for the termination of employment or have made an offer to employees for voluntary redundancy, which will be implemented shortly;

– The Company and the Group are not allowed to withdraw from termination plan or redundancy offer unilaterally.

(11) Income tax

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

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carrying forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

(12) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Company and the Group have a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

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 uncertain 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 can not be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

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

(13) Revenue recognition

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Company's and the Group's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Company and the Group, the revenue and costs can be measured reliably and the following respective conditions are met:

(a) Sale of goods

Revenue from sale of goods is recognised when all of the general conditions stated above and following conditions are satisfied:

– The significant risks and rewards of ownership of goods have been transferred to the buyer;

– The Company and the Group retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the sale of goods is measured at the fair value of the considerations received or receivable under the sales contract or agreement.

(b) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement by reference to the stage of completion of the transaction based on the progress of work performed.

Where the outcome of rendering of services cannot be estimated reliably, if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; if the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss and no service revenue is recognised.

(c) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(14) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Company and the Group at no consideration except for the capital contribution from the government as a shareholder of the Company and the Group. Special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve" are dealt with as capital contributions, and not regarded as government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Company and the Group will comply with the conditions associated with the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value.

(14) Government grants (continued)

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Company and the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Company and the Group for expenses incurred is recognised in profit or loss immediately.

(15) Borrowing costs

Borrowing costs incurred directly attributable to the acquisition, construction of a qualifying asset are capitalised as part of the cost of the asset.

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

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

– Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

– Where funds are borrowed generally and used for the acquisition, construction of a qualifying asset, the amount of interest to be capitalised on such borrowings is determined by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over the above amounts of specific borrowings. The capitalisation rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

The effective interest rate is determined as the rate that exactly discounts estimated future cash flow through the expected life of the borrowing or, when appropriate, a shorter period to the carrying amount of the borrowings.

The 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 commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities of acquisition, construction or production that are necessary to prepare the asset for its intended use or sale are in progress, and ceases when the assets become ready for their intended use or sale. Capitalisation of borrowing costs is suspended when the acquisition, construction activities are interrupted abnormally and the interruption lasts over three months.

(16) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the balance sheet date, are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

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

(17) Related parties

If the Company and the Group have the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Company and the Group and one or more parties are subject to common control, jointly control, or significant influence from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Company and the Group. The Company's and its subsidiaries' related parties include, but are not limited to.

(a) the Company's parent;

(b) the Company's subsidiaries;

(c) enterprises that are controlled by the Company's parent;

(d) investors that exercise significant influence over the Company and the Group;

(e) jointly controlled entities of the Company and the Group;

(f) principal individual investors and close family members of such individuals;

(g) key management personnel of the Company and the Group and close family members of such individuals;

(h) key management personnel of the Company's parent;

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

(j) other enterprises that are controlled, jointly controlled or significantly influenced by principal individual investors, key management personnel of the Company and the Group, and close family members of such individuals.

Besides the related parties stated above determined in accordance with the requirements of CAS (2006), the following enterprises and individuals are considered as (but not restricted to) related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

(k) enterprises that hold 5% or more of the Company's shares or persons that act in concert;

(l) individuals who directly or indirectly hold 5% or more of the Company's shares and close family members of such individuals;

(m) enterprises that satisfy any of the aforesaid conditions in (a), (c) and (k) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

(n) individuals who satisfy any of the aforesaid conditions in (g), (h) and (l) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(o) enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (g), (h), (l) or (n), or in which such individual assumes the position of a director or senior executive.

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

(18) Segment reporting

A business segment is a distinguishable component of the Company and the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other component. A geographical segment is a distinguishable component of the Company and 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.

The Company's and 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.

(19) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

As described in Note 3(9)(b), receivables that are measured at amortisation cost 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. Objective evidence of impairment includes observable data that comes to the attention of the Company and the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(b) Impairment of non-financial long-term assets

As described in Note 3(8), non-financial long-term assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. If a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably as well. In assessing present value of expected future cash flows, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

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

(19) Significant accounting estimates and judgments *(continued)*

(c) Depreciation and amortisation

As described in Note 3(6) and (7) fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual value. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

(d) Allowance for diminution in value of inventories

If the costs of inventories fall below their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale. The Group bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

4. Changes in accounting policies in the last period

(1) Changes in accounting policies in the last period and their effects

The Company and the Group adopt CAS (2006) on 1 January 2007. The significant accounting policies applicable to the Company and the Group under CAS (2006) are summarised in Note 3.

After the publication of 2007 interim report, further interpretations on CAS (2006) (including CAS Bulletin 1 and Opinions on the Implementation of CAS (2006) from the Professional Working Group of the China Accounting Standards Committee) were issued. The Group reviewed the 2007 interim report for the six-month period ended 30 June 2007 in accordance with these interpretations during the preparation of the 2007 annual report. The difference between the reviewed amount and the 2007 interim report is analysed as follows:

(a) Investments in subsidiaries

In the Company's separate financial statements, investments in subsidiaries were accounted for using the equity method before 1 January 2007. Such investments are now accounted for using the cost method.

On 1 January 2007, the Company made retrospective adjustments on such investments obtained before 1 January 2007 in accordance with the policies described in Note 3(5)(a) in its separate financial statements. The Company has no investments in subsidiaries obtained through a business combination and therefore such retrospective adjustments have no effect on the consolidated financial statements.

4. Changes in accounting policies in the last period *(continued)*

(1) Changes in accounting policies in the last period and their effects *(continued)*

(b) Investments in jointly controlled entities

When the equity method is used to account for investments in jointly controlled entities, the major policies are changed as follows:

– Before 1 January 2007, the shortfall of the acquisition cost over the Company's and the Group's interest in the shareholder's equity of the acquiree was recognised in capital reserve if the investments in jointly controlled entities were recognised after the issuance of "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" issued by the MOF. As of 1 January 2007, such shortfall is accounted for in accordance with the principles described in Note 3(5)(b).

– Before 1 January 2007, subsequent to the initial recognisition, the Company adjusted the carrying amount of such investment according to its attributable share of the investee's net profit or loss stated in the investee's financial statements and recognised it as investment income for the current period accordingly. As of 1 January 2007, the Company adjusted the carrying amount of such investment in accordance with principles described in Note 3(5)(b).

The Company and the Group made retrospective adjustments to investments in jointly controlled entities as at 1 January 2007 in accordance with the current accounting policies, based on the information used in preparing the financial statements in accordance with International Financial Reporting Standards ("IFRSs") in prior years. As the above changes in accounting policies relate to the transactions incurred before 2007, such retrospective adjustments have no effect on the net profit of 2007.

(2) Effects of the above changes in accounting policies in the last period on the Company's shareholders' equity as at 30 June 2007 and 1 January 2007 respectively are summarised as follows:

		The Company	
	Note	At 30 June 2007 Shareholders' Equity *Rmb'000*	At 1 January 2007 Shareholders' Equity *Rmb'000*
Shareholders' equity before adjustments		8,356,939	8,298,830
Investment in subsidiary	4(1)(a)	(155,269)	(155,269)
Investments in jointly controlled entity	4(1)(b)	(11,305)	(11,305)
Total		(166,574)	(166,574)
Shareholders' equity after adjustments		8,190,365	8,132,256

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

The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing was 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 applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company was adjusted from the original 15% to 33% in 2007. Up till now, the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

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 were effective from 1 January 2008. The EIT rate applicable to the Company changed from 33% in 2007 to 25% in 2008. The charge for PRC income tax for the period is calculated at the rate of 25% (2007: 33%) on the estimated assessable income of the period determined in accordance with relevant tax rules and regulations.

The Group did not carry on business overseas and therefore does not incur overseas income taxes.

(3) Taxes payable

	The Group		**The Company**	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Prepaid VAt	**(278,978)**	(196,190)	**(278,978)**	(196,175)
Prepaid city development tax	**(5,733)**	(3,861)	**(5,733)**	(3,861)
Income tax payable	**–**	9	**–**	–
Education surcharge payable	**1,908**	1,834	**1,908**	1,834
Others	**3,922**	10,368	**3,922**	10,353
Total	**(278,881)**	(187,840)	**(278,881)**	(187,849)

6. Business combinations and the consolidated financial statements

At 31 December 2007, the consolidated financial statements include the following subsidiary:

Subsidiary established not through business combinations:

Name	Organisation code	Registration place	Business nature	Registered capital *Rmb'000*	Percentage of equity and voting rights held directly by the Company
Yihua Kangqi Chemical Fibre Company Limited ("Yihua Kangqi")	25643005-5	Jiangsu Province, PRC	Investment holding and trading of polyester products	60,000	100%

During the six months ended 30 June 2008, the Company liquidated its wholly-owned subsidiary, Yihua Kangqi, without significant loss recognised. As of 30 June 2008, the required liquidation procedures were completed and the net assets of Yihua Kangqi were all transferred to the Company. As the operation results and financial position of Yihua Kangqi were reflected in each of the Group's prior years' consolidated financial statements, the liquidation had no significant impact on the consolidated income statement for the six months ended 30 June 2008. Meanwhile, as investment in subsidiary was accounted for using the cost method in the Company's financial statements in prior years, a disposal income of Rmb158,668,000 has been recognised and included in the Company's income statement for the six months ended 30 June 2008. Please see Note 34(3) for the information of the disposal. At 30 June 2008, no subsidiary is included in the consolidated financial statements.

7. Cash at bank and on hand

	The Group and the Company At 30 June 2008		
	Original currency ***('000)***	**Exchange rate**	**Rmb/ Rmb equivalents** ***('000)***
Cash on hand			
– Renminbi			**17**
Cash at bank			
– Renminbi			**1,504,703**
– Hong Kong Dollars	**6**	**0.881**	**5**
– US Dollars	**574**	**6.870**	**3,943**
Cash at bank and on hand			**1,508,668**
Deposits with related companies			
– Renminbi			**92,968**
Total			**1,601,636**

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

	The Group At 31 December 2007		
	Original currency *('000)*	Exchange rate	Rmb/ Rmb equivalents *('000)*
Cash on hand			
– Renminbi			6
Cash at bank			
– Renminbi			926,151
– Hong Kong Dollars	6	0.936	6
– US Dollars	290	7.305	2,121
Cash at bank and on hand			928,284
Deposits with related companies			
– Renminbi			106,463
Total			1,034,747

	The Company At 31 December 2007		
	Original currency *('000)*	Exchange rate	Rmb/ Rmb equivalents *('000)*
Cash on hand			
– Renminbi			6
Cash at bank			
– Renminbi			855,638
– Hong Kong Dollars	6	0.936	6
– US Dollars	290	7.305	2,121
Cash at bank and on hand			857,771
Deposits with related companies			
– Renminbi			89,182
Total			946,953

As at 30 June 2008, deposits of Rmb848,318,000 (as at 31 December 2007: Rmb nil) were pledged for payables in respect of imported raw materials.

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 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Bank acceptance bills	**1,643,275**	1,583,804	**1,643,275**	1,555,479
Commercial acceptance bills *(Note 39(c))*	**30,000**	28,613	**30,000**	28,613
Total	**1,673,275**	1,612,417	**1,673,275**	1,584,092

All of the above bills held by the Group and the Company are due within six months.

As at 30 June 2008, the Group's and the Company's outstanding discounted bills (with recourse) amounted to Rmb 37,911,000 (as at 31 December 2007: Rmb nil). The Group's and the Company's outstanding endorsed bills (with recourse) amounted to Rmb 251,875,000 (as at 31 December 2007: Rmb 215,835,000). These discounted or endorsed bills were not included in the above "bank acceptance bills" balances.

As at 30 June 2008 and 31 December 2007, the above bills were not pledged.

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

9. Accounts receivable

(1) Accounts receivable by customer type:

	The Group		The Company	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Amounts due from related parties	**72,791**	5,130	**72,791**	5,130
Amounts due from other customers	**217,832**	196,038	**217,832**	195,250
Subtotal	**290,623**	201,168	**290,623**	200,380
Less: Provision for bad and doubtful debts	**1,547**	1,258	**1,547**	470
Total	**289,076**	199,910	**289,076**	199,910

The Group's and the Company's accounts receivable due from related parties amounted to Rmb 72,791,000 (as at 31 December 2007: Rmb 5,130,000), 25.05% (as at 31 December 2007: 2.55% and 2.56% respectively) of the total accounts receivable.

Except for the balances disclosed in Note 39, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

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

(1) Accounts receivable by customer type: *(continued)*

The total amounts of accounts receivable due from the Group's and Company's biggest five debtors were as follows:

	The Group		**The Company**	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
Amount (Rmb'000)	**126,669**	101,805	**126,669**	101,805
Ageing	**within one year**	within one year	**within one year**	within one year
Proportion over the total accounts receivable	**43.59%**	50.61%	**43.59%**	50.81%

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

	The Group		**The Company**	
	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*	**At 30 June 2008** ***Rmb'000***	At 31 December 2007 *Rmb'000*
Within 1 year (inclusive)	**288,195**	197,641	**288,195**	197,641
1 and 2 years (inclusive)	**62**	3,241	**62**	2,453
2 and 3 years (inclusive)	**2,094**	–	**2,094**	–
Over 3 years	**272**	286	**272**	286
Subtotal	**290,623**	201,168	**290,623**	200,380
Less: Provision for bad and doubtful debts	**1,547**	1,258	**1,547**	470
Total	**289,076**	199,910	**289,076**	199,910

The ageing is counted starting from the date accounts receivable are recognised.

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

9. Accounts receivable *(continued)*

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

The Group

	As at 30 June 2008				As at 31 December 2007			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	Rmb'000	**%**	***Rmb'000***	**%**	*Rmb'000*	%	*Rmb'000*	%
Other immaterial item	**290,623**	**100.00**	**1,547**	**0.53**	201,168	100.00	1,258	0.63

The Company

	As at 30 June 2008				As at 31 December 2007			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	Rmb'000	**%**	***Rmb'000***	**%**	*Rmb'000*	%	*Rmb'000*	%
Other immaterial item	**290,623**	**100.00**	**1,547**	**0.53**	200,380	100.00	470	0.23

During the six months ended 30 June 2008, 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 2008, the Group and the Company had no individually significant accounts receivable due over 3 years.

10. Prepayments

The ageing analysis of prepayments is as follows:

	The Group and the Company	
	At 30 June 2008	At 31 December 2007
	Rmb'000	*Rmb'000*
Within 1 year (inclusive)	**41,331**	71,950
1 and 2 years (inclusive)	**–**	–
2 and 3 years (inclusive)	**–**	544
Over 3 years	**724**	180
Subtotal	**42,055**	72,674
Less: Provision for bad and doubtful debts	**724**	–
Total	**41,331**	72,674

The ageing is counted starting from the date prepayments are recognised.

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

10. Prepayments *(continued)*

The Group's and the Company's prepayments due from related parties amounted to Rmb34,168,000 (as at 31 December 2007: Rmb70,073,000), 81.25% of the total prepayments (as at 31 December 2007: 96.42%).

Except for the balances disclosed in Note 39, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

At 30 June 2008, an analysis of individual prepayments that are 30% or more of the total amount is as follows:

Debtors	**Reasons for prepayment**	**Balance** *Rmb'000*	**Percentage of total year-end balance**
Sinopec Chemicals Sales Branch	Purchases of raw materials	34,168	81.25%

11. Other receivables

(1) Other receivables by customer type:

	The Group		**The Company**	
	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*	**At 30 June 2008** ***Rmb'000***	At 31 December 2007 *Rmb'000*
Amounts due from related parties	**230**	753	**230**	753
Amounts due from other customers	**82,000**	97,825	**82,000**	97,335
Subtotal	**82,230**	98,578	**82,230**	98,088
Less: Provision for bad and doubtful debts	**3,878**	7,253	**3,878**	7,253
Total	**78,352**	91,325	**78,352**	90,835

The Group and the Company had other receivables due from related parties amounting to Rmb230,000 (as at 31 December 2007: Rmb753,000), 0.28% of the total other receivables (as at 31 December 2007: 0.76%).

Except for the balances disclosed in Note 39, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

11. Other receivables *(continued)*

(1) Other receivables by customer type: *(continued)*

The total amounts of other receivables due from the Group's and Company's biggest five debtors were as follows:

	The Group		The Company	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
Amounts (Rmb'000)	**70,661**	86,161	**70,661**	86,161
Ageing	**within one year**	within one year	**within one year**	within one year
Percentage of other receivables	**85.93%**	87.40%	**85.93%**	87.84%

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

	The Group		The Company	
	At 30 June 2008	At 31 December 2007	**At 30 June 2008**	At 31 December 2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Within 1 year (inclusive)	**76,674**	91,330	**76,674**	90,840
1 and 2 years (inclusive)	**1,352**	2,539	**1,352**	2,539
2 and 3 years (inclusive)	**1,855**	2,353	**1,855**	2,353
Over 3 years	**2,349**	2,356	**2,349**	2,356
Subtotal	**82,230**	98,578	**82,230**	98,088
Less: Provision for bad and doubtful debts	**3,878**	7,253	**3,878**	7,253
Total	**78,352**	91,325	**78,352**	90,835

The ageing is counted starting from the date of other receivables are recognised.

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

11. **Other receivables** *(continued)*

(3) ***An analysis of provision for bad or doubtful debts for other receivables is as follows:***

	The Group							
	As at 30 June 2008				As at 31 December 2007			
	Amount *Rmb'000*	**Percentage of total other receivables** %	**Bad debts provision** *Rmb'000*	**Rate of provision** %	Amount *Rmb'000*	Percentage of total other receivables %	Bad debts provision *Rmb'000*	Rate of provision %
Other immaterial item	**82,230**	**100.00**	**3,878**	**4.72**	98,578	100.00	7,253	7.36

	The Company							
	As at 30 June 2008				As at 31 December 2007			
	Amount *Rmb'000*	**Percentage of total other receivables** %	**Bad debts provision** *Rmb'000*	**Rate of provision** %	Amount *Rmb'000*	Percentage of total other receivables %	Bad debts provision *Rmb'000*	Rate of provision %
Other immaterial item	**82,230**	**100.00**	**3,878**	**4.72**	98,088	100.00	7,253	7.39

During the six months ended 30 June 2008, the Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

12. **Inventories**

(1) ***An analysis of inventories is as follows:***

	The Group and the Company	
	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
Raw materials	**662,897**	680,262
Work in progress	**113,614**	138,956
Finished goods	**458,884**	319,046
Spare parts and consumables	**136,963**	131,522
Subtotal	**1,372,358**	1,269,786
Less: Provision for diminution in value of inventories	**23,474**	12,599
Total	**1,348,884**	1,257,187

All the above inventories are purchased or self-manufactured.

As at 30 June 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the ending balances of inventories.

As at 30 June 2008 and 31 December 2007, the above inventories were not pledged or guaranteed.

12. Inventories *(continued)*

(2) An analysis of provision for diminution in value of inventories is as follows:

	At 31 December 2007 *Rmb '000*	Increase during the period Charge for the period *Rmb '000*	Other increases *Rmb '000*	**At 30 June 2008** ***Rmb'000***
The Group and the Company				
Raw materials	–	2,991	–	**2,991**
Finished goods	–	2,633	–	**2,633**
Spare parts and consumables	12,599	–	5,251	**17,850**
Total	12,599	5,624	5,251	**23,474**

(3) During the six months ended 30 June 2008, the Group recognised the cost of inventories as costs and expenses amounting to Rmb8,311,016,000 (2007: Rmb7,989,732,000).

During the six months ended 30 June 2008, the Company recognised the cost of inventories as costs and expenses amounting to Rmb8,311,016,000 (2007: Rmb7,819,110,000).

13. Long-term equity investments

	The Group		**The Company**	
	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*	**At 30 June 2008** ***Rmb'000***	At 31 December 2007 *Rmb'000*
Investment in subsidiary *(Note 6)*	**–**	–	**–**	60,456
Investment in jointly controlled entity	**79,921**	156,184	**79,921**	156,184
Total	**79,921**	156,184	**79,921**	216,640

At 30 June 2008, the Group's and the Company's investment in jointly controlled entity is as follows:

	The Group and The Company *Rmb'000*
Initial investment cost	241,836
Movement of investment cost	
Balance at the beginning of the period	156,184
Less: Adjustments under equity method *(Note 30)*	76,263
Carrying amount at the end of the period	79,921

13. Long-term equity investments *(continued)*

Details of the jointly controlled entity are as follows:

Name of investee	Organisation code	Registered place	Business nature	Registered capital *('000)*	The Company's shareholding percentage and voting rights	Total assets at the end of the period *('000)*	Total liabilities at the end the period *('000)*	Total revenue of the period *('000)*	Net loss for the period *('000)*
Yihua Unifi Industry Fibre Company Limited ("Yihua Unifi")	77644167-1	Yangzhou, Jiangsu province, PRC	Manufacturing, processing and selling of differentiated polyester textile filament products.	USD 60,000	50%	Rmb558,057	Rmb375,606	Rmb491,065	Rmb152,525

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

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

14. Fixed assets

	The Group			
	Plant and buildings *Rmb'000*	**Machinery and equipment** *Rmb'000*	**Motor vehicles and other fixed assets** *Rmb'000*	**Total** *Rmb'000*
Cost or valuation:				
As at the beginning of the period	1,951,148	9,639,208	748,118	12,338,474
Additions	–	80	4	84
Transfer from construction in progress *(Note 15)*	–	10,153	1,849	12,002
Disposals	(11,952)	(234)	(2,406)	(14,592)
As at the end of the period	**1,939,196**	**9,649,207**	**747,565**	**12,335,968**
Accumulated depreciation:				
As at the beginning of the period	824,846	6,118,422	551,244	7,494,512
Charge for the period	34,028	245,034	21,659	300,721
Written back on disposals	(3,243)	(110)	(1,196)	(4,549)
As at the end of the period	**855,631**	**6,363,346**	**571,707**	**7,790,684**
Provision for impairment:				
As at the beginning of the period	1,140	10,540	622	12,302
Written back on disposals	(893)	–	–	(893)
As at the end of the period	**247**	**10,540**	**622**	**11,409**
Net book value:				
As at the end of the period	**1,083,318**	**3,275,321**	**175,236**	**4,533,875**
As at the beginning of the period	1,125,162	3,510,246	196,252	4,831,660

14. Fixed assets *(continued)*

	The Company			
	Plant and buildings *Rmb'000*	**Machinery and equipment** *Rmb'000*	**Motor vehicles and other fixed assets** *Rmb'000*	**Total** *Rmb'000*
Cost or valuation:				
As at the beginning of the period	1,946,814	9,639,031	748,025	12,333,870
Additions	4,334	257	97	4,688
Transfer from construction in progress *(Note 15)*	–	10,153	1,849	12,002
Disposals	(11,952)	(234)	(2,406)	(14,592)
As at the end of the period	**1,939,196**	**9,649,207**	**747,565**	**12,335,968**
Accumulated depreciation:				
As at the beginning of the period	823,708	6,117,304	552,263	7,493,275
Additions due to asset transfers	2,047	110	–	2,157
Charge for the period	34,010	246,042	20,642	300,694
Written back on disposals	(4,134)	(110)	(1,198)	(5,442)
As at the end of the period	**855,631**	**6,363,346**	**571,707**	**7,790,684**
Provision for impairment:				
As at the beginning and end of the period	**247**	**10,540**	**622**	**11,409**
Net book value:				
As at the end of the period	**1,083,318**	**3,275,321**	**175,236**	**4,533,875**
As at the beginning of the period	1,122,859	3,511,187	195,140	4,829,186

(1) As at 30 June 2008 and 31 December 2007, the above fixed assets were not pledged or guaranteed.

(2) As at 30 June 2008, fixed assets to be disposed of amounted to Rmb4,618,000 (as at 31 December 2007: Rmb nil). No material gain or loss will arise from the disposal of these fixed assets.

(3) As at 30 June 2008, the original cost of fully depreciated fixed assets in use was Rmb2,816,537,000 (as at 31 December 2007: Rmb2,754,429,000).

15. Construction in progress

At 30 June 2008, the Group's and the Company's major construction in progress were as follows:

Project	Budget Rmb'000	Balance as at 1 January 2008 Rmb'000	Additions Rmb'000	Transfer to fixed assets Rmb'000 (Note 14)	Balance as at 30 June 2008 Rmb'000	Percentage of input to budget %	Sources of funds
1,000,000-tonne/year PTA project	3,772,070	37,800	27,333	–	**65,133**	2	Own fund
100 tonne/year aramid fiber project	62,850	–	10,312	–	**10,312**	16	Own fund
300 tonne/year high performance polyethylene project	118,520	–	8,978	–	**8,978**	8	Own fund
Improvements of existing plants and equipment	226,841	51,766	21,917	(12,002)	**61,681**	27	Own fund
Total for the Group and Company		89,566	68,540	(12,002)	**146,104**		

As at 30 June 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the ending balances of construction in progress.

16. Intangible assets

	The Group and the Company			
	Land use rights *Rmb'000*	Technology right *Rmb'000*	Patent right *Rmb'000*	Total *Rmb'000*
Cost				
Balance at the beginning of the period	406,166	208,893	142,435	757,494
Decreases for the period	(43)	–	–	(43)
Balance at the end of the period	**406,123**	**208,893**	**142,435**	**757,451**
Accumulated amortisation				
Balance at the beginning of the period	91,965	91,824	137,603	321,392
Charge for the period	4,262	10,445	571	15,278
Written back on disposals	(12)	–	–	(12)
Balance at the end of the period	**96,215**	**102,269**	**138,174**	**336,658**
Carrying amounts				
At the end of the period	**309,908**	**106,624**	**4,261**	**420,793**
At the beginning of the period	314,201	117,069	4,832	436,102

16. Intangible assets *(continued)*

As at 30 June 2008 and 31 December 2007, no borrowing costs of the Group and the Company were capitalised in the ending balances of intangible assets.

As at 30 June 2008 and 31 December 2007, the above intangible assets were not pledged or guaranteed.

The Group and the Company obtained land use rights through purchase from third parties and contribution from its investors. As of 30 June 2008, their average remaining amortisation period is 37 years.

The Company acquired technology right to operate the 450,000-tonne PTA plant from third parties in 2004. As of 30 June 2008, their average remaining amortisation period is 5 years.

The Company acquired patent right from third parties in 2001 and 2005 respectively. As of 30 June 2008, their average remaining amortisation period is 4 years.

17. Deferred tax assets and liabilities

The analysis of deferred tax assets is as follows:

	The Group and the Company			
	At 30 June 2008		At 31 December 2007	
	Deductible temporary difference	**Deferred tax assets**	Deductible temporary difference	Deferred tax assets
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Provision for bad and doubtful debts	**1,142**	**285**	3,327	832
Provision for diminution in value of inventories	**23,474**	**5,869**	12,599	3,150
Provision for impairment of fixed assets	**11,409**	**2,852**	11,409	2,852
Differences in depreciation arising between accounting and tax policy	**55,965**	**13,991**	56,076	14,019
Tax losses	**99,127**	**24,782**	298,384	74,596
Total	**191,117**	**47,779**	381,795	95,449

The analysis of deferred tax liabilities is as follows:

	The Group and the Company			
	At 30 June 2008		At 31 December 2007	
	Taxable temporary difference	**Deferred tax liabilities**	Taxable temporary difference	Deferred tax liabilities
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Capitalisation of general borrowing costs	**16,994**	**4,249**	17,840	4,460

The Group and the Company assessed the future taxable profits that would allow the deferred tax assets to be recovered. Based on the assessment, the Group and the Company reduced the carrying amount of deferred tax assets to Rmb47,779,000 as at 30 June 2008.

18. Provision for impairment

At 30 June 2008, the provision for impairment loss of the Group was set out as follows:

Item	Note	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
			Charge for the period	Other increases	Reversal	Sold/disposal	
	Note	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	***Rmb'000***
Provision for bad and doubtful debts							
– Accounts receivable	*9*	1,258	–	1,986	904	793	**1,547**
– Prepayments	*10*	–	724	–	–	–	**724**
– Other receivables	*11*	7,253	–	–	3,375	–	**3,878**
Provision for diminution in value of inventories	*12*	12,599	5,624	5,251	–	–	**23,474**
Provision for impairment of fixed assets	*14*	12,302	–	–	–	893	**11,409**
Total		33,412	6,348	7,237	4,279	1,686	**41,032**

At 30 June 2008, the provision for impairment loss of the Company was set out as follows:

Item	Note	Balance at the beginning of the period	Increase during the period		Decrease during the period		Balance at the end of the period
			Charge for the period	Other increases	Reversal	Sold/disposal	
	Note	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	***Rmb'000***
Provision for bad and doubtful debts							
– Accounts receivable	*9*	470	–	1,986	904	5	**1,547**
– Prepayments	*10*	–	724	–	–	–	**724**
– Other receivables	*11*	7,253	–	–	3,375	–	**3,878**
Provision for diminution in value of inventories	*12*	12,599	5,624	5,251	–	–	**23,474**
Provision for impairment of fixed assets	*14*	11,409	–	–	–	–	**11,409**
Total		31,731	6,348	7,237	4,279	5	**41,032**

19. Accounts payable, advances from customers and other payables

As at 30 June 2008, there were no individually significant balances aged over one year included in the Group's and the Company's accounts payable, advances from customers and other payables.

Except for the balance disclosed in Note 39, no amount due to shareholders who hold 5% or more of the voting rights of the Company is include in the balances of accounts payable, advances from customers and other payables.

20. Employee benefits payable

	The Group and the Company			
	Balance at the beginning of the period *Rmb'000*	Accrued during the period *Rmb'000*	Paid during the period *Rmb'000*	**Balance at the end of the period** ***Rmb'000***
Salaries, bonuses and allowances	135,332	190,576	229,089	**96,819**
Staff welfare fees	–	10,149	8,242	**1,907**
Social insurances				
– Basic old age insurance premium	–	28,144	28,144	**–**
– Unemployment insurance premium	–	2,345	2,345	**–**
– Staff and workers' injury insurance premium	–	898	898	**–**
Housing fund	–	11,034	11,034	**–**
Labour union fee, staff and workers' education fee	769	6,695	4,667	**2,797**
Termination benefits	–	8,727	8,727	**–**
Total	136,101	258,568	293,146	**101,523**

As stipulated by the regulations of the PRC, the Company participates in basic defined contribution retirement schemes organised by its municipal governments under which it is governed. Details of the schemes of the Company are as follows:

Administrator	**Beneficiary**	**Contribution rate 2008 and 2007**
Yizheng Municipal Government, Jiangsu Province	Employees of the Company	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.

In addition to 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. 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 2008 was 9% (2007: 9%).

The Company contributes at the above rate based on the basic salaries, bonuses and allowances. The Company has no other material obligation for the payment of retirement benefits associated with this scheme beyond the annual contributions described above.

During the six months ended 30 June 2008, in accordance with the Group's employee reduction plans, the Group incurred Rmb8,727,000 (2007: Rmb95,726,000) on the reduction of 99 (2007: 1,213) employees, which were mainly included in "General and administrative expenses".

During the six months ended 30 June 2008, in accordance with the Company's employee reduction plans, the Company incurred Rmb8,727,000 (2007: Rmb93,985,000) on the reduction of 99 (2007: 1,190) employees, which were mainly included in "General and administrative expenses".

21. Deferred income

During the six months ended 30 June 2008, the Company received a government grant amounting to Rmb11,000,000 for the 300 tonne/year high performance polyethylene project. The project is under construction till 30 June 2008. The grant was recognised initially as deferred income and will be amortised to profit or loss on a straight-line basis over the useful life of the related assets when they are ready for use.

22. Share capital

	The Group and the Company	
	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of Rmb1.00 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of Rmb1.00 each	**200,000**	200,000
1,400,000,000 "H" shares of Rmb1.00 each	**1,400,000**	1,400,000
Total	**4,000,000**	4,000,000

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

23. Capital reserve

	The Group and the Company Balance at the beginning and at the end of the period *Rmb'000*
Share premium	3,078,825
Other capital reserve	28,339
Total	3,107,164

24. Surplus reserve

	The Group and the Company		
	Statutory surplus reserve *Rmb'000*	**Discretionary surplus reserve** *Rmb'000*	**Total** *Rmb'000*
As at 1 January 2008 and 30 June 2008	861,457	594,547	1,456,004

25. Operating income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Operating income from principal activities	**8,497,883**	8,413,851	**8,497,883**	8,209,244
Other operating income	**50,726**	68,806	**50,726**	70,304
Total	**8,548,609**	8,482,657	**8,548,609**	8,279,548

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 2008, the Group's sales to the top five customers amounted to Rmb1,236,214,000 (2007: Rmb795,398,000), which accounted for 14% (2007: 9%) of the total operating income of the Group.

During the six months ended 30 June 2008, the Company's sales to the top five customers amounted to Rmb1,236,214,000 (2007: Rmb795,398,000), which accounted for 14% (2007: 10%) of the total operating income of the Company.

26. Operating costs

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Operating costs from principal activities	**8,263,178**	7,928,031	**8,263,178**	7,755,911
Other operating costs	**42,214**	70,824	**42,214**	72,322
Total	**8,305,392**	7,998,855	**8,305,392**	7,828,233

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

27. Business taxes and surcharges

	Taxation basis and rates	The Group For the six months ended 30 June 2008 Rmb'000	2007 Rmb'000	The Company For the six months ended 30 June 2008 Rmb'000	2007 Rmb'000
Business tax	3% or 5% of taxable income	**50**	125	**50**	115
City development tax	7% of VAT and business tax paid	**3,937**	13,228	**3,937**	12,957
Education surcharge	4% of VAT and business tax paid	**2,250**	7,559	**2,250**	7,404
Total		**6,237**	20,912	**6,237**	20,476

28. Net financial income

	The Group For the six months ended 30 June 2008 Rmb'000	2007 Rmb'000	The Company For the six months ended 30 June 2008 Rmb'000	2007 Rmb'000
Interest expenses for loans and discounting bills	**1,719**	5,465	**1,719**	747
Less: Borrowing costs capitalised	**–**	–	**–**	–
Net interest expenses	**1,719**	5,465	**1,719**	747
Interest income from deposits	**(10,145)**	(13,386)	**(9,851)**	(12,707)
Net exchange gains	**(14,173)**	(1,643)	**(14,173)**	(1,643)
Other financial expenses	**827**	1,163	**786**	1,071
Total	**(21,772)**	(8,401)	**(21,519)**	(12,532)

29. Impairment loss

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
(Reversal of)/provision for bad and doubtful debts of accounts receivable	**(904)**	10,290	**(904)**	10,317
Provision for bad and doubtful debts of prepayments	**724**	–	**724**	–
Reversal of bad and doubtful debts of other receivables	**(3,375)**	–	**(3,375)**	–
Provision for/(reversal of) diminution in value of inventories	**5,624**	(9,123)	**5,624**	(9,123)
Total	**2,069**	1,167	**2,069**	1,194

30 Investment (loss)/income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Long-term equity investments – accounted for under the equity method *(Note 13)*	**(76,263)**	(11,675)	**(76,263)**	(11,675)
Gain on disposal of subsidiary *(Note 6)*	**–**	–	**158,668**	–
Total	**(76,263)**	(11,675)	**82,405**	(11,675)

There were no severe restrictions on the subsidiary's ability to transfer investment income to the Group and the Company.

31. Non-operating income

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Gain on disposal of fixed assets	**1,279**	1,571	**1,279**	1,510
Gain on disposal of intangible assets	**248**	7,008	**248**	7,008
Total gain on disposal of non-current assets	**1,527**	8,579	**1,527**	8,518
Others	**644**	690	**151**	503
Total	**2,171**	9,269	**1,678**	9,021

32. Non-operating expenses

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Loss on disposal of fixed assets	**–**	26,524	**–**	26,442
Flood prevention fees	**3,856**	4,322	**3,856**	4,322
Others	**4,297**	3,132	**4,256**	2,753
Total	**8,153**	33,978	**8,112**	33,517

33. Income tax

Income tax expenses for the period represent:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Current income tax expenses for the period	**–**	3,705	**–**	–
(Over)/under-provision for income tax in respect of prior periods	**(296)**	459	**–**	–
Deferred taxation	**47,459**	(40,756)	**47,459**	(40,756)
Total	**47,163**	(36,592)	**47,459**	(40,756)

34. Supplement to cash flow statement

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

(a) Reconciliation of net (loss)/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	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Net (loss)/profit	**(263,749)**	51,498	**(105,953)**	53,888
Add: Impairment loss	**2,069**	1,167	**2,069**	1,194
Depreciation of fixed assets	**300,721**	314,643	**300,694**	313,952
Amortisation of intangible assets	**15,278**	18,187	**15,278**	18,187
Net (gain)/loss on disposal of fixed assets and intangible assets	**(1,527)**	17,945	**(1,527)**	17,924
Financial income	**(8,426)**	(7,921)	**(8,132)**	(11,960)
Loss/(income) arising from investments	**76,263**	11,675	**(82,405)**	11,675
Decrease/(increase)in deferred tax assets	**47,670**	(42,498)	**47,670**	(42,498)
(Decrease)/increase in deferred tax liabilities	**(211)**	1,742	**(211)**	1,742
Increase in gross inventories	**(97,321)**	(96,771)	**(97,321)**	(90,160)
(Increase)/decrease in operating receivables	**(263,291)**	16,838	**(191,256)**	48,753
Increase/(decrease) in operating payables	**5,737**	109,108	**(93,775)**	87,081
Net cash (outflow)/inflow from operating activities	**(186,787)**	395,613	**(214,869)**	409,778

(b) Changes in cash and cash equivalents:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash at bank and on hand at the end of the period	**1,601,636**	1,448,432	**1,601,636**	1,325,035
Less: Pledged deposit *(Note 7)*	**848,318**	–	**848,318**	–
Cash and cash equivalents at the end of the period	**753,318**	1,448,432	**753,318**	1,325,035
Less: Cash and cash equivalents at the beginning of the period	**1,034,747**	1,051,153	**946,953**	910,845
Net (decrease)/increase in cash and cash equivalents	**(281,429)**	397,279	**(193,635)**	414,190

34. Supplement to cash flow statement *(continued)*

(2) Cash and cash equivalents held by the Group and the Company are as follows:

	The Group For the six months ended 30 June		The Company For the six months ended 30 June	
	2008	2007	**2008**	2007
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*
Cash				
– Cash on hand	**17**	33	**17**	18
– Bank deposits available on demand	**753,301**	1,448,399	**753,301**	1,325,017
Closing balance of cash and cash equivalents available on demand	**753,318**	1,448,432	**753,318**	1,325,035

(3) Information on disposal of a subsidiary during the current period:

	The Company
	Rmb'000
Cash and cash equivalents received from disposal of the subsidiary	116,170
Assets and liabilities held by the disposed subsidiary	
Current assets	217,020
Non-current assets	2,447
Current liabilities	(343)
Net assets	219,124
Gain on disposal of the subsidiary	
Net assets of the subsidiary	219,124
Less: Long-term equity investment in the subsidiary	60,456
Gain on disposal of the subsidiary	158,668

35. Segment reporting

The Company's and 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 Company and the Group.

36. Risk analysis, sensitivity analysis, and determination of fair values for financial instruments

Overview

Financial assets of the Company and the Group include cash at bank and on hand, accounts receivable, bills receivable, prepayments and other receivables. Financial liabilities of the Company and the Group include accounts payable, advances from customers and other payables.

The Company and the Group have exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk

The Board of Directors has overall responsibility for the establishment, oversight of the Company's and the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Company's and the Group's risk management policies are established to identify and analyse the risks faced by the Company and the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and the Group's activities. The Company and the Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(1) Credit risk

Credit risk is the risk of financial loss to the Company and the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's and the Group's receivables from customers. The carrying amounts of accounts receivable, bills receivable and other receivables other than prepayments represent the Company's and the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Company's and the Group's trade and other receivables relate to sales of chemical fibre products to related parties and third parties operating in the consumer products industries. The Company and the Group perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on trade debtors. The Company and the Group maintain an impairment loss for doubtful debts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

The ageing analysis of debtors that are past due but not impaired on individual and collective assessment is set out as follows:

Ageing	**The Group and the Company**	
	At 30 June 2008 ***Rmb'000***	At 31 December 2007 *Rmb'000*
Past due within 1 year (inclusive)	**881**	1,980

As at 30 June 2008, the Group had a certain concentration of credit risk, as 43.59% (as at 31 December 2007: 50.61%) of the total accounts receivables was due from the Group's five largest customers. The Company had a certain concentration of credit risk, as 43.59% (as at 31 December 2007: 50.81%) of the total accounts receivables was due from the Company's five largest customers.

No other financial assets carry a significant exposure to credit risk.

36. Risk analysis, sensitivity analysis, and determination of fair values for financial instruments *(continued)*

(2) Liquidity risk

Liquidity risk is the risk that the Company and the Group will not be able to meet their financial obligations as they fall due. The Company's and the Group's approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Company and the Group prepare monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Company and the Group arrange and negotiate financing with financial institutions and maintain a certain level of standby credit facilities to reduce the liquidity risk.

Accounts payable and other payables are normally expected to be settled within one year after receipt of goods or services.

(3) Market risk

The changes in the market price, e.g. the changes in the foreign exchange rate and the interest rate, form the market risk. Management aims to manage and control the market risk in the range of the variables, and optimises the return of the risk.

(a) Interest rate risk

As at 30 June 2008, the Company and the Group had no bank borrowings. Therefore, no interest rate risk arose.

(b) Currency risk

The revenue-generating operations of the Company and Group are mainly transacted in renminbi, which is not fully convertible into foreign currencies. All foreign exchange transactions 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. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

The Company and the Group had no hedging policy on foreign currency balances, and principally reduced the currency risk by monitoring the level of foreign currency.

Cash at bank and on hand, accounts receivable and accounts payable include the following assets and liabilities which were measured and settled in non-functional currencies:

	The Group and the Company			
	At 30 June 2008		At 31 December 2007	
	US$'000	***HK$'000***	*US$'000*	*HK$'000*
Cash at bank and on hand	**574**	**6**	290	6
Accounts receivable	**26,845**	**–**	22,467	–
Accounts payable	**(170,866)**	**–**	(139,547)	–
	(143,447)	**6**	(116,790)	6

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Company and the Group were measured or settled in renminbi.

36. **Risk analysis, sensitivity analysis, and determination of fair values for financial instruments** *(continued)*

(3) Market risk *(continued)*

(b) Currency risk *(continued)*

A five percent strengthening of renminbi against the following currencies would have increased profit for the period and equity of the Company and the Group by the amounts shown below.

	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
US Dollars	**49,196**	42,655
HK Dollars	**–**	–

A five percent weakening of renminbi against the above currencies at 30 June would have had the equal but opposite effect to the above, on the basis that all other variables remain constant.

This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Company's and the Group's all derivatives and non-derivative financial assets. The analysis is performed on the same basis for year 2007.

(4) Capital management

In order to maintain or adjust the capital structure, the Company and the Group may adjust the amount of dividends payable to shareholders, issue new shares, adjust the capital expenditure plan or sell assets to reduce liabilities. The Company and the Group monitor capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans by the total equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Company's and Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management.

There were no changes in the Company's or the Group's approach to capital management during the period. Neither the Company nor its subsidiary is subject to externally imposed capital requirements.

(5) Fair values

As at 31 December 2007 and 30 June 2008, the fair values of the Group's and the Company's financial assets and liabilities were not materially different from their carrying amounts.

37. Capital commitments

Capital commitments of the Group and the Company were summarised as follows:

	At 30 June 2008		At 31 December 2007	
	Book value	**Fair value**	Book value	Fair value
	Rmb'000	***Rmb'000***	*Rmb'000*	*Rmb'000*
Authorised and contracted for	**304,100**	**304,100**	–	–
Authorised but not contracted for	**3,728,847**	**3,728,847**	3,743,753	3,743,753
	4,032,947	**4,032,947**	3,743,753	3,743,753

38. Non-adjusting post balance sheet events

The Company announced on 1 August 2008 that it is in negotiation with its joint venture partner, UNIFI Asia Holding SRL ("UNIFI Asia"), in respect of the possible purchase of UNIFI Asia's 50% ownership interest in Yihua Unifi, the jointly controlled entity. There is no letter of intent or agreement signed for this transaction at the date of this report.

39. Related parties and related party transactions

(1) Information on the parent of the Company is listed 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
Relationship with the Company:	The immediate holding company
Types of legal entity:	Joint stock limited company
Legal representative	Su Shu-lin
Registered capital:	Rmb86.7 billion (2007: Rmb86.7 billion)
Percentage of equity interest:	42%
Percentage of voting interest:	42%

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

(2) For the information about the subsidiary of the Company refer to Note 6.

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

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:

	The Group and the Company For the six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Remuneration of key management personal	**1,223**	1,223
Retirement scheme contributions	**82**	82

39. 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
China Petrochemical International Company Limited	With a common immediate holding company
Sinopec Chemicals Sales Branch	With a common immediate holding company

For the information about the jointly controlled entity, refer to Note 13.

(b) Transactions with other related parties:

	The Group For the six months ended 30 June	
	2008 Amounts *Rmb'000*	2007 Amounts *Rmb'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**4,226,140**	4,531,930
Including: Yangzi	**2,325,356**	2,142,624
Zhenhai	**1,513,876**	1,658,314
Service charges for the purchase of raw materials	**16,678**	15,228
Yihua and its subsidiaries ("Yihua Group")		
Sales	**116,255**	119,803
Miscellaneous service fee charges (see note below)	**6,000**	4,800
Sinopec Finance		
Interest income	**654**	1,634
Interest expense	**1,719**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Yihua Group and Sinopec Finance)		
Insurance premium	**3,490**	11,951
China CITIC Bank		
Interest income	**358**	775
Yihua Unifi		
Sales of finished goods	**382,606**	454,130
Purchase of finished goods	**–**	58,079

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

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

(b) Transactions with other related parties: (continued)

	The Company	
	2008	2007
	Amounts	Amounts
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**4,226,140**	4,531,930
Including: Yangzi	**2,325,356**	2,142,624
Zhenhai	**1,513,876**	1,658,314
Service charges for the purchase of raw materials	**16,678**	15,228
Yihua Group		
Sales	**116,255**	119,803
Miscellaneous service fee charges (see note below)	**6,000**	4,800
Sinopec Finance		
Interest income	**654**	1,634
Interest expense	**1,719**	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Yihua Group and Sinopec Finance)		
Insurance premium	**3,490**	11,951
China CITIC Bank		
Interest income	**272**	775
Yihua Unifi		
Sales of finished goods	**382,606**	454,130
Purchase of finished goods	**–**	58,079

Note: The above service fee charges were accrued in accordance with the terms of the agreements dated October 2007 signed between the Company and Yihua.

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

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

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

(c) The balances of transactions with related parties:

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

	The Group and the Company	
	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
Prepayments	**34,168**	70,073
Other receivables	**230**	228
Accounts payable	**(965,395)**	(131,025)
Other payables	**(11,671)**	(4,519)
Advances from customers	**(3,507)**	(2,453)
	(946,175)	(67,696)

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

	The Group and the Company	
	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
Accounts receivable	**3,202**	3,182
Other receivables	**–**	45
Advances from customers	**(3,396)**	–
Other payables	**(6,000)**	(389)
	(6,194)	2,838

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

	The Group and the Company	
	At 30 June 2008 *Rmb'000*	At 31 December 2007 *Rmb'000*
Accounts receivable	**69,589**	1,948
Bills receivable	**30,000**	28,613
Other receivables	**–**	480
Prepayments	**(1,536)**	–
Other payables	**(8,935)**	(11,067)
	89,118	(19,974)

40. Extraordinary gain and loss

In accordance with "Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 1 – Extraordinary Gain and Loss" (2007 Revised), extraordinary gain and loss of the Group is listed as follows:

	For the six months ended 30 June	
	2008	2007
	Rmb'000	*Rmb'000*
Extraordinary gain and loss for the period:		
Net (gain)/loss on disposal of fixed assets and intangible assets	**(1,527)**	17,945
Employee reduction expenses	**8,727**	95,726
Other non-operating expenses (excluding loss on disposal of fixed assets)	**8,153**	7,454
Other non-operating income (excluding gain on disposal of fixed assets and intangible assets)	**(644)**	(690)
Sub-total	**14,709**	120,435
Less: Tax effect on above items	**(3,677)**	(39,744)
Total	**11,032**	80,691
Attributable to:		
Equity shareholders of the Company	**11,032**	80,384
Minority interests	**–**	307

41. Earnings per share and return on net assets

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 and Earnings Per Share" (2007 Revised), the Group's return on net assets and earnings per share are summarised as follows:

(1) The Group's (loss)/earnings per share

	For the six months ended 30 June	
	2008	2007
(a) (Loss)/earnings per share inclusive of extraordinary gain and loss (in Rmb)	**(0.066)**	0.013
– (Loss)/profit attributable to the Company's ordinary equity shareholders (Rmb'000)	**(263,749)**	50,029
– Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000
(b) (Loss)/earnings per share net of extraordinary gain and loss (in Rmb)	**(0.063)**	0.033
– (Loss)/profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders (Rmb'000)	**(252,717)**	130,413
– Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000

During six months ended 30 June 2008, there were no dilutive potential ordinary shares in existence.

41. Earnings per share and return on net assets *(continued)*

(2) Return on net assets of the Group

	For the six months ended 30 June			
	2008		2007	
	Fully diluted	**Weighted average**	Fully diluted	Weighted average
(a) Return on net assets inclusive of extraordinary gain and loss	**(3.278%)**	**(3.226%)**	0.600%	0.601%
– Net (loss)/profit attributable to the Company's ordinary equity shareholders (Rmb'000)	**(263,749)**	**(263,749)**	50,029	50,029
– Period/year-end equity attributable to the Company's ordinary equity shareholders (Rmb'000)	**8,044,928**	**8,044,928**	8,345,110	8,345,110
– Weighted average of equity attributable to the Company's ordinary equity shareholders (Rmb'000)	**8,176,803**	**8,176,803**	8,317,985	8,317,985
(b) Return on net assets net of extraordinary gain and loss	**(3.141%)**	**(3.091%)**	1.563%	1.568%
– Net (loss)/profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders (Rmb'000)	**(252,717)**	**(252,717)**	130,413	130,413
– Period/year-end equity attributable to the Company's ordinary equity shareholders (Rmb'000)	**8,044,928**	**8,044,928**	8,345,110	8,345,110
– Weighted average of equity attributable to the Company's ordinary equity shareholders (Rmb'000)	**8,176,803**	**8,176,803**	8,317,985	8,317,985

Supplementary information to the financial statements

1. Reconciliation statement of differences in the financial statements prepared under different GAAPs:

(1) The effect of the difference between CAS (2006) and IFRSs on net (loss)/profit attributable to equity shareholders of the Company is analysed as follows:

	Note	The Group For the six months ended 30 June **2008** ***Rmb'000***	2007 *Rmb'000*
Net (loss)/profit attributable to equity shareholders of the Company under CAS (2006)		**(263,749)**	50,029
Adjustments:			
Reversal of amortisation of revaluation surplus of land use rights	*(a)*	**2,651**	4,111
Effects of the above adjustments on taxation		**(663)**	(1,357)
Total		**1,988**	2,754
Net (loss)/profit attributable to equity shareholders of the Company under IFRSs		**(261,761)**	52,783

(2) The effect of the difference between CAS (2006) and IFRSs on total equity attributable to equity shareholders of the Company is analysed as follows:

	Note	The Group **As at 30 June 2008** ***Rmb'000***	As at 31 December 2007 *Rmb'000*
Total equity attributable to equity shareholders of the Company under CAS (2006)		**8,044,928**	8,308,677
Adjustments:			
Revaluation surplus of land use rights	*(a)*	**(185,120)**	(187,771)
Effects of the above adjustments on taxation		**46,280**	46,943
Total		**(138,840)**	(140,828)
Total equity attributable to equity shareholders of the Company under IFRSs		**7,906,088**	8,167,849

Note:

(a) Under CAS (2006), land use rights contributed by investors are stated at revalued amount, based on which amortisation and net book value are calculated. Under IFRSs, land use rights are carried at historical cost less accumulated amortisation and impairment losses.

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 26 August 2008 (Tuesday) 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 2008 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 2008 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.*