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 2010

Contents

Important Notes:

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

Mr. Xiao Wei-zhen, Vice Chairman and 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 2010. 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. 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

3. Secretary to the board : Mr. Tom C.Y. Wu
   Assistant Secretary to the board : Ms. Michelle M.Shi
   Contact address : Board 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

4. 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 : Board Secretary Office
Sinopec Yizheng Chemical Fibre Company Limited

5. 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	
	2010	2009
	Rmb'000	*Rmb'000*
Turnover	**7,596,517**	6,135,575
Profit before taxation	**241,732**	310,597
Income tax expense	**(189,773)**	655
Profit attributable to equity shareholders of the Company	**431,505**	309,942
Basic and diluted earnings per share	**Rmb0.108**	Rmb0.077

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

(Consolidated and unaudited)

	As at 30 June 2010 ***Rmb'000***	As at 31 December 2009 *Rmb'000*	Increase/(decrease) from last year *(%)*
Total assets	**9,688,965**	9,145,813	5.9
Total equity attributable to equity shareholders of the Company	**7,475,275**	7,045,410	6.1
Net assets per share attributable to equity shareholders of the Company	**Rmb1.869**	Rmb1.761	6.1

	For the six months ended 30 June 2010 ***Rmb'000***	For the six months ended 30 June 2009 *Rmb'000*	Increase/(decrease) from corresponding period of last year *(%)*
Operating profit	**229,313**	302,175	(24.1)
Profit before income tax	**239,113**	307,978	(22.4)
Net profit attributable to equity shareholders of the Company	**429,541**	307,978	39.5
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	**420,150**	303,197	38.6
Basic earnings per share	**Rmb0.107**	Rmb0.077	39.5
Diluted earnings per share	**Rmb0.107**	Rmb0.077	39.5
Basic earnings per share net of extraordinary gain and loss	**Rmb0.105**	Rmb0.076	38.6
Weighted average return on net assets	**5.92%**	4.52%	Increased by 1.4 percentage points
Net cash (outflow)/inflow from operating activities	**(447,019)**	814,291	(154.9)
Net cash (outflow)/inflow from operating activities per share	**Rmb(0.112)**	Rmb0.204	(154.9)

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)

(Consolidated and unaudited)

Extraordinary gain and loss	**Amount** *(Rmb'000)*
Gains on disposal of fixed assets and intangible assets	9,015
Government grants recognized in profit or loss during the current period	584
Employee reduction expenses	(409)
Other non-operating income and expenses excluding the aforesaid items	201
Effect of income tax*	0
Total	9,391

* *As the Group made up the previous years' losses during the current period and therefore suffered tax losses, and has not recognized deferred tax assets in respect of the current tax losses, the above extraordinary gain and loss items have no effect on taxation.*

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

(Consolidated and unaudited)

	Net profit attributable to equity shareholders of the Company		**Total equity attributable to equity shareholders of the Company**	
	For the six months ended 30 June 2010 ***Rmb'000***	For the six months ended 30 June 2009 *Rmb'000*	**As at 30 June 2010** ***Rmb'000***	As at 1 January 2010 *Rmb'000*
PRC ASBE	**429,541**	307,978	**7,475,275**	7,045,410
IFRSs	**431,505**	309,942	**7,344,308**	6,912,479

Explanations for difference	Please refer to the section on "Supplementary information to the financial statements prepared in accordance with the PRC ASBE" of this interim report.

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

(Consolidated and unaudited)

Item	At 30 June 2010 *Rmb'000*	At 31 December 2009 *Rmb'000*	Variance %	Reason for Variance
Prepayments	**10,569**	2,734	286.6	Increase in prepaying freight and natural gas
Construction in progress	**226,809**	325,812	(30.4)	Construction in progress at the end of last year transferred to fixed assets during the current period
Inventories	**2,002,543**	1,308,019	53.1	The price and quantity of raw material and finished goods increase at the current period end
Deferred tax assets	**190,428**	0	100.0	Recognized deferred tax assets for temporary differences
Bills payable	**0**	240,000	(100.0)	Settlement of bills issued at last year end
Accounts payable	**1,583,503**	1,181,716	34.0	Accounts payable accrual for raw materials in transit increase
Advances from customers	**176,151**	258,915	(32.0)	The demand at the end of the year was stronger as compared with mid-year
Employee benefits payable	**132,329**	72,122	83.5	Increase in unpaid bonuses at the current period end
Taxes payable	**9,422**	17,673	(46.7)	Settlement of unpaid land use tax and property tax of last year during the current period
Provisions	**0**	5,198	(100.0)	Wrote off compensation payable on breach of contracts that did not need to pay
Deferred income	**48,500**	21,256	128.2	Increase in government grant during the current period
Undistributed profits/ (accumulated losses)	**367,784**	(61,754)	Not applicable	The Company recorded a net profit during the current period

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

(Consolidated and unaudited)

Item	For the six months ended 30 June 2010	2009	Variance	Reason for Variance
	Rmb'000	*Rmb'000*	*(%)*	
Net financial income	**20,865**	8,882	134.9	Increase in interest income from deposits during the current period
Impairment loss	**1,418**	25,457	(94.4)	No provision for diminution in value of inventories during the current period
Investment income	**873**	0	100.0	Arise from redemption of bank financial investment purchased at last year end
Non-operating expenses	**1,426**	3,960	(64.0)	Decrease in payments of local funds during the current period
Income tax expenses	**(190,428)**	0	(100.0)	The Company recognised deferred tax assets during the current 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 2010 is as follows:

Type	Number of shareholders
Legal person share (A share)	2
Social public share (A share)	37,155
"H" share	656
Total	37,813

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

As at 30 June 2010, 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 37,813

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	1,384,021,005	34.60	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") **	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
China Construction Bank-CIFM China Advantage Securities Investment Fund	Domestic circulating shares	24,823,079	0.62	Circulating shares	Not applicable
Bank of China-Jiashi Development Income-type Securities Investment Fund	Domestic circulating shares	6,475,908	0.16	Circulating shares	Not applicable
Zhang Xin-Ming	Domestic circulating shares	2,374,300	0.06	Circulating shares	Not applicable
Lin You-ming	Domestic circulating shares	1,977,103	0.05	Circulating shares	Not applicable
Shanxi Jinrui Investing Company Limited	Domestic circulating shares	1,494,592	0.04	Circulating shares	Not applicable
Chen Run-juan	Domestic circulating shares	1,472,990	0.04	Circulating shares	Not applicable
Lu Bao-hong	Domestic circulating shares	1,304,000	0.03	Circulating shares	Not applicable

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

Details of the top ten circulating shareholders

Names of shareholders	**Number of circulating shares held at the end of the reporting period** *(shares)*	**Classification**
HKSCC (Nominees) Limited***	1,384,021,005	"H" shares
China Construction Bank-CIFM China Advantage Securities Investment Fund	24,823,079	Circulating "A" shares
Bank of China-Jiashi Development Income-type Securities Investment Fund	6,475,908	Circulating "A" shares
Zhang Xin-Ming	2,374,300	Circulating "A" shares
Lin You-ming	1,977,103	Circulating "A" shares
Shanxi Jinrui Investing Company Limited	1,494,592	Circulating "A" shares
Chen Rui-juan	1,472,990	Circulating "A" shares
Lu Bao-hong	1,304,000	Circulating "A" shares
Hing Shing Far East Development Ltd	1,000,000	"H" shares
Guan Kai-qiong	962,334	Circulating "A" shares

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

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

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

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

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

As at 30 June 2010, (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 2010, 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 2010, 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.

The twelfth meeting of the sixth session of the Board of the Company held on 6 August 2010 considered and approved the resolution regarding the request of Mr. Qian Heng-ge to resign from his position as a director. The Board announced that it has accepted the resignation of Mr. Qian Heng-ge, a director of the Company, from his position as a director as he reached the retirement age. The Board highly appraised Mr. Qian for his diligent and dedicated work for many years and expressed its sincere gratitude to Mr. Qian for his contribution to the Company during his term of office. The meeting considered and approved the resolution to nominate Mr. Lu Liyong as a candidate for a director of the sixth session of the Board, which will be submitted as proposal to the first extraordinary general meeting for 2010 of the Company held on 28 September 2010 for approval by the shareholders.

Biography of Mr. Lu Liyong

Mr. Lu Liyong, aged 49, Senior Engineer, currently acts as the Secretary of Chinese Communist Party Committee of the Company. Mr. Lu joined petrochemical industry in 1982 and had served as Deputy Director and Director of Dispatching Center, and then Director of Production Department of Shijiazhuang Oil Refinery since April 1991. In December 1994, he was appointed as the Assistant to Head of Shijiazhuang Oil Refinery. He was appointed as Deputy Head of Shijiazhuang Oil Refinery in August 1995 and was elected as Director of Shijiazhuang Refining-Chemical Company Limited in August 2000. In October 2003, he was appointed as Head of Shijiazhuang Oil Refinery. He was appointed as Head of Cangzhou Oil Refinery of CPC and President of Sinopec Cangzhou Branch in December 2004. In July 2010, he was appointed as Secretary of Chinese Communist Party Committee of the Company and General Manager of Sinopec Asset and Management Corporation Yizheng Branch. For a long period of time, Mr. Lu has held leading positions in production and administration of petrochemical enterprises and has extensive experience in overall management in mega-size enterprises. Mr. Lu graduated from Hebei University of Engineering in August 1982, majored in petroleum refining. He graduated from the Communist Party Hebei Academy in January 2001, majored in administration, and pursued postgraduate studies.

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 2010 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 (Off position)	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
Qin Wei-zhong	Director	0	0	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	0	0	Nil	No Change
Shi Zhen-hua	Independent Director	0	0	Nil	No Change
Qiao Xu	Independent Director	0	0	Nil	No Change
Yang Xiong-sheng	Independent Director	0	0	Nil	No Change
Chen Fang-zheng	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
Li Jian-xin	Deputy General Manager	0	0	Nil	No Change
Zhang Zhong-an	Deputy General Manager	0	0	Nil	No Change
Li Jian-ping	Chief Financial Officer	0	0	Nil	No Change
Tom C. Y. Wu	Secretary to the Board	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.

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

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 2010, 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 2010, the Company has four Independent Directors, one of whom are professionals in the accounting field and have experience in financial management.

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

5. BUSINESS REVIEW & 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

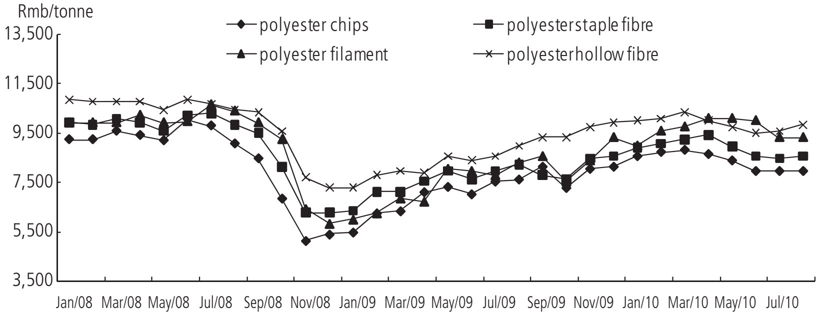
For the six months ended 30 June 2010, the Group's consolidated turnover amounted to Rmb7,596,517,000, increased by 23.8 per cent compared with Rmb6,135,575,000 for the corresponding period of last year. Due to increase in deferred tax assets of the Company, the profit attributable to equity shareholders of the Company was Rmb431,505,000, increased by 39.2 per cent as compared with Rmb309,942,000 for the corresponding period of last year, and basic earnings per share increased by 39.2 per cent to Rmb0.108 as compared with Rmb0.077 for the corresponding period of last year.

The Board resolved that no interim dividend would be paid for the year ending 31 December 2010 (interim dividend for 2009: Nil).

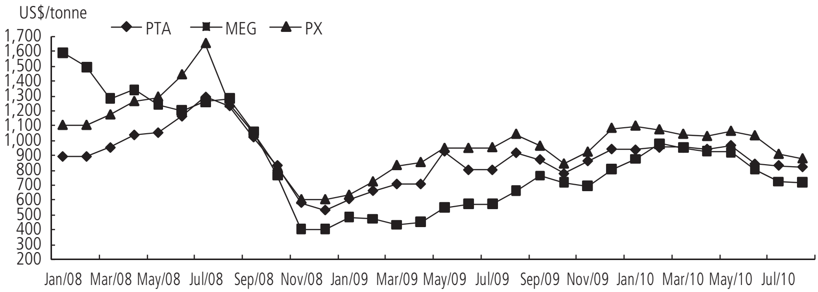
Market review

In the first half of 2010, the prices of polyester raw materials significantly increased compared with the corresponding period of last year was mainly due to the prices of global crude oil continually fluctuated at a high level. Meanwhile, due to the combined effect of stably growth in domestic demand and sustained recovery in demand from overseas customers for downstream textiles, the domestic polyester industry was on the track of recovery, and the prices of polyester products increased distinctly compared with the corresponding period of last year. But due to the oversupply condition of domestic polyester capacity, the operational environment for polyester industry was still in a tough situation.

Product Prices Quoted by the Company (Excluding VAT)



Raw Material Contract Price Offered by International Suppliers



In the first half of 2010, the newly-added polyester production capacity was about 880,000 tonnes, and the total polyester production capacity amounted to 27.82 million tones at the end of first half of 2010. As a result, the oversupply condition of domestic polyester capacity was not changed. Total domestic supply volume of polyester fibre was 12,527,900 tonnes, an increase of 9.5 per cent compared with the corresponding period of last year, of which, the domestic production volume increased by 13.2 per cent. Meanwhile, due to the sustained recovery of downstream textile export, the PRC's export volume of textile and clothes rise to 88.878 billion US dollars, 22.1 percentage points higher than that of the corresponding period of 2009. Total domestic consumption volume of polyester fibre was 11,125,300 tonnes, an increase of 8.2 per cent compared with the corresponding period of 2009, the domestic demand for polyester fibre increased steadily as well.

Market review (continued)

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	First half of 2010 *'000 tonnes*	First half of 2009 *'000 tonnes*	+/- *(%)*	**First half of 2010 *'000 tonnes***	First half of 2009 *'000 tonnes*	+/- *(%)*	**First half of 2010 *'000 tonnes***	First half of 2009 *'000 tonnes*	+/- *(%)*
Production volume	**7,542.5**	6,561.0	15.0	**4,061.6**	3,687.7	10.1	**11,604.1**	10,248.7	13.2
Import volume	**78.3**	78.4	(0.1)	**68.5**	74.5	(8.1)	**146.8**	152.9	(4.0)
Export volume	**446.1**	294.2	51.6	**269.5**	172.8	56.0	**715.6**	467.0	53.2
Net import	**(367.8)**	(215.8)	70.4	**(201.0)**	(98.3)	104.5	**(568.8)**	(314.1)	49.3
Inventories at the beginning of the period	**454.0**	733.1	(38.1)	**323.0**	309.4	4.4	**777.0**	1,042.5	(25.5)
Inventories at the end of the period	**382.0**	416.0	(8.2)	**305.0**	283.0	7.8	**705.0**	699.0	0.9
Total supply volume	**8,074.8**	7,372.5	9.5	**4,453.1**	4,071.6	9.5	**12,527.9**	11,444.1	9.5
Total consumption volume	**7,246.7**	6,662.3	8.8	**3,878.6**	3,615.8	6.8	**11,125.3**	10,278.1	8.2

Source: The Chemical Fibre Association of China

Result review

In the first half of 2010, by chasing the favor opportunity of incenting domestic demand policy implemented by the Chinese Government as well as high price of global crude oil and the rise in the prices of polyester raw materials and products, the Group endeavoured to expand its markets, strengthened fine management and made efforts to reduce its costs and expenses. As a result, the Group successfully achieved a better profit in its operational results.

Production and marketing

In the first half of 2010, the Group's production facilities maintained safe and stable operations. Due to the overhaul of several polyester facilities and the purified terephthalic acid ("**PTA**") line II, the production volume of polyester products and PTA decreased compared with the corresponding period of 2009. The total production volume of polyester products was 1,041,866 tonnes, a decrease of 7.7 per cent compared with 1,129,200 tonnes for the corresponding period of 2009. The capacity utilisation rate of polyester utilities reached 94.7 per cent. The total production volume of PTA was 501,414 tonnes, a decrease of 3.1 per cent compared with 517,205 tonnes for the corresponding period of last year. In the first half of 2010, the Group maintained a balance between production and sales in order to sell at optimal prices, and enhanced the capacity of adapting market and meeting customer. The Group's total sales volume of polyester products reached 834,388 tonnes, a decrease of 2.7 per cent compared with 857,511 tonnes in the corresponding period of 2009. The Group's export volume of polyester products was 55,726 tonnes, an increase of 16.0 per cent compared with 48,049 tonnes for the corresponding period of 2009. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.3 per cent.

New product development and technological innovation

In the first half of 2010, as the Group further optimised its products structure to meet market demand, the profit contributions from differential and specialized products were distinctly increased. Altogether, the Group initiated seven kinds of new polyester products, began development of six products, and launched eighteen products for market promotion. In the first half of 2010, the Group's total production volume of specialized polyester chips amounted to 433,774 tonnes and the specialized rate was 84.6 per cent, 1.9 percentage points lower than that of the corresponding period of 2009. The total production volume of differential polyester fibre amounted to 291,009 tonnes and the differential rate of polyester fibre was 85.4 per cent, 3.7 percentage points higher than that of the corresponding period of 2009.

Cost control

In the first half of 2010, the weighted average prices (excluding VAT) of the Group's polyester products increased by 24.5 per cent compared with the corresponding period of last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, mono-ethylene glycol ("**MEG**") and parxylene ("**PX**"), increased by 38.7 per cent compared with the corresponding period of 2009. Measures for reducing cost and increasing efficiency were implemented together by strictly strengthening fine management and implementing overall budget control. In the first half of 2010, the Group's selling expenses essentially flat with those of the first half of 2009. By strictly strengthening fine management and exerting great efforts to reduce cost and expenses, the Group's administrative expenses decreased by 6.1 per cent from those of the first half of 2009. Due to the increase in interest income from deposits and net exchange gains, the net finance income increased by 144.7 per cent from those of the first half of 2009. The total decrease in selling expenses, administrative expenses and net finance income was 8.5 per cent from that of the first half of 2009.

Capital expenditure

In the first half of 2010, the Group's total capital expenditure was Rmb91,166,000. To maximize investment contribution, the Group strengthened investment management in accordance with the prudence principle. Natural gas replacing heavy oil project has been completed and commenced operation in the first half of 2010, and has played an important role in saving fuel costs. The construction work of 1,000 tonnes-grade high performance polyethylene fiber project has been started to launch in the first half of 2010, and is expected to complete and put into production in 2011. The contract on technology introduction of 1,4-Butanediol project with an annual capacity of 100,000 tonnes has been signed, and this project has been launched.

Business prospects

In the second half of 2010, the Group will continue to face a tough operating situation. Firstly, there are some uncertainties in the recovery of global economy. Secondly, the impact of the PRC's textile and clothing exports from Renminbi appreciation and Europe debt crisis will be increased, which will bring down the recovering demand from overseas customers for the downstream textiles. Thirdly, it is estimated that several new polyester projects will commence operation in the second half of 2010 in the PRC. This will further intensify the imbalance between products supply and demand.

Meanwhile, we see that in the second half of 2010, the Chinese economy will continue to maintain at a rapid growth, and domestic consumption will be further expanded, which will provide an opportunity to increase demand for polyester products.

Business prospects (continued)

In the second half of 2010, faced with a difficult operation environment, the Group will continue to strengthen fine management, reduce costs and expenses and optimize products structure so as to achieve better operating results. The following will be set as priorities in the second half of 2010:

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, meticulously organize production and try to reduce unexpected production cessation. Priorities will be given to PTA facility to ensure a safe and stable production, and to achieve a target on increasing PTA production volume. The Group will continuously improve product quality, upgrade the stability of product quality and the adaptability of consumers. In the second half of 2010, the Group's projected production volume of polyester products is 1,109,000 tonnes, and the projected 2010 annual production volume of polyester products is 2,151,000 tonnes, 4.0 per cent lower than production volume in 2009. The Group's projected production volume of PTA for the second half of 2010 is 530,000 tonnes. The projected 2010 annual production volume of PTA is 1,031,000 tonnes, 0.8 per cent higher than that in 2009.

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

The Group will pay close attention to market changes, and further balance materials supply with, production and sales. The Group will make greater efforts in selling products, specially differential and specialized products, to strive for greater profit. Meanwhile, the Group will 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. In the second half of 2010, the Group's projected sales volume of polyester products is 887,000 tonnes. The 2010 projected sales volume of polyester products is 1,721,000 tonnes, a decrease of 0.2 per cent from that of 2009. The ratio of sales to production is expected to reach 100 per cent in the second half of 2010.

III. Improve product structure and profit contribution from differential products

The Group will further optimize product structure to meet market demand, and expand the production of specialized and differential products which have strong profitability. Meanwhile, the Group will continue to advance the work of fixing production line, variety and customer so as to further improve the product quality and added value and improve the profit contribution from differential products. In the second half of 2010, the Group's projected production volume of specialized polyester chips and differential fibre products is 448,000 tonnes and 317,000 tonnes respectively. Specialized rates are expected to be 85.4 per cent and differential rates are expected to be 87.5 per cent.

IV. Greatly reduce cost and expenses and actively carry out energy-consumption savings

The Group will continue to carry out the measures drafted at the beginning of 2010 for reducing costs and expenses. The Group will further implement overall budget management and strictly manage extrabudgetary 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 strive to realize the annual target on saving energy by organizing technical improvement and taking full advantage of the energy saving projects, such as natural gas replacing heavy oil project, air-separating facilities and marsh gas power generation project.

Business prospects (continued)

V. Speed up the adjustment of industrial structure

The Group will continue to focus on construction of new projects, so as to speed up the work of "Optimizing existing assets and restructuring and upgrading incremental assets". The Group will meticulously organize the construction of the 1,000 tonnes-grade high performance polyethylene fiber project, and ensure this project to be completed and commence operations in 2011. Meanwhile, the Group will make preparation for the pre-sales and exert great efforts to expand the market and application fields of high performance polyethylene fiber products. Well-organized and implemented to the construction of 1,4-Butanediol project with an annual capacity of 100,000 tonnes, which is expected to be put into operation in 2012. The Group will exert great efforts to realize the stable operation of the aramid fiber project with an annual 100 tonnes and make preparation for the start of construction of 1,000 tonnes-grade aramid fibre 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. Interim results

(1) Turnover

In the first half of 2010, the Group's production facilities maintained safe and stable operations. Due to the overhaul of several polyester facilities and PTA line II, the production volume of polyester products and PTA decreased compared with the corresponding period of 2009. The Group's total production volume of polyester products was 1,041,866 tonnes, a decrease of 7.7 per cent compared to 1,129,200 tonnes for the corresponding period of 2009. The Group's capacity utilization rate reached 94.7 per cent. The Group's total production volume of PTA was 501,414 tonnes, a decrease of 3.1 per cent compared with 517,205 tonnes for the corresponding period of 2009.

Production volume

	For the six months ended 30 June			
	2010		2009	
	Production volume *(tonnes)*	**Percentage of total production volume (%)**	Production volume *(tonnes)*	Percentage of total production volume *(%)*
Polyester products				
Polyester chips	**512,741**	**49.2**	541,374	47.9
Bottle-grade polyester chips	**157,481**	**15.1**	214,600	19.0
Staple fibre	**238,446**	**22.9**	229,330	20.3
Hollow fibre	**24,584**	**2.4**	24,746	2.2
Filament	**108,614**	**10.4**	119,150	10.6
Total	**1,041,866**	**100.0**	1,129,200	100.0

(1) Turnover (continued)

In the first half of 2010, the Group's total sales volume of polyester products amounted to 834,388 tonnes, a decrease of 2.7 per cent compared with 857,511 tonnes for the corresponding period of 2009. Excluding the self-consumption volume and other factors, the ratio of sales to production reached 98.3 per cent. The Group's export volume of polyester products was 55,726 tonnes, an increase of 16.0 per cent compared to 48,049 tonnes for the corresponding period of 2009. The weighted average prices (excluding VAT) of the Group's polyester products increased from Rmb7,155/tonne for the corresponding period of 2009 to Rmb8,910/tonne for the first half of 2010, representing a 24.5 per cent increase. Because the increase in prices of polyester products was less than that of polyester raw material, the profit margin of polyester products of the Company decreased compared with the corresponding period of 2009.

Sales volume

	For the six months ended 30 June			
	2010		2009	
	Sales volume *(tonnes)*	**Percentage of total sales volume *(%)***	Sales volume *(tonnes)*	Percentage of total sales volume *(%)*
Polyester products				
Polyester chips	**339,430**	**40.7**	302,864	35.3
Bottle-grade polyester chips	**156,097**	**18.7**	213,189	24.9
Staple fibre	**233,848**	**28.0**	229,343	26.8
Hollow fibre	**22,805**	**2.7**	23,497	2.7
Filament	**82,208**	**9.9**	88,618	10.3
Total	**834,388**	**100.0**	857,511	100.0

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

	For the six months ended 30 June		
	2010	2009	Change *(%)*
Polyester products			
Polyester chips	**8,430**	6,525	29.2
Bottle-grade polyester chips	**8,681**	6,657	30.4
Staple fibre	**9,178**	7,343	25.0
Hollow fibre	**10,241**	8,205	24.8
Filament	**10,191**	8,259	23.4
Weighted average price	**8,910**	7,155	24.5

(1) Turnover (continued)

Turnover

	For the six months ended 30 June			
	2010		2009	
	Turnover *Rmb'000*	**Percentage of turnover** *(%)*	Turnover *Rmb'000*	Percentage of turnover *(%)*
Polyester products				
Polyester chips	**2,861,501**	**37.7**	1,976,311	32.2
Bottle-grade polyester chips	**1,355,044**	**17.8**	1,419,186	23.2
Staple fibre	**2,146,320**	**28.3**	1,683,963	27.4
Hollow fibre	**233,545**	**3.1**	192,787	3.2
Filament	**837,774**	**11.0**	731,908	11.9
Others	**162,333**	**2.1**	131,420	2.1
Total	**7,596,517**	**100.0**	6,135,575	100.0

In the first half of 2010, despite the Group's total sales volume of the polyester products decreased by 2.7 per cent compared with the corresponding period of 2009, the Group's turnover increased from Rmb6,135,575,000 for the corresponding period of 2009 to Rmb7,596,517,000, representing a 23.8 per cent increase, which was mainly due to the rise in the weighted average price of polyester products by 24.5 per cent compared with the corresponding period of 2009.

(2) Cost of sales

In the first half of 2010, the Group's cost of sales was Rmb7,084,439,000, an increase of Rmb1,563,915,000 compared with Rmb5,520,524,000 for the corresponding period of 2009, representing 93.3 per cent of turnover. The increase in cost of sales was mainly due to substantial increase in the costs of raw materials. Total costs of raw materials increased by 31.7 per cent, from Rmb4,839,830,000 to Rmb6,373,515,000, compared with the corresponding period of 2009, accounting for 90.0 per cent of the cost of sales. The increase was mainly due to the significant increase in the purchase costs of raw materials. In the first half of 2010, the weighted average price of external purchased polyester raw materials increased by 38.7 per cent compared with the corresponding period of 2009. Of this increase, the average purchase costs of PX, PTA and MEG increased by 22.4 per cent, 30.3 per cent and 79.0 per cent respectively compared with the corresponding period of 2009.

In the first half of 2010, despite turnover increased by 23.8 per cent compared with the corresponding period of 2009, the Group's gross profit decreased by Rmb102,973,000 to Rmb512,078,000 compared with the corresponding period of 2009 due to cost of sales increased by 28.3 per cent compared with the corresponding period of last year. The Group's gross margin was 6.7 per cent, a decrease of 3.3 percentage points compared with the corresponding period of 2009.

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

	For the six months ended 30 June		
	2010	2009	Change
	Rmb'000	*Rmb'000*	*(%)*
Selling expenses	**98,331**	98,185	0.1
Administrative expenses	**203,253**	216,564	(6.1)
Net financial income	**(21,738)**	(8,882)	144.7
Total	**279,845**	305,867	(8.5)

In the first half of 2010, the Group's selling expenses essentially flat with those of the first half of 2009. By strictly strengthening fine management and exerting great efforts to reduce cost and expenses, the Group's administrative expenses decreased by 6.1 per cent from those of the first half of 2009. Due to the increase in interest income from deposits and net exchange gains, the net finance income increased by 144.7 per cent from those of the first half of 2009. The total decrease in selling expenses, administrative expenses and net finance income was 8.5 per cent from that of the first half of 2009.

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

	For the six months ended 30 June		
	2010	2009	Change
	Rmb'000	*Rmb'000*	*(%)*
Operating profit	**219,994**	301,715	(27.1)
Profit before taxation	**241,732**	310,597	(22.2)
Income tax expense	**(189,773)**	655	(290.7)
Profit attributable to equity shareholders of the Company	**431,505**	309,942	39.2
Basic earnings per share (in Rmb)	**0.108**	0.077	39.2

In the first half of 2010, because the increase in prices of polyester raw material was more than that of polyester products, the profit margin of polyester products of the Company decreased compared with the corresponding period of 2009. The Group increased profit by strengthening fine management, making efforts to reduce its costs and expenses and increasing profit contribution from differential products. The Group's profit before taxation was Rmb241,732,000, a decrease of 22.2 per cent compared to Rmb310,597,000 for the corresponding period of 2009. Due to increase in deferred tax assets of the Company, profit attributable to equity shareholders of the Company was Rmb431,505,000, an increase of 39.2 per cent compared to Rmb309,942,000 for the corresponding period of 2009.

(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 2010 in accordance with the PRC Accounting Standards for Business Enterprises.

Products	Operating income	Cost of sales	Gross profit margin	Increase/ (decrease) in operating income as compared with the corresponding period of last year	Increase/ (decrease) in cost of sales as compared with the corresponding period of last year	Gross profit margin as compared with the corresponding period of last year
	Rmb'000	*Rmb'000*	*(%)*	*(%)*	*(%)*	
Polyester products	7,434,184	6,910,267	7.0	23.8	28.2	Decreased by 3.2 Percentage points
Including:						
Polyester Chips	2,861,501	2,648,309	7.5	44.8	53.8	Decreased by 5.4 percentage points
Bottle-grade polyester chips	1,355,044	1,274,697	5.9	(4.5)	(3.1)	Decreased by 1.4 percentage points
Staple and hollow fibre	2,379,865	2,179,148	8.1	26.8	34.7	Decreased by 5.7 percentage points
Filament	837,774	808,113	3.5	14.5	10.0	Increased by 3.8 percentage points

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

(6) Operating income by regions

The following is the statement of operations by products for the six months ended 30 June 2010 in accordance with the PRC Accounting Standards for Business Enterprises.

Region	Operating income	Increase/ (decrease) from last year
	Rmb'000	*(%)*
Mainland	7,110,027	22.2
Hong Kong, Macau, Taiwan, and overseas	486,490	53.2

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 2010 *Rmb'000*	At 31 December 2009 *Rmb'000*	Variance *Rmb'000*
Total assets	**9,557,998**	9,012,882	545,116
Current assets	**5,276,212**	4,747,905	528,307
Non-current assets	**4,281,786**	4,264,977	16,809
Total liabilities	**2,213,690**	2,100,403	113,287
Current liabilities	**2,165,190**	2,079,147	86,043
Non-current liabilities	**48,500**	21,256	27,244
Total equity attributable to equity shareholders of the Company	**7,344,308**	6,912,479	431,829

As at 30 June 2010, the Group's total assets were Rmb9,557,998,000, total liabilities were Rmb2,213,690,000, and total equity attributable to equity shareholders of the Company was Rmb7,344,308,000. Compared with the assets and liabilities as at 31 December 2009 (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 Rmb9,557,998,000, an increase of Rmb545,116,000 compared with the end of last year. Current assets were Rmb5,276,212,000, an increase of Rmb528,307,000 compared with the end of last year. The increase was mainly due to the increase in inventories by Rmb694,524,000 owing to the rise in prices of products and raw materials and volume of inventories in the first half of 2010, and the increase in the Group's cash and cash equivalents by Rmb349,836,000, and Meanwhile, available-for-sale financial assets decreased by Rmb700,000,000 owing to redemption of bank financial investment purchased at last year end during the current period. Non-current assets were Rmb4,281,786,000, an increase of Rmb16,809,000 compared with the end of last year.

Total liabilities were Rmb2,213,690,000, an increase of Rmb113,287,000 compared with the end of last year. Current liabilities were Rmb2,165,190,000, an increase of Rmb86,043,000 compared with the end of last year, mainly due to the increase of Rmb91,241,000 in trade and other payables during the current period. Non-current liabilities were Rmb48,500,000, an increase of Rmb27,244,000 compared with the end of last year, mainly due to the increase of Rmb27,750,000 in receipts of government grant in the first half of 2010.

Total equity attributable to equity shareholders of the Company was Rmb7,344,308,000, an increase of Rmb431,829,000 compared with the end of last year, mainly due to the profit attributable to equity shareholders of the Group amounting to Rmb431,505,000 in the first half of 2010.

As at 30 June 2010, total liabilities to total assets ratio was 23.2 per cent, whereas 23.3 per cent as at 31 December 2009.

(2) Cash flow analysis

In the first half of 2010, cash and cash equivalents increased by Rmb349,836,000 (increased from Rmb774,767,000 as at 31 December 2009 to Rmb1,124,603,000 as at 30 June 2010). The following table lists major items in the consolidated cash flow statement of the Group for the first half of 2010 and 2009.

Major items in cash flow statement	For the six months ended 30 June		
	2010	2009	Changes
	Rmb'000	*Rmb'000*	*Rmb'000*
Net cash (used in)/generated from operating activities	**(447,019)**	814,291	(1,261,310)
Net cash generated from/(used in) investing activities	**796,855**	(983,631)	1,780,486
Net cash used in financing activities	**–**	(334)	334
Net increase/(decrease) in cash and cash equivalents	**349,836**	(169,674)	519,510
Cash and cash equivalents at the beginning of the period	**774,767**	841,294	(66,527)
Cash and cash equivalents at the end of the period	**1,124,603**	671,620	452,983

In the first half of 2010, the Group's net cash outflow from operating activities was Rmb447,019,000, representing a decrease of cash inflow by Rmb1,261,310,000 compared with the corresponding period of 2009. This was mainly due to the following: (1) Trade and other receivables increased by Rmb288,939,000 in the first half of 2010, while there had been a decrease of Rmb548,860,000 in the first half of 2009. As a result, the net cash inflow from operating activities decreased by Rmb837,799,000. (2)Inventories increased by Rmb694,524,000 in the first half of 2010, while there had been an increase of Rmb420,594,000 in the first half of 2009. As a result, the net cash inflow from operating activities decreased by Rmb273,930,000.

In the first half of 2010, the Group's net cash inflow from investing activities was Rmb796,856,000, an increase of cash inflow by Rmb1,780,486,000 compared with the corresponding period of 2009. This was mainly due to the following: (1) In the first half of 2010, the net cash inflow from investing activities increased by Rmb700,873,000 due to redemption of bank financial investment purchased at last year end. (2) Deposits with banks and other financial institutions decreased by Rmb104,992,000 in the in the first half of 2010, while there had been an increase of Rmb620,539,000 in the first half of 2009. As a result, the net cash inflow from investing activities increased by Rmb725,531,000.

In the first half of 2010, the Group's net cash outflow from financing activities was zero, a decrease of cash outflow by Rmb334,000 compared with the corresponding period of 2009. It was mainly due to Rmb334,000 of cash repayments of borrowings in the first half of 2009.

(3) Bank borrowings

As at 30 June 2010, the Group's bank loans were nil (as at 31 December 2009: nil).

(4) Debt-equity ratio

The debt-equity ratio of the Group was nil for the first half of 2010 (first half of 2009: 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 2010, there was not any charge in the Group's assets.

(6) Management of foreign exchange risk

The Group's operations are mainly dominated in Renminbi and foreign currency needed was mainly dominated 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 2010, the Group's capital expenditure amounted to Rmb91,166,000. The amount was mainly invested in the construction of 1,4-Butanediol project with an annual capacity of 100,000 tonnes, and the operational improvement of the aramid fiber project with an annual capacity of 100 tonnes, and some technical reform so as to increase profit for the existing assets.

The Group's capital expenditure for the second half of 2010 is projected to be approximately Rmb621,030,000. Including: 1,000 tonnes-grade high performance polyethylene fiber project and 1,4-Butanediol project with an annual capacity of 100,000 tonnes amounting to Rmb110,000,000 and Rmb400,000,000 respectively. In the second half of 2010, in order to maximize return on investment, the Group will arrange the schedule of capital expenditure in accordance with the prudential principle. The planned capital expenditures will be funded from 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.

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 tenth meeting of the sixth term of the Board held on 29 March 2010.

   The Self-evaluation Report on Internal Control System was considered and approved by the tenth meeting of the sixth term and was disclosed on the website of SSE and HKSE.

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.

   At present, the non-circulating shareholders are actively doing research in share reform and have not brought forward new proposal of share reform.

4. As approved by 2009 AGM held on 8 June 2010, the Company did not pay a final cash dividend for the year ended 31 December 2009 to continually make good the Company's previous years' losses, 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 2010.

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.

7. Information on connected transactions

The tenth meeting of the sixth term of the Board held on 29 March 2010 considered and approved the connected transaction in relation to the provision of sales agency services by Sinopec for the sale of certain products of the Group, the resolution to revise the annual caps of financial services by CITIC Bank and relative agreements and announcement. At the 2009 AGM held on 8 June 2010, independent shareholders discussed and approved the resolution to revise the annual caps of financial services by CITIC Bank.

At the 2009 AGM held on 8 June 2010, independent shareholders discussed and approved the resolution of 2010 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 2010 were as follows:

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

Type of transaction	**Transaction parties**	**Amount of transaction** *Rmb'000*	**Proportion of the same type of transaction** *(%)*
Purchase of raw materials	Sinopec and its subsidiaries	3,151,230	47.9%

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 6 of the interim financial report prepared in accordance with PRC Accounting Standards for Business Enterprises.

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 2010, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

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

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

14. 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 27 to 45 which comprises the consolidated balance sheet of Sinopec Yizheng Chemical Fibre Company Limited as at 30 June 2010, and the related consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months 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 2010 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

23 August 2010

Consolidated statement of comprehensive income
for the six months ended 30 June 2010 – unaudited

	Note	Six months ended 30 June 2010 Rmb'000	2009 Rmb'000
Turnover	4	**7,596,517**	6,135,575
Cost of sales		**(7,084,439)**	(5,520,524)
Gross profit		**512,078**	615,051
Other income	5	**10,042**	9,195
Distribution costs		**(98,331)**	(98,185)
Administrative expenses		**(203,253)**	(216,564)
Other expenses		**(542)**	(7,782)
Profit from operations		**219,994**	301,715
Finance income	6(a)	**24,275**	13,046
Finance expenses	6(a)	**(2,537)**	(4,164)
Net finance income	6(a)	**21,738**	8,882
Profit before taxation	6	**241,732**	310,597
Income tax	7(a)	**189,773**	(655)
Profit and total comprehensive income for the period attributable to equity shareholders of the Company		**431,505**	309,942
Basic and diluted earnings per share (in RMB)	9	**0.108**	0.077

The notes on pages 32 to 45 form part of this interim financial report.

Consolidated Balance Sheet

as at 30 June 2010 – unaudited

	Note	At 30 June 2010 Rmb'000	At 31 December 2009 Rmb'000
Non-current assets			
Property, plant and equipment	10	**3,702,571**	3,774,911
Construction in progress		**226,809**	325,812
Lease prepayments		**118,323**	119,944
Deferred tax assets	7(b)	**234,083**	44,310
		4,281,786	4,264,977
Current assets			
Available-for-sale financial assets		**–**	700,000
Inventories		**2,002,543**	1,308,019
Trade and other receivables	11	**1,694,458**	1,405,519
Deposits with banks and other financial institutions	12	**454,608**	559,600
Cash and cash equivalents	13	**1,124,603**	774,767
		5,276,212	4,747,905
Current liabilities			
Trade and other payables	14	**2,165,190**	2,073,949
Provisions		**–**	5,198
		2,165,190	2,079,147
Net current assets		**3,111,022**	2,668,758
Total assets less current liabilities		**7,392,808**	6,933,735
Non-current liabilities			
Deferred income	15	**48,500**	21,256
Net assets		**7,344,308**	6,912,479

The notes on pages 32 to 45 form part of this interim financial report.

Consolidated Balance Sheet
as at 30 June 2010 – unaudited (continued)

	Note	**At 30 June 2010 *Rmb'000***	At 31 December 2009 *Rmb'000*
Equity			
Share capital		**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	*16*	**(175,752)**	(176,076)
Retained profits		**1,001,227**	569,722
Total equity attribute to equity shareholders of the Company		**7,344,308**	6,912,479

Approved and authorised for issue by the Board of Directors on 23 August 2010.

Xiao Wei-zhen
Director

Shen Xi-jun
Director

The notes on pages 32 to 45 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2010 – unaudited

	Share capital *Rmb'000*	Share premium *Rmb'000*	Reserves *Rmb'000*	Retained profits/ (accumulated losses) *Rmb'000*	Total *Rmb'000*
Balance at 1 January 2009	4,000,000	2,518,833	1,279,928	(1,272,229)	6,526,532
Make good of losses by reserve	–	–	(1,456,004)	1,456,004	–
Total comprehensive income for the period	–	–	–	309,942	309,942
Balance at 30 June 2009 and 1 July 2009	4,000,000	2,518,833	(176,076)	493,717	6,836,474
Total comprehensive income for the period	–	–	–	76,005	76,005
Balance at 31 December 2009 and 1 January 2010	4,000,000	2,518,833	(176,076)	569,722	6,912,479
Specific reserve accrued *(note 16)*	–	–	324	–	324
Total comprehensive income for the period	–	–	–	431,505	431,505
Balance at 30 June 2010	4,000,000	2,518,833	(175,752)	1,001,227	7,344,308

The notes on pages 32 to 45 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	***Rmb'000***	*Rmb'000*
Net cash (used in)/generated from operating activities		**(447,019)**	814,291
Net cash generated from/(used in) investing activities		**796,855**	(983,631)
Net cash used in financing activities		**–**	(334)
Net increase/(decrease) in cash and cash equivalents		**349,836**	(169,674)
Cash and cash equivalents at 1 January	*13*	**774,767**	841,294
Cash and cash equivalents at 30 June	*13*	**1,124,603**	671,620

The notes on pages 32 to 45 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*, issued by the International Accounting Standards Board ("**IASB**"). This interim financial report was authorised for issuance on 23 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial report 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 2009 annual financial statements. The condensed consolidated interim financial report and notes thereon do not include all of the information required for a full set of financial report 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 pages 26.

The financial information relating to the financial year ended 31 December 2009 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 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2010. The 2009 annual financial statements have been prepared in accordance with IFRSs.

2 Changes in accounting policies

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), Business combinations
- Amendments to IAS 27, Consolidated and separate financial statements
- Amendments to IFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Improvements to IFRSs (2009)

2 Changes in accounting policies (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IAS 27 and IFRS 5 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

2 Changes in accounting policies (continued)

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies was applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:

  – If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

3 Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified five reportable segments which manufacture and sell polyester chips, bottle-grade polyester chips, staple fibre and hollow fibre, filament and purified terephthalic acid ("PTA"). All segments are primarily engaged in the PRC.

(a) Segment results and assets

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets attributable to each reportable segment on the following basis:

Segment assets represent property, plant and equipment and inventories.

3 Segment reporting (continued)

(a) Segment results and assets (continued)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "gross profit".

In addition to receiving segment information concerning "gross profit", management is provided with segment information concerning revenue (including inter-segment sales), depreciation, amortisation and impairment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Polyester chips		Bottle-grade polyester chips		Staple fibre and hollow fibre		Filament		PTA		All others #		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	Rmb'000	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*	***Rmb'000***	*Rmb'000*
For the six months ended 30 June														
Revenue from external customers	**2,861,501**	1,976,311	**1,355,044**	1,419,186	**2,379,865**	1,876,750	**837,774**	731,908	**–**	–	**162,333**	131,420	**7,596,517**	6,135,575
Inter-segment revenue	**46,671**	59,884	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**46,671**	59,884
Reportable segment revenue	**2,908,172**	2,036,195	**1,355,044**	1,419,186	**2,379,865**	1,876,750	**837,774**	731,908	**–**	–	**162,333**	131,420	**7,643,188**	6,195,459
Gross profit/(loss) from external customers	**213,192**	254,519	**80,347**	103,552	**200,717**	258,727	**29,661**	(2,521)	**–**	–	**(11,839)**	774	**512,078**	615,051
Inter-segment profit	**3,267**	7,785	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,267**	7,785
Reportable segment profit/(loss)	**216,459**	262,304	**80,347**	103,552	**200,717**	258,727	**29,661**	(2,521)	**–**	–	**(11,839)**	774	**515,345**	622,836
Depreciation and amortisation	**31,250**	32,749	**19,069**	22,314	**19,206**	20,571	**7,575**	15,783	**116,406**	115,122	**46,486**	41,902	**239,992**	248,441
Impairment of PP&E	**246**	–	**–**	–	**–**	–	**–**	–	**54**	4,390	**–**	–	**300**	4,390
Write-down of inventories	**–**	–	**–**	–	**–**	–	**–**	19,892	**–**	–	**–**	–	**–**	19,892
As at 30 June 2010 and 31 December 2009														
Reportable segment assets	**685,126**	647,577	**399,978**	403,198	**453,001**	401,468	**211,722**	231,800	**1,136,225**	1,246,283	**1,001,389**	931,449	**3,887,441**	3,861,775

\# *Revenues from segments below the quantitative thresholds are mainly attributable to five operating segments of the Group including one logistic center, one power center, one water supply center, one thermal center and one high-fibre center. None of those segments met any of the quantitative thresholds for determining reportable segments.*

3 Segment reporting (continued)

(b) Reconciliations of reportable segment revenues, profit, assets and other material items

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Revenue		
Revenue for reportable segments excluding other revenue	**7,480,855**	6,064,039
Other revenue	**162,333**	131,420
Elimination of inter-segment revenue	**(46,671)**	(59,884)
Consolidated turnover	**7,596,517**	6,135,575

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Profit		
Profits for reportable segments excluding other profit	**527,184**	622,062
Other (loss)/profit	**(11,839)**	774
Elimination of inter-segment profit	**(3,267)**	(7,785)
Consolidated gross profit	**512,078**	615,051
Other income	**10,042**	9,195
Distribution costs	**(98,331)**	(98,185)
Administrative expenses	**(203,253)**	(216,564)
Other expenses	**(542)**	(7,782)
Net finance income	**21,738**	8,882
Consolidated profit before taxation	**241,732**	310,597

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Depreciation and amortisation		
Depreciation and amortisation for reportable segments excluding other depreciation and amortisation	**193,506**	206,539
Other depreciation and amortisation	**46,486**	41,902
Unallocated depreciation and amortization	**16,021**	15,852
Consolidated total depreciation and amortisation	**256,013**	264,293

3 Segment reporting (continued)

(b) Reconciliations of reportable segment revenues, profit, assets and other material items (continued)

	At 30 June 2010	At 31 December 2009
	Rmb'000	*Rmb'000*
Assets		
Assets for reportable segments excluding other assets	**2,886,052**	2,930,326
Other assets	**1,001,389**	931,449
Unallocated assets	**1,820,352**	1,222,917
Elimination of inter-segment balances	**(2,679)**	(1,762)
	5,705,114	5,082,930
Other non-current assets	**579,215**	490,066
Available-for-sale financial assets	**–**	700,000
Trade and other receivables	**1,694,458**	1,405,519
Deposits with banks and other financial institutions	**454,608**	559,600
Cash and cash equivalents	**1,124,603**	774,767
Consolidated total assets	**9,557,998**	9,012,882

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Impairment of PP&E		
Impairment of PP&E for reportable segments and consolidated total impairment of PP&E	**300**	4,390

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Write-down of inventories		
Write-down of inventories for reportable segments and consolidated total write-down of inventories	**–**	19,892

4 Turnover

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

5 Other income

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Net gain on disposal of property, plant and equipment	**9,015**	8,890
Others	**1,027**	305
Other income	**10,042**	9,195

6 Profit before taxation

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

(a) Net finance income:

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Interest income	**(21,300)**	(8,303)
Net foreign exchange gain	**(2,102)**	(4,743)
Net gain on disposal of available-for-sale financial assets	**(873)**	–
Finance income	**(24,275)**	(13,046)
Interest on borrowings	**–**	4
Interest on discounting bills	**1,878**	3,444
Interest expense	**1,878**	3,448
Others	**659**	716
Finance expenses	**2,537**	4,164
Net finance income	**(21,738)**	(8,882)

(b) Other items:

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Cost of inventories#	**7,084,439**	5,520,524
Depreciation#	**254,392**	262,672
Impairment losses of property, plant and equipment	**300**	4,390
Write-down of inventories#	**–**	19,892
Amortisation of lease prepayments	**1,621**	1,621
Net gain on disposal of property, plant and equipment	**(9,015)**	(8,890)

\# *Cost of inventories includes Rmb227,238,000 (six months ended 30 June 2009: Rmb257,755,000) relating to depreciation and write-down of inventories which amount is also included in the respective total amounts disclosed separately in note 6(b) for each of these types of expenses.*

7 Income tax

(a) Income tax in the consolidated statement of comprehensive income represents:

	Six months ended 30 June 2010 Rmb'000	2009 Rmb'000
Recognition of deferred tax assets	190,428	–
Reversal of deferred tax assets	(655)	(655)
	189,773	(655)

The charge for PRC income tax is calculated at the rate of 25% (six months ended 30 June 2009: 25%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes.

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

	Balance at 1 January 2009 Rmb'000	Recognised in consolidated statement of comprehensive income Rmb'000	Balance at 30 June 2009 Rmb'000	Recognised in consolidated statement of comprehensive income Rmb'000	Balance at 31 December 2009 Rmb'000	Recognised in consolidated statement of comprehensive income Rmb'000	Balance at 30 June 2010 Rmb'000
Current							
Write-down of inventories	–	–	–	–	–	4,462	4,462
Impairment for receivables	–	–	–	–	–	618	618
Accrued sales rebate	–	–	–	–	–	14,864	14,864
Non-current							
Revaluation of land use rights	45,620	(655)	44,965	(655)	44,310	(655)	43,655
Depreciation difference of property, plant and equipment	–	–	–	–	–	10,296	10,296
Impairment for property, plant and equipment	–	–	–	–	–	94,790	94,790
Impairment for investment in subsidiary	–	–	–	–	–	53,273	53,273
Deferred income	–	–	–	–	–	12,125	12,125
	45,620	(655)	44,965	(655)	44,310	189,773	234,083

The Group has not recognised deferred tax assets in respect of:

	At 30 June 2010 The Company Rmb'000	YCFC Jingwei Rmb'000
Deductible temporary differences	–	277,466
Cumulative unutilised tax losses	586,235	298,708
Total	586,235	576,174

As at 30 June 2010, the Company has not recognised deferred tax assets in respect of cumulative unutilised tax losses amounting to Rmb586,235,000, as it is not probable that losses can be utilised in the relevant tax jurisdiction after the deduction of the temporary differences against the future taxable profits.

7 Income tax (continued)

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

As at 30 June 2010, the wholly-owned subsidiary of the Company YCFC Jingwei Fibre Company Limited ("YCFC Jingwei") has not recognised deferred tax assets in respect of deductible temporary differences amounting to Rmb277,466,000 and cumulative unutilised tax losses amounting to Rmb298,708,000, as it is not probable that future taxable profits against which the temporary differences can be deducted and the losses can be utilised will be available in the relevant tax jurisdiction.

Under current tax legislation, the above deductible tax losses will expire in the following years:

	At 30 June 2010	
	The Company	**YCFC Jingwei**
	Rmb'000	***Rmb'000***
2010	**–**	**22,962**
2011	**–**	**72,947**
2012	**–**	**49,012**
2013	**586,235**	**76,159**
2014	**–**	**60,009**
2015	**–**	**17,619**
Total	**586,235**	**298,708**

8 Dividend

No final dividend in respect of the financial year 2009 was approved during the period (financial year 2008: Rmb nil).

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Rmb nil).

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of Rmb431,505,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: profit of Rmb309,942,000) and the weighted average number of ordinary shares of 4,000,000,000 (2009: 4,000,000,000) in issue during the period.

(b) Diluted earnings per share

The Group had no dilutive potential ordinary shares in existence during the six months ended 30 June 2010 and 2009.

10 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 2010 and 2009 are as follows:

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Cost of acquisitions and transfer from construction in progress	**190,169**	100,295
Additions from business combination	**–**	308,417
Disposals (net carrying amount)	**(7,817)**	(26,247)

11 Trade and other receivables

	At 30 June 2010 Rmb'000	At 31 December 2009 Rmb'000
Trade receivables	**205,569**	119,614
Bills receivable	**1,197,222**	1,000,787
Prepayments	**10,569**	2,734
Amounts due from the parent company and fellow subsidiaries – trade	**4,662**	4,118
Total trade receivables	**1,418,022**	1,127,253
Amounts due from the parent company and fellow subsidiaries-non-trade	**8,630**	10,532
Other receivables	**270,276**	269,086
	278,906	279,618
Less: Allowance for doubtful debts	**(2,470)**	(1,352)
Total non-trade receivables	**276,436**	278,266
	1,694,458	1,405,519

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

The ageing analysis of trade receivables, bills receivable, prepayments, amounts due from the parent company and fellow subsidiaries – trade is as follows:

	At 30 June 2010 Rmb'000	At 31 December 2009 Rmb'000
Within 1 year	**1,418,022**	1,127,253

Trade receivables, prepayments and amounts due from the parent company and fellow subsidiaries – trade are due within 2 months to 12 months from the date of billing. Bills receivable are due within 12 months from the date of billing.

12 Deposits with banks and other financial institutions

	At 30 June 2010 Rmb'000	At 31 December 2009 Rmb'000
Balances with banks and other financial institutions, which are related parties – Sinopec Finance Company Limited ("**Sinopec Finance**")	**–**	200,000
Balances with banks in the PRC (excluding China CITIC Bank)	**454,608**	359,600
	454,608	559,600

13 Cash and cash equivalents

	At 30 June 2010 ***Rmb'000***	At 31 December 2009 *Rmb'000*
Cash in hand	**20**	90
Cash at bank	**1,124,583**	774,677
	1,124,603	774,767

14 Trade and other payables

	At 30 June 2010 ***Rmb'000***	At 31 December 2009 *Rmb'000*
Bills payable	**–**	240,000
Trade payables	**501,906**	524,906
Amounts due to the parent company and fellow subsidiaries-trade	**1,259,053**	926,871
Total trade payables	**1,760,959**	1,691,777
Amounts due to the parent company and fellow subsidiaries – non-trade	**21,615**	15,575
Other payables and accrued expenses	**382,616**	366,597
	2,165,190	2,073,949

The maturity analysis of bills payable and trade payables is as follows:

	At 30 June 2010 ***Rmb'000***	At 31 December 2009 *Rmb'000*
Due within 1 month or on demand	**501,906**	644,906
Due after 1 month but within 3 months	**–**	120,000
	501,906	764,906

15 Deferred income

During the six months ended 30 June 2010, the Group received government grant totalling RMB27,750,000 (six months ended 30 June 2009: RMB5,000,000) related to a project under construction. The grant was recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the related assets when it is ready for use.

16 Reserves

For the six months ended 30 June 2010, no transfers were made to the statutory surplus reserve, or the discretionary surplus reserve (six months ended 30 June 2009: Rmb nil).

During the six months ended 30 June 2010, the Group recognised the specific reserve amounting to RMB324,000 (six months ended 30 June 2009: Rmb nil) related to safety fee provided on its specific product in accordance with PRC regulations.

17 Related party transactions

CPC, Sinopec Corp and CITIC Group (formerly "China International Trust and Investment Corporation") 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 Finance, China CITIC Bank and other subsidiaries of CPC, Sinopec Corp and CITIC Group are considered to be related parties as they are subject to the common control and/or significant influence of CPC, Sinopec Corp or CITIC Group.

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

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**3,151,230**	2,923,530
Service charges paid for the sale of finished goods	**20,000**	–
Service charges paid for the purchase of raw materials	**10,976**	6,353
Sinopec Finance		
Interest income received	**3,493**	455
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)		
Sales of goods	**118,847**	95,039
Miscellaneous service fee charges paid	**6,000**	6,000
Construction and overhaul fee paid	**–**	9,000
Insurance premium paid	**–**	2,115
China CITIC Bank		
Interest income received	**380**	658
Interest expense paid	**–**	4
YCFC Jingwei		
Sales of goods	**–**	90,348

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.

17 Related party transactions (continued)

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

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

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

– depositing money;
– borrowing loans; and
– discounting bills.

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, borrowing loans and discounting bills, 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 Group also obtains short-term loans from and discounting bills to these banks in the ordinary course of business. The interest rates of the bank deposits and loans and the discounting rates are regulated by the People's Bank of China. The Group's interest income from and interest expense to these state-controlled banks in the PRC is as follows:

	Six months ended 30 June	
	2010	2009
	Rmb'000	*Rmb'000*
Interest income	**17,427**	7,190
Interest expense	**1,878**	3,444

(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	
	2010	2009
	Rmb'000	*Rmb'000*
Short-term employee benefits	**1,578**	1,438
Retirement scheme contributions	**85**	74

(d) Contributions to defined contribution retirement scheme

In addition to the basic defined contribution retirement schemes organised by the respective municipal governments, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Group in an independent fund administered by representatives from the Group. The scheme is funded by contributions from the Group which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2010 was 5% (2009: 5%).

18 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 2010 not provided for in the interim financial report as follows:

	At 30 June 2010 *Rmb'000*	At 31 December 2009 *Rmb'000*
Authorised and contracted for	**158,256**	–
Authorised but not contracted for	**462,774**	118,103

19 Contingent liability

Income tax differences

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2010. No provision has been made in the interim financial report for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

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

Balance sheet *(unaudited)*

(Expressed in thousands of renminbi yuan)

		The Group			The Company	
Item	*Note*	**At 30 June 2010**	At 31 December 2009	*Note*	**At 30 June 2010**	At 31 December 2009
Current assets:						
Cash at bank and on hand	*5(1)*	**1,579,211**	1,334,367		**1,573,882**	1,327,985
Bills receivable	*5(2)*	**1,197,222**	1,000,787		**1,197,222**	1,000,787
Accounts receivable	*5(3)*	**210,232**	123,022	*10(1)*	**371,534**	298,681
Prepayments	*5(5)*	**10,569**	2,734		**10,452**	2,698
Other receivables	*5(4)*	**46,074**	36,224	*10(2)*	**45,409**	36,141
Inventories	*5(6)*	**2,002,543**	1,308,019		**1,967,471**	1,273,345
Available-for-sale financial assets		**–**	700,000		**–**	700,000
Other current assets	*5(7)*	**230,358**	242,750		**230,358**	242,408
Total current assets		**5,276,209**	4,747,903		**5,396,328**	4,882,045
Non-current assets:						
Long-term equity investments		**–**	–	*10(3)*	**–**	–
Fixed assets	*5(8)*	**3,634,001**	3,695,828		**3,509,240**	3,565,795
Construction in progress	*5(9)*	**226,809**	325,812		**226,809**	325,812
Intangible assets	*5(10)*	**361,518**	376,270		**361,518**	376,270
Deferred tax assets	*5(11)*	**190,428**	–		**190,428**	–
Total non-current assets		**4,412,756**	4,397,910		**4,287,995**	4,267,877
Total assets		**9,688,965**	9,145,813		**9,684,323**	9,149,922

The notes on pages 53 to 114 form part of these financial statements.

Balance sheet *(unaudited)* (continued)

(Expressed in thousands of renminbi yuan)

		The Group			The Company	
Item	*Note*	**At 30 June 2010**	At 31 December 2009	*Note*	**At 30 June 2010**	At 31 December 2009
Current liabilities:						
Bills payable	*5(13)*	**–**	240,000		**–**	240,000
Accounts payable	*5(14)*	**1,583,503**	1,181,716		**1,573,112**	1,172,554
Advances from customers	*5(15)*	**176,151**	258,915		**184,807**	255,284
Employee benefits payable	*5(16)*	**132,329**	72,122		**126,110**	71,943
Taxes payable	*5(17)*	**9,422**	17,673		**6,513**	17,347
Other payables	*5(18)*	**263,785**	303,523		**267,328**	319,168
Provisions	*5(19)*	**–**	5,198		**–**	5,198
Total current liabilities		**2,165,190**	2,079,147		**2,157,870**	2,081,494
Non-current liabilities:						
Deferred income	*5(20)*	**48,500**	21,256		**48,500**	21,256
Total non-current liabilities		**48,500**	21,256		**48,500**	21,256
Total liabilities		**2,213,690**	2,100,403		**2,206,370**	2,102,750
Shareholders' equity:						
Share capital	*5(21)*	**4,000,000**	4,000,000		**4,000,000**	4,000,000
Capital reserve	*5(22)*	**3,107,164**	3,107,164		**3,107,164**	3,107,164
Specific reserve	*5(23)*	**324**	–		**324**	–
Retained earnings/ (Accumulated losses)	*5(25)*	**367,787**	(61,754)		**370,465**	(59,992)
Total equity attribute to equity shareholders of the Company		**7,475,275**	7,045,410		**7,477,953**	7,047,172
Total liabilities and shareholders' equity		**9,688,965**	9,145,813		**9,684,323**	9,149,922

These financial statements have been approved by the Board of Directors of the Company on 23 August 2010.

Xiao Wei-zhen	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Vice Chairman	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 53 to 114 form part of these financial statements.

Income statement *(unaudited)*
For the six months ended 30 June
(Expressed in thousands of renminbi yuan)

Item	Note	The Group 2010	The Group 2009	Note	The Company 2010	The Company 2009
1. Operating income	*5(26)*	**7,596,517**	6,135,575	*10(4)*	**7,503,477**	6,053,628
2. Operating costs	*5(26)*	**6,913,950**	5,358,807	*10(4)*	**6,821,503**	5,279,270
Business taxes and surcharges	*5(27)*	**19,430**	16,404		**18,632**	16,325
Selling and distribution expenses		**98,331**	98,185		**92,875**	92,308
General and administrative expenses		**355,813**	343,429		**344,811**	332,967
Net financial income	*5(28)*	**(20,865)**	(8,882)		**(22,126)**	(10,981)
Impairment loss	*5(29)*	**1,418**	25,457		**13,154**	5,565
Add: Investment income	*5(30)*	**873**	–	*10(5)*	**873**	–
3. Operating profit		**229,313**	302,175		**235,501**	338,174
Add: Non-operating income	*5(31)*	**11,226**	9,763		**5,832**	9,758
Less: Non-operating expenses	*5(32)*	**1,426**	3,960		**1,304**	3,857
Including: Losses from disposal of non-current assets		**1,184**	568		**1,184**	568
4. Profit before income tax		**239,113**	307,978		**240,029**	344,075
Less: Income tax expenses	*5(33)*	**(190,428)**	–		**(190,428)**	–
5. Net profit for the period		**429,541**	307,978		**430,457**	344,075
Attributable to shareholders of the Company		**429,541**	307,978		**430,457**	344,075
6. Earnings per share:						
(1) Basic earnings per share (Expressed in RMB)	*5(34)*	**0.107**	0.077		**0.108**	0.086
(2) Diluted earnings per share (Expressed in RMB)	*5(34)*	**0.107**	0.077		**0.108**	0.086
7. Other comprehensive income for the period		**–**	–		**–**	–
8. Total comprehensive income for the period		**429,541**	307,978		**430,457**	344,075
Attributable to shareholders of the Company		**429,541**	307,978		**430,457**	344,075

These financial statements have been approved by the Board of Directors of the Company on 23 August 2010.

Xiao Wei-zhen	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Vice Chairman	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 53 to 114 form part of these financial statements.

Cash flow statement *(unaudited)*
For the six months ended 30 June
(Expressed in thousands of renminbi yuan)

		The Group			The Company	
Item	*Note*	**2010**	2009	*Note*	**2010**	2009
1. Cash flows from operating activities:						
Cash received from sale of goods and rendering of services		**7,709,355**	7,282,153		**7,575,186**	6,969,739
Refund of taxes		**1,558**	1,875		**216**	1,528
Sub-total of cash inflows		**7,710,913**	7,284,028		**7,575,402**	6,971,267
Cash paid for goods and services		**(7,317,233)**	(5,749,752)		**(7,223,441)**	(5,461,937)
Cash paid to and for employees		**(325,135)**	(298,405)		**(287,336)**	(274,616)
Cash paid for all types of taxes		**(215,940)**	(171,836)		**(209,396)**	(165,754)
Other cash paid relating to operating activities	*5(35)(a)*	**(299,624)**	(249,744)		**(295,403)**	(223,990)
Sub-total of cash outflows		**(8,157,932)**	(6,469,737)		**(8,015,576)**	(6,126,297)
Net cash (outflow)/inflow from operating activities	*5(36)(a)*	**(447,019)**	814,291	*10(6)*	**(440,174)**	844,970
2. Cash flows from investing activities:						
Net cash received from disposal of investments		**700,873**	–		**700,873**	–
Net cash received from disposal of fixed assets and intangible assets		**16,831**	13,836		**10,992**	13,836
Other cash received relating to investing activities	*5(35)(b)*	**49,050**	13,303		**48,863**	13,016
Sub-total of cash inflows		**766,754**	27,139		**760,728**	26,852
Cash paid for acquisition of fixed assets and intangible assets		**(74,891)**	(74,356)		**(74,657)**	(73,932)
Net cash paid for acquisition of a subsidiary		**–**	(18,414)		**–**	(61,525)
Sub-total of cash outflows		**(74,891)**	(92,770)		**(74,657)**	(135,457)
Net cash outflow from investing activities		**691,863**	(65,631)		**686,071**	(108,605)

The notes on pages 53 to 114 form part of these financial statements.

Cash flow statement *(unaudited)* (continued)

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

Item	*Note*	**2010**	2009	*Note*	**2010**	2009
3. Cash flows from financing activities:						
Cash repayments of borrowings		**–**	(334)		**–**	–
Sub-total of cash outflows		**–**	(334)		**–**	–
Net cash outflow from financing activities		**–**	(334)		**–**	–
4. Effect of exchange rate change on cash and cash equivalents		**–**	–		**–**	–
5. Net increase in cash and cash equivalents	*5(36)(a)*	**244,844**	748,326	10(6)	**245,897**	736,365
Add: Cash and cash equivalents at the beginning of the period		**1,334,367**	906,294		**1,327,985**	906,294
6. Cash and cash equivalents at the end of the period		**1,579,211**	1,654,620		**1,573,882**	1,642,659

These financial statements have been approved by the Board of Directors of the Company on 23 August 2010.

Xiao Wei-zhen	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Vice Chairman	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 53 to 114 form part of these financial statements.

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

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

		2010						2009					
Item		Share capital	Capital reserve	Specific reserve	Surplus reserve	(Accumulated losses)/ Retained earnings	Subtotal	Share capital	Capital reserve	Specific reserve	Surplus reserve	Accumulated losses	Subtotal
1.	As at the beginning of the period	4,000,000	3,107,164	–	–	(61,754)	7,045,410	4,000,000	3,107,164	–	1,456,004	(1,899,776)	6,663,392
2.	Changes in equity for the period												
	(1) Net profit	–	–	–	–	429,541	429,541	–	–	–	–	307,978	307,978
	(2) Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–
	(3) Transfer within equity												
	Make good of losses by surplus reserve	–	–	–	–	–	–	–	–	–	(1,456,004)	1,456,004	–
	(4) Specific reserve												
	Appropriation	–	–	324	–	–	324	–	–	–	–	–	–
3.	As at the end of the period	4,000,000	3,107,164	324	–	367,787	7,475,275	4,000,000	3,107,164	–	–	(135,794)	6,971,370

These financial statements have been approved by the Board of Directors of the Company on 23 August 2010.

Xiao Wei-zhen	**Xiao Wei-zhen**	**Li Jian-ping**	**Xu Xiu-yun**
Vice Chairman	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 53 to 114 form part of these financial statements.

Statement of changes in shareholder's equity *(unaudited)*

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

Item	2010 Share capital	2010 Capital reserve	2010 Specific reserve	2010 Surplus reserve	2010 (Accumulated losses)/ Retained earnings	2010 Subtotal	2009 Share capital	2009 Capital reserve	2009 Specific reserve	2009 Surplus reserve	2009 Accumulated losses	2009 Subtotal
1. As at the beginning of the period	4,000,000	3,107,164	–	–	(59,992)	7,047,172	4,000,000	3,107,164	–	1,456,004	(1,899,776)	6,663,392
2. Changes in equity for the period												
(1) Net profit	–	–	–	–	430,457	430,457	–	–	–	–	344,075	344,075
(2) Other comprehensive income	–	–	–	–	–	–	–	–	–	–	–	–
(3) Transfer within equity												
Make good of losses by surplus reserve	–	–	–	–	–	–	–	–	–	(1,456,004)	1,456,004	–
(4) Specific reserve												
Appropriation	–	–	324	–	–	324	–	–	–	–	–	–
3. As at the end of the period	4,000,000	3,107,164	324	–	370,465	7,477,953	4,000,000	3,107,164	–	–	(99,697)	7,007,467

These financial statements have been approved by the Board of Directors of the Company on 23 August 2010.

Xiao Wei-zhen	Xiao Wei-zhen	Li Jian-ping	Xu Xiu-yun
Vice Chairman	*General Manager*	*Chief Financial Officer*	*Supervisor of the Asset and Accounting Department*

The notes on pages 53 to 114 form part of these financial statements.

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. The immediate parent of the Company is China Petroleum & Chemical Corporation, and the ultimate controlling party of the Company is China Petrochemical Corporation.

The company was a part of the restructuring of Sinopec Asset and Management Corporation Yizheng Branch ("Yihua Group") (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. CITIC Group ("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.

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 Significant accounting policies and accounting estimates

(1) Basis of preparation of the financial statements

The financial statements are prepared on a going concern basis.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises – Basic Standard" and 38 specific accounting standards issued by the Ministry of Finance ("MOF") on 15 February 2006, and the application guidance of accounting standards, interpretation of ASBE, and other relevant provisions (hereinafter collectively referred to as "ASBE"). These financial statements 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" as revised by the China Securities Regulatory Commission ("CSRC") in 2010.

2. Significant accounting policies and accounting estimates (continued)

(3) Accounting year

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

(4) Functional currency

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

(5) Business combination 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. Any excess of the aggregate of the fair value paid by the Group and the Company as the acquirer in exchange for control of the acquiree at the acquisition date of assets given (including equity interest in the acquiree before the acquisition date) liabilities incurred or assumed, and equity securities issued by the acquirer, over the fair value of the net assets of the acquiree is recognised as goodwill. Otherwise, the negative difference is recognised in profit or loss. As equity or bond securities are issued by the Group and the Company as consideration, any attributable transaction cost is included their initial costs. Any other cost directly attributable to the business combination is recognised in profit or loss. The acquisition date is the date when the acquirer effectively obtains the control of the acquiree.

(6) 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 operating 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 a subsidiary was acquired 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 the consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

When a business combination involving entities not under common control is finished by a stage-up approach with several transactions, the equity interest held by the Group and the Company before the acquisition date is recalculated as the fair value at the acquisition date, and the difference is recognised in investment income in current period. Any other comprehensive income attributable to the equity interest held before the acquisition date is transferred to investment income in the period of the acquisition date.

When the control over former subsidiary is lost due to disposal of partial equity investment or some other reasons, residual equity investment is recalculated by the Group and the Company as the fair value at the date of the loss of control. The difference between the aggregate of consideration received from disposal of equity investment and fair value of residual equity investment, and its share of former subsidiary's net assets calculated continually since the acquisition date, is recognised in investment income in the period of the loss of control. Any other comprehensive income attributable to equity investment in former subsidiary is transferred to investment income in the period of the loss of control.

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 unrealised gains but only to the extent that there is no evidence of impairment.

2. Significant accounting policies and accounting estimates (continued)

(7) 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.

(8) Translation of foreign currencies

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

A spot exchange rate is an exchange rate quoted by the People's Bank of China ("PBOC rates").

Monetary items denominated in foreign currencies are translated to renminbi at the PBOC rates 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 specially for the purpose of acquisition, construction of qualifying assets (see Note 2(15)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rates at the transaction dates.

(9) Financial instruments

Financial instruments comprise cash at bank and on hand, receivables, available-for-sale financial assets, payables, loans and borrowings, and share capital, etc.

(a) Classification, recognition and measurement of financial assets and financial liabilities

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

The Group and the Company 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.

– 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.

2. Significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(a) Classification, recognition and measurement of financial assets and financial liabilities *(continued)*

– Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group and the Company 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.

Other than 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 profit or loss, are recognized 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) 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 Group and the Company calibrate the valuation technique and test it for validity periodically.

(c) Derecognition of financial assets and financial liabilities
A financial asset is derecognised if the Group's and the Company's contractual rights to the cash flows from the financial asset expire or if the Group and the Company 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 equity

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

2. Significant accounting policies and accounting estimates (continued)

(9) Financial instruments (continued)

(d) 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. For the impairment testing method of receivables, please see Note 2(10). And the impairment testing method of other financial assets is as following

– Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis.

For available-for-sale financial assets, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss, even though the financial assets have not been derecognised.

If, after an impairment loss has been recognised on available-for-sale debt instruments, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss.

(10) Impairment of 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 observable figures reflecting present economic conditions.

If, after an impairment loss has been recognised on receivables, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised 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.

(a) Recognition criteria and providing method of provision for bad and doubtful debts of individually significant receivables

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

Recognition criteria of provision for bad and doubtful debts for individually significant receivables	Impairment loss in respect of individually significant receivables is calculated and provided 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.
Accrual method of provision for bad and doubtful debts of individually significant receivables	Where impairment is assessed on an individual basis, receivables with no impairment losses provided on an individual basis are provided with other receivables by ageing.

(b) Recognition criteria and providing method of provision for bad and doubtful debts of individually insignificant receivables

For individually insignificant receivables, impairment of uncollectible receivables due over 1 year and special receivables is assessed first on an individual basis. Receivables with no impairment losses provided on an individual basis are provided with other receivables (inclusive of receivables on collective as described in (a) above) by ageing.

2. Significant accounting policies and accounting estimates (continued)

(11) Inventories

(a) Classification of inventories

Inventories include raw materials, work in progress, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

(b) Measurement of cost of inventories

Cost of inventories is calculated using the weighted average method.

(c) Net realisable value and method of provision for diminution in the value of 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. 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.

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. Net realizable value of raw materials held for production is estimated based on the net realisable value of products produced with the materials. For the inventories held for the implementation of the sales contract or service contract, the net realisable value is calculated on the basis of contract price. When inventories on hand exceed relative contractual orders, net realisable value of the excess part is calculated based on normal price.

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.

(d) Inventory count

The Group and the Company maintain a perpetual inventory system.

(e) Amortisation of reusable materials (including low-value consumables, packaging materials, etc.)

Reusable materials (including low-value consumables, packaging materials, etc.) 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.

(12) Long-term equity investments

(a) Determination of initial investment cost

(i) long-term equity investment obtained through a business combination

The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control finished by a stage-up approach with several transactions, is the aggregate of the carrying amount of equity investment in acquiree held by the Group and the Company and investment cost newly added at the acquisition date. Any other comprehensive income attributable to interest in acquiree prior to the acquisition date is transferred to investment income during the disposal of investment.

The initial investment cost of a long-term equity investment obtained through other business combination involving entities not under common control is the aggregate of the fair value of assets given, liabilities incurred or assumed, and equity securities issued by the Group and the Company as the acquirer in exchange for control of the acquiree at the acquisition date.

(ii) long-term equity investment obtained otherwise than through a business combination

An investment in a subsidiary acquired otherwise than through a business combination is initially recognised at actual payment cost if the Group acquires the investment by cash or at the value stipulated in the investment contract or agreement if an investment is contributed by shareholders. An investment is initially recognised at the fair value of equity securities if the long-term equity investment is acquired through an exchange of equity securities.

2. Significant accounting policies and accounting estimates (continued)

(12) Long-term equity investments (continued)

(b) Subsequent measurement

In the Company's financial statements, investments in subsidiaries are accounted for using the cost method. Other than declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investee as investment income. The investments are stated at cost less impairment losses in the balance sheet.

(c) Definition of jointly control or significant influence over the investee

Joint control is the contractual agreed sharing of control over an investee, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. Following matters will be considered when the Group deciding whether jointly control exist over an investee

– Whether any investor has the power to control operating activities of the investee individually;

– Whether the decisions relating to basic operating activities of the investee require the consent of all investors;

– Whether the right of management needs to be exercised within the framework of financial and operation policy that has been agree by all investors, when all investors authorise one investor to exert management over the daily operation of the investee by contract or agreement.

Significant influence exists when the investor has the power to influence the investee's financial and operating policy decision-making, but not able to control or jointly control, together with other parties, the formulation of these policies. Following matters will be considered when the Group and the Company deciding whether significant influence exist over an investee

– Whether having representative in the investee's board of directors or similar authority;

– Whether participating in the investee's policy-making process;

– Whether having significant transactions with the investee;

– Whether having representative in the investee's management;

– Whether providing key technique to investee, and etc.

(d) Impairment of long-term equity investments

For impairment method of long-term equity investment in subsidiaries and joint venture, please see Note 2(17).

The carrying amounts of other long-term equity investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, other long-term equity investments are assessed for impairment on an individual basis. The amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Once provided, the impairment loss will not be reversed. Other long-term equity investments are stated at cost less impairment loss in the balance sheet.

2. Significant accounting policies and accounting estimates (continued)

(13) Fixed assets

(a) Recognition of fixed assets

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

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 recognition of initial cost for self-constructed fixed assets is described Note 2(14).

Where parts of an item of fixed asset have different useful lives or provide benefits to the Group and the Company in different patterns thus necessitating use of different depreciation rates, each part is 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.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(b) Depreciation method of fixed assets

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 lives	**Residual values**	**Depreciation rates**
Plants 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 least each year-end.

(c) Method of impairment assessment and the basis on which the impairment is provided are described in Note 2(17).

(d) Disposal of fixed assets

The carrying amount of a fixed asset shall be derecognised on either

– On disposal; or

– No future economic benefits are expected to be generated from its use or disposal.

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.

2. Significant accounting policies and accounting estimates (continued)

(14) Construction in progress

The cost of self-constructed fixed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 2(15)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

Self-constructed fixed asset is transferred to fixed assets when it is ready for its intended use. Otherwise, it is stated in construction in progress and no depreciation is provided. Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 2(17)).

(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.

During 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 initially recognised amount of the borrowings.

During the capitalisation period, exchange differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency are capitalised as part of the cost of the qualifying asset. The exchange differences related to the principal and interest on foreign currency borrowings other than a specific-purpose borrowing are recognised as financial expenses in the period in which they are incurred.

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 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.

2. Significant accounting policies and accounting estimates (continued)

(16) 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 (see Note 2(17)). For an intangible asset with finite useful life, its cost less residual value and impairment loss is amortised on a straight-line method over its estimated useful life.

The respective amortisation periods for such intangible assets are as follows

Item	Amortisation periods
Land use right	44-50 years
Technology right	10 years
Patent right	10 years

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 Group and the Company. At the balance sheet date, the Group and the Company 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 Group and the Company intend to and have sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 2(17)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(17) Impairment of other assets other than inventories, financial assets and other long-term equity investments

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

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

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

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.

2. Significant accounting policies and accounting estimates (continued)

(17) Impairment of other assets other than inventories, financial assets and other long-term equity investments (continued)

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 Group and the Company also consider how management monitors the Group's and the Company's operations and how management makes decisions about continuing or disposing of the Group's and the Company's assets.

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.

If the result of the recoverable amount calculating indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit and loss for the current period. A provision for impairment loss of the asset is recognised accordingly. For 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, that 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.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(18) Provision

A provision is recognised for an obligation related to a contingency if the Group and the Company 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.

(19) Revenue

Revenue is the gross inflow of economic benefit in the periods arising in the course of the Group's and the Company's ordinary activities when the inflows result in increase in shareholders' 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 Group and the Company, 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 Group and the Company 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.

2. Significant accounting policies and accounting estimates (continued)

(19) Revenue (continued)

(b) Rendering of services

Revenue from rendering of services is measured at the fair value of the considerations received or receivable under the contract or agreement.

At the balance sheet date, where 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.

(20) Employee benefits

Employee benefits are all forms of considerations given and other relevant 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) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group and the Company have joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group and the Company make contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are recognised as cost of assets or 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 pension benefits to the retired employees. The Group and the Company do not have any other obligations in this respect.

(b) Housing fund and other social insurance

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group and the Company have joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group and the Company 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 Group and the Company 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 Group and the Company 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 Group and the Company are not allowed to withdraw from termination plan or redundancy offer unilaterally.

2. Significant accounting policies and accounting estimates (continued)

(21) Specific reserve

The Group and the Company accrued Safety Fund according to the national regulation for high-risk industry. The Safety Fund accrued is charged to the cost of related products, and the accrual balance is recorded in the "Specific Reserve" account. As using Safety Fund, if it is profit or loss related, the cost of expenditure is directly charged against the special reserves. While if it is capital expenditure related, the cost being used is recorded in "Construction in Progress" account, and transferred to fixed assets when it is ready for its intended use. Meanwhile, the cost of fixed asset is offset against the specific reserves and the same amount of accumulated depreciation is recognised, then the fixed asset is no longer depreciated in its useful life. The ending balance of specific reserves is reflected in "Specific Reserve" item under Shareholders' Equity in the balance sheet.

(22) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group and the Company at no consideration except for the capital contribution from the government as an investor in the Group and the Company. 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 Group and the Company will comply with the conditions attaching to 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.

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 Group and the Company 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 Group and the Company for expenses incurred is recognised in profit or loss immediately.

(23) Deferred tax assets and liabilities

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).

At the balance sheet date, the amount of deferred tax recognised is measured based on the expected manner of recovery 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 recovered or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. Significant accounting policies and accounting estimates (continued)

(23) Deferred tax assets and liabilities (continued)

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met

– The taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities, and

– They relate to income taxes levied by the same tax authority on either

  – The same taxable entity; or

  – Different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(24) 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.

(25) Related parties

If the Group and the Company have the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two 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 Group and the Company. Related parties of the Group and the Company 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 have joint control or exercise significant influence over the Group;

(e) Enterprises or individuals if a party has control, joint control or significant influence over both the enterprises or individuals and the Group;

(f) Jointly controlled entities of the Group;

(g) Principal individual investors of the Group and close family members of such individuals;

(h) Key management personnel of the Group and close family members of such individuals;

(i) Key management personnel of the Company's parent;

(j) Close family members of key management personnel of the Company's parent; and

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

2. Significant accounting policies and accounting estimates (continued)

(25) Related parties (continued)

Besides the related parties stated above determined in accordance with the requirements of ASBE, 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

(l) Enterprises, or persons that act in concert, that hold 5% or more of the Company's shares;

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

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

(o) Individuals who satisfy any of the aforesaid conditions in (h), (i) and (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

(p) Enterprises, other than the Company and subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (h), (i), (m) or (o), or in which such an individual assumes the position of a director or senior executive.

(26) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a distinguishable component of the Group and the Company that satisfies all of the following conditions

– Engaging in business activities from which it may earn revenues and incur expenses;

– Operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance;

– Financial information regarding financial position, results of operations and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics

– The nature of products and services;

– The nature of production processes;

– The type or class of customers for the products and services;

– The methods used to distribute the products or provide the services;

– The nature of the regulatory environment.

2. Significant accounting policies and accounting estimates (continued)

(27) 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.

Notes 5(16) and 9(2) contain information about the assumptions and their risk factors relating to termination benefits and fair value of financial instruments. Other key sources of estimation uncertainty are as follows

(a) Impairment of receivables

As described in Note 2(10), 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 Group and the Company 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 other assets other than inventories, financial assets and other long-term equity investments

As described in Note 2(17), other assets other than inventories, financial assets and other long-term equity investments 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. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing present value of expected future cash flows, significant judgments are exercised over the asset (asset group)'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.

(c) Depreciation and amortisation

As described in Note 2(13) and (16) 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 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) Provision for diminution in value of inventories

As described in Note 2(11), if the costs of inventories fall below their net realisable values, a provision 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 and the Company base 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 provision for diminution in value of inventories could be higher than estimated.

2. Significant accounting policies and accounting estimates (continued)

(28) Changes in significant accounting policies

In accordance with China Accounting Standards Bulletin No.4 ("Bulletin No.4"), which was newly issued by the MOF in 2010, the Group and the Company changed the following accounting policies in the current period:

Description of and reasons for changes in accounting policies	*Note*	Procedures for approval	Items affected in financial report	Amount affected
The accounting treatment of the direct business combination transaction cost ("combination transaction cost") incurred by acquirer during a business combination involving entities not under common control	(i)	In accordance with Bulletin No.4, no need to obtain internal approval	Not applicable	This change of accounting policy has no effect on the financial reports of current period.
The accounting treatment of interest in acquire held prior to the acquisition date, during a business combination involving entities not under common control finished by a stage-up approach with several transactions	(ii)	In accordance with Bulletin No.4, no need to obtain internal approval	Not applicable	This change of accounting policy has no effect on the financial reports of current period.
The accounting treatment of residual equity investment, if the control over former subsidiary is lost due to disposal of partial equity investment or some other reasons	(iii)	In accordance with Bulletin No.4, no need to obtain internal approval	Not applicable	This change of accounting policy has no effect on the financial reports of current period.
The accounting treatment of deferred tax assets arising from business combination by the acquirer	(iv)	In accordance with Bulletin No.4, no need to obtain internal approval	Not applicable	This change of accounting policy has no effect on the financial reports of current period.

Notes:

(i) The accounting treatment of the combination transaction cost incurred by acquirer during a business combination involving entities not under common control is as following:

Prior to 1 January 2010, the combination transaction cost (excluding the transaction cost attributable to the issue of equity or bond securities as consideration) incurred by the Group and the Company as the acquirer during a business combination involving entities not under common control is recognised in combination cost. Since 1 January 2010, the combination cost is recognised in profit or loss in current period.

The aforesaid change in accounting policy is first effective from 1 January 2010, and will be applied prospectively to transactions in current or future periods.

2. Significant accounting policies and accounting estimates (continued)

(28) Changes in significant accounting policies (continued)

Notes (continued):

(ii) The accounting treatment of interest in acquire held prior to the acquisition date, during a business combination involving entities not under common control finished by a stage-up approach with several transactions is as following:

Prior to 1 January 2010, when a business combination involving entities not under common control is finished by a stage-up approach with several transactions, the Group and the Company adjusts the carrying amount of long-term equity investment held by the Group and the Company prior to the acquisition date and measured with equity method to the initial acquisition cost.

Since 1 January 2010, the initial equity investment cost is the aggregate of the carrying amount of equity investment in acquiree held by the Group and investment cost newly added at the acquisition date in the separate financial reports of the Company. Any other comprehensive income attributable to interest in acquiree prior to the acquisition date is transferred to investment income during the disposal of investment. In consolidated financial reports, the equity interest held by the Group before the acquisition date is recalculated as the fair value at the acquisition date, and the difference is recognised in investment income in current period. Any other comprehensive income attributable to the equity interest held before the acquisition date is transferred to investment income in the period of the acquisition date.

The aforesaid change in accounting policy is first effective from 1 January 2010, and will be applied prospectively to transactions in current or future periods.

(iii) The accounting treatment of residual equity investment, if the control over former subsidiary is lost due to disposal of partial equity investment or some other reasons, is as following:

Before 1 January 2010, in consolidated financial reports, the Group recognise the residual long-term equity investment or other related financial assets by the carrying amount of the residual interest in the subsidiary. Since 1 January 2010, the residual equity investment is recalculated by the Group as the fair value at the date of the loss of control. The difference between the aggregate of consideration received from disposal of equity investment and fair value of residual equity investment, and its share of former subsidiary's net assets calculated continually since the acquisition date, is recognised in investment income in the period of the loss of control. Any other comprehensive income attributable to equity investment in former subsidiary is transferred to investment income in the period of the loss of control.

The aforesaid change in accounting policy is first effective from 1 January 2010, and will be applied prospectively to transactions in current or future periods.

2. Significant accounting policies and accounting estimates (continued)

(28) Changes in significant accounting policies (continued)

Notes (continued):

(iv) The accounting treatment of deferred tax assets arising from business combination by the acquirer is as following:

Before 1 January 2010, if the temporary deductible differences of the acquiree obtained in business combination fail to meet the recognition criteria for deferred tax assets at the acquisition date, the Group does not recognise the deferred tax assets accordingly. Then any subsequent recognition of these deferred tax assets when related benefit is realisable is recognised in profit or loss by deducting income tax expenses. Meanwhile, the goodwill is written down to the amount in case of the deferred tax assets is recognised on the acquisition date, and the written-down amount is recorded as impairment loss in profit or loss.

Since 1 January 2010, under the aforesaid circumstance, when recognise deferred tax assets obtained in business combination, the Group deduct the income tax expenses in profit or loss. Unless additional information about facts and circumstances obtained within 12 months from the acquisition date shows that they already existed at the acquisition date, and the benefits related to the acquiree's temporary deductible differences at the acquisition date is realisable, then the Group write down goodwill while recognise deferred tax assets. If the goodwill is insufficient to dilute, the difference is recognised in profit or loss.

In consideration that the temporary deductible differences of YCFC Jingwei Chemical Fibre Company Limited ("YCFC Jingwei") (formerly "Yihua UNIFI Fibre Industry Company Limited" ("Yihua UNIFI")) fail to meet the recognition criteria for deferred tax assets at the acquisition date, the Group does not recognise any deferred tax asset relating to YCFC Jingwei's temporary deductible differences at 30 June 2010. Therefore, no retrospective adjustment is applied for the aforesaid change of accounting policy.

The Group's and the Company's changes of accounting policies have no effect on any item in consolidated income statement and income statement of the current period, and the consolidated balance sheet and balance sheet as at 30 June 2010, compared with items in these financial statements assumed that no change of accounting policy has been made.

3. Taxation

Major taxes and tax rates

Tax	Tax basis	Tax Rate
Value added tax ("VAT")	VAT payable is calculated at the applicable tax rate on taxable income deducted by input VAT	13% or 17%
Business tax rate	Calculated by taxable income	3% or 5%
Enterprise income tax	Calculated by taxable income	25%
Urban maintenance and construction tax rate	Calculated by actual payment of business tax and VAT payable	7%
Education fee surcharge rate	Calculated by actual payment of business tax and VAT payable	4%
Land use tax	Calculate by the actual area of land occupied	RMB4 per square meter

The EIT rate applicable to the Company and its subsidiary for the period is 25% (2009: 25%).

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

4. Business combinations and the consolidated financial statements

Status of subsidiary

Subsidiary acquired through combination not under common control

Name	Type of subsidiary	Registration place	Nature	Registered Capital *Rmb'000*	Business scope	Percentage of equity held directly by the Company (%)	Percentage of voting rights held by the company (%)	Within the scope of consolidation	Minority interests at year end	Losses attributable to minority shareholders during the period	The excess amount of the losses attributable to the minority shareholders of a subsidiary compared with the minority shareholders' interest in the equity of the subsidiary
YCFC Jingwei	Wholly-owned subsidiary	Yizheng, Jiangsu Province	Company Limited	483,672	Manufacturing, processing and sale of differentiated polyester textile filament products	100	100	Yes	None	Not applicable	Not applicable

YCFC Jingwei was established in Yizheng City, Jiangsu Province on 28 July 2005, and is principally engaged in manufacturing, processing and sale of differentiated polyester textile filament products. Before the combination, Yihua UNIFI was the Company's jointly controlled entity, the Company and the other party UNIFI Asia Holding SRL ("Unifi Asia") each held 50% of Yihua UNIFI's equity shares. In March 2009, the Company acquired UNIFI Asia's 50% equity interest in YCFC Jingwei. After the acquisition, the Company acquired the power of control over YCFC Jingwei, which is then included in the consolidation scope.

5. Notes to consolidated financial statements

(1) Cash at bank and on hand

Rmb'000

Item	At 30 June 2010 Foreign Currency	Exchange Rate	RMB equivalents	At 31 December 2009 Foreign Currency	Exchange Rate	RMB equivalents
Cash on hand:						
Renminbi			**20**			90
Cash at bank:						
Renminbi			**1,346,981**			871,655
US Dollars	**4,901**	**6.791**	**33,283**	6,244	6.828	42,634
Deposits with related companies:						
Renminbi			**198,927**			419,988
Total			**1,579,211**			1,334,367

As at 30 June 2010 and 31 December 2009, no deposits of the Group were pledged.

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.

(2) Bills receivable

(a) Bills receivable by category

Rmb'000

Category	At 30 June 2010	At 31 December 2009
Bank acceptance bills	**1,197,222**	1,000,787

All of the above bills are due within six months.

At 30 June 2010, the Group's outstanding discounted bank acceptance bills (with recourse) amounted to Rmb5,799,000 (31 December 2009: Rmb144,579,000). The Group's outstanding endorsed bank acceptance bills (with recourse) amounted to Rmb400,010,000 (31 December 2009: Rmb329,656,000). These discounted or endorsed bills are due by 31 December 2010 (31 December 2009: due by 30 June 2010).

As at 30 June 2010 and 31 December 2009, 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.

(b) As at 30 June 2010, the top five items of bills receivable with largest amounts that have been endorsed but still undue are as follows

Rmb'000

Issuer	Date of issuance	Due date	Amount	Note
1. Suqian Painted Packing Co., Ltd.	27/05/2010	27/08/2010	24,000	Bank acceptance bills
2. Suqian Painted Packing Co., Ltd.	12/02/2010	11/08/2010	19,000	Bank acceptance bills
3. Tingyi (Hangzhou) Beverages Co., Ltd.	09/04/2010	09/07/2010	13,875	Bank acceptance bills
4. Wuhan Zijiang Co., Ltd.	23/04/2010	23/07/2010	13,178	Bank acceptance bills
5. Tianjin Dingjin Co., Ltd.	13/05/2010	12/08/2010	10,000	Bank acceptance bills
Total			80,053	

5. Notes to consolidated financial statements (continued)

(3) Accounts receivable

(a) Accounts receivable by category

Rmb'000

Category	30 June 2010 Carrying amount Amount	Percentage (%)	Provision Amount	Percentage (%)	31 December 2009 Carrying amount Amount	Percentage (%)	Provision Amount	Percentage (%)
Individually and collectively insignificant accounts receivable	**210,232**	**100**	**–**	**–**	123,022	100	–	–

Accounts receivable by currency

Rmb'000

	30 June 2010 Foreign currency	Exchange rate	RMB equivalent	31 December 2009 Foreign currency	Exchange rate	RMB equivalent
RMB			**57,706**			38,164
USD	**22,460**	**6.791**	**152,526**	12,428	6.828	84,858
Total			**210,232**			123,022

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.

(b) Ageing analysis of accounts receivable

Rmb'000

	30 June 2010 Carrying amount Amount	Percentage (%)	Provision	31 December 2009 Carrying amount Amount	Percentage (%)	Provision
Within 1 year (inclusive)	**210,232**	**100**	**–**	123,022	100	–

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

During the period ended 30 June 2010, the Group had no individually significant accounts receivable fully or substantially provided for.

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

As at 30 June 2010, the Group had no individually significant accounts receivable due over 3 years.

5. Notes to consolidated financial statements (continued)

(3) Accounts receivable (continued)

(c) As at 30 June 2010, accounts receivable due from five biggest debtors of the Group are as follows

Rmb'000

Name		Relationship	Amount	Ageing	Percentage of total accounts receivable *(%)*
1.	LG International Corp.	Third Party	25,503	within 6 months	12.13
2.	Shaoxing Xiangyu Green Packing Co.,Ltd.	Third Party	14,575	within 6 months	6.93
3.	Yangzhou Thermal Power Co., Ltd	Third Party	13,683	within 6 months	6.51
4.	Daewoo International Corp.	Third Party	13,518	within 6 months	6.43
5.	Vinmar International Ltd.	Third Party	13,332	within 6 months	6.34
Total			80,611		38.34

(d) Accounts receivable to related parties

Rmb'000

Name	Relationship	Amount	Percentage *(%)*
Yihua Group	With a common ultimate holding company	4,662	2.22

(4) Other receivables

(a) Other receivables by category

Rmb'000

Category	30 June 2010				31 December 2009			
	Carrying amount		Provision		Carrying amount		Provision	
	Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*
Individually and collectively insignificant other receivables	**48,544**	**100**	**2,470**	**100**	37,576	100	1,352	100

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.

5. Notes to consolidated financial statements (continued)

(4) Other receivables (continued)

(b) Ageing analysis of other receivables

Rmb'000

Ageing	30 June 2010 Carrying amount Amount	Percentage (%)	Provision	31 December 2009 Carrying amount Amount	Percentage (%)	Provision
Within 1 year (inclusive)	**29,093**	**59.93**	**–**	35,588	94.71	–
1 and 2 years (inclusive)	**17,787**	**36.64**	**838**	54	0.14	22
2 and 3 years (inclusive)	**54**	**0.11**	**22**	1,496	3.98	898
over 3 years	**1,610**	**3.32**	**1,610**	438	1.17	432
Total	**48,544**		**2,470**	37,576		1,352

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

During the period ended 30 June 2010, the Group had no individually significant other receivables fully or substantially provided for.

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

As at 30 June 2010, the Group had no individually significant other receivables due over 3 years.

(c) As at 30 June 2010, other receivables due from five biggest debtors of the Group are as follows

Rmb'000

Name	Relationship	Amount	Ageing	Percentage (%)
1. Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	7,560	1 to 2 years	15.58
2. Tianhua Chemical Machinery and Automation Research and Design Institute	Third party	6,016	1 to 2 years	12.39
3. Hangzhou Boiler Group Co., Ltd.	Third party	2,659	1 to 2 years	5.48
4. Beijing Yijing Business Hotel Management Co., Ltd.	Third party	1,458	Within 1 year	3.00
5. Sinopec Foreign Affairs Division	With a common ultimate holding company	1,070	Within 6 months	2.20
Total		18,763		38.65

5. Notes to consolidated financial statements (continued)

(4) Other receivables (continued)

(d) Other receivables due from related parties

Rmb'000

Name	Relationship	Amount	Percentage *(%)*
Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	7,560	15.58
Sinopec Foreign Affairs Division	With a common ultimate holding company	1,070	2.20
Total		8,630	17.78

(5) Prepayments

(a) Prepayments by category

Rmb'000

Item	**30 June 2010**	31 December 2009
Prepayments to related parties	**–**	710
Prepayments to third parties	**10,569**	2,024
Subtotal	**10,569**	2,734
Less: Provision for bad and doubtful debts	**–**	–
Total	**10,569**	2,734

No amount prepaid to shareholders who hold 5% or more of the voting rights of the Company are included in the above balance of prepayments.

(b) Prepayments by ageing

Rmb'000

Ageing	**30 June 2010**		31 December 2009	
	Amount	**Percentage *(%)***	Amount	Percentage *(%)*
Within 1 year (inclusive)	**10,569**	**100**	2,734	100

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

5. Notes to consolidated financial statements (continued)

(5) Prepayments (continued)

(c) As at 30 June 2010, prepayments due from five biggest debtors of the Group are as follows

Rmb'000

	Name	Relationship	Amount	Percentage *(%)*	Ageing	Note
1.	West-East Pipeline (Marketing) Company	Third party	3,515	33.26	Within 3 months	Prepayment of natural gas
2.	Nanjing China Railway Express Company	Third party	3,000	28.38	Within 6 months	Prepayment of freight
3.	Jiangsu Sunpower Technology Co., Ltd	Third party	1,380	13.06	Within 3 months	Prepayment of spare parts
4.	Shanghai Juyou Chemical Co., Ltd.	Third party	860	8.14	Within 6 months	Prepayment of spare parts
5.	Yizheng Huanasi Chemical Industry Co., Ltd	Third party	739	6.99	Within 3 months	Prepayment of spare parts
	Total		9,494	89.83		

(6) Inventories

(a) Inventories by category

Rmb'000

Item	30 June 2010 Cost	30 June 2010 Provision	30 June 2010 Carrying amount	31 December 2009 Cost	31 December 2009 Provision	31 December 2009 Carrying amount
Raw materials	**1,369,800**	**1,895**	**1,367,905**	800,940	1,895	799,045
Work in progress	**91,138**	**581**	**90,557**	95,970	581	95,389
Finished goods	**434,504**	**8,495**	**426,009**	307,190	8,495	298,695
Spare parts and consumables	**144,843**	**26,771**	**118,072**	141,661	26,771	114,890
Total	**2,040,285**	**37,742**	**2,002,543**	1,345,761	37,742	1,308,019

All the above inventories are purchased or self-manufactured.

As at 30 June 2010 and 31 December 2009, no borrowing costs of the Group were capitalised in the closing balance of inventories.

As at 30 June 2010 and 31 December 2009, the above inventories were not pledged or guaranteed.

(b) Analysis of provision for diminution in value of inventories is as follows

Rmb'000

Inventory category	Balance at the beginning of the period	Increase during the period	Decrease during the period Reversal	Decrease during the period Sold	Balance at the end of the period
Raw materials	1,895	–	–	–	1,895
Work in progress	581	–	–	–	581
Finished goods	8,495	–	–	–	8,495
Spare parts and consumables	26,771	–	–	–	26,771
Total	37,742	–	–	–	37,742

5. Notes to consolidated financial statements (continued)

(7) Other current assets

Rmb'000

Item	30 June 2010	31 December 2009
Prepaid VAT	**227,070**	239,203
Prepaid urban maintenance and construction tax	**3,288**	3,547
Total	**230,358**	242,750

(8) Fixed Assets

(a) Fixed assets movement

Rmb'000

	Balance at the beginning of the period	Reclassification	Increase during the period	Decrease during the period	Balance at the end of the period
Original cost	12,895,498	–	190,169	101,605	12,984,062
Plant and buildings	2,110,441	(2,453)	–	959	2,107,029
Machinery and equipment	10,054,352	–	169,477	98,851	10,124,978
Motor vehicles, and other fixed assets	730,705	2,453	20,692	1,795	752,055
Accumulated depreciation	8,544,888	–	243,880	67,489	8,721,279
Plant and buildings	976,511	(80)	36,191	270	1,012,352
Machinery and equipment	6,982,055	–	187,566	65,691	7,103,930
Motor vehicles, and other fixed assets	586,322	80	20,123	1,528	604,997
Net carrying amount	4,350,610				4,262,783
Plant and buildings	1,133,930				1,094,677
Machinery and equipment	3,072,297				3,021,048
Motor vehicles, and other fixed assets	144,383				147,058
Provision for impairment	654,782	–	300	26,300	628,782
Plant and buildings	7,991	–	–	–	7,991
Machinery and equipment	638,235	(2,842)	300	26,066	609,627
Motor vehicles, and other fixed assets	8,556	2,842	–	234	11,164
Carrying amount	3,695,828				3,634,001
Plant and buildings	1,125,939				1,086,686
Machinery and equipment	2,434,062				2,411,421
Motor vehicles, and other fixed assets	135,827				135,894

The depreciation charge of the Group is Rmb243,880,000 during the period.

The amount of fixed assets transferred from construction in progress during the period was Rmb190,169,000.

As at 30 June 2010 and 31 December 2009, the above fixed assets were not pledged or guaranteed.

5. Notes to consolidated financial statements (continued)

(8) Fixed Assets (continued)

(a) Fixed assets movement (continued)

As at 30 June 2010 and 31 December 2009, there were no significant fixed assets to be disposed of.

(b) Temporarily idle fixed assets

Rmb'000

Item	Original cost	Accumulated depreciation	Provision for impairment	Carrying amount
Plant and buildings	382	245	–	137
Machinery and equipment	60,506	41,921	7,480	11,105
Motor vehicles, and other fixed assets	9,208	7,839	–	1,369
Total	70,096	50,005	7,480	12,611

(9) Construction in progress

(a) Construction in progress by project

Rmb'000

Item	30 June 2010			31 December 2009		
	Original cost	**Provision for impairment**	**Carrying amount**	Original cost	Provision for impairment	Carrying amount
Thermoelectricity manufacturing center desulfurize project-II	–	–	–	80,000	–	80,000
Natural gas improvement project	–	–	–	38,000	–	38,000
Differentiated staple project	–	–	–	25,000	–	25,000
100 tonne/year aramid fiber project	**62,506**	–	**62,506**	62,506	–	62,506
Energy-saving air separation project	**67,659**	–	**67,659**	67,659	–	67,659
100 thousand tone/year 1,4-butanediol project	**28,994**	–	**28,994**	–	–	–
Improvements of existing plants and equipment	**67,650**	–	**67,650**	52,647	–	52,647
Total	**226,809**	–	**226,809**	325,812	–	325,812

5. Notes to consolidated financial statements (continued)

(9) Construction in progress (continued)

(b) Movement of construction in progress

Rmb'000

	Budget	Balance at the beginning of the period	Addition	Transfer to fixed assets	Percentage of cost to budget (%)	Progress (%)	Sources of funds	Balance at the end of the period
Thermoelectricity manufacturing center desulfurize project-II	125,285	80,000	10,000	90,000	72	100	Own fund	–
Natural gas improvement project	45,366	38,000	(3,000)	35,000	77	100	Own fund	–
Differentiated staple project	80,250	25,000	26,200	51,200	64	100	Own fund	–
100 tonne/year aramid fiber project	62,506	62,506	–	–	100	100	Own fund	62,506
Energy-saving air separation project	77,679	67,659	–	–	87	100	Own fund	67,659
100 thousand tone/year 1,4-butanediol project	130,000	–	28,994	–	22	17	Own fund	28,994
Improvements of existing plants and equipment	267,353	52,647	28,972	13,969	31	–	Own fund	67,650
Total	788,439	325,812	91,166	190,169	–	–		226,809

As at 30 June 2010 and 31 December 2009, no borrowing costs of the Group were capitalised in the closing balance of construction in progress.

(c) Project progress of significant construction in progress

Item	**Project progress**	**Note**
Thermoelectricity manufacturing center desulfurize project-II	100%	Has been transferred to fixed assets
Natural gas improvement project	100%	Has been transferred to fixed assets
Differentiated staple project	100%	Has been transferred to fixed assets
100 tonne/year aramid fiber project	100%	Equipment testing phase, not ready for intended use
Energy-saving air separation project	100%	Equipment testing phase, not ready for intended use
100 thousand tone/year 1,4-butanediol project	17%	Under construction

5. Notes to consolidated financial statements (continued)

(10) Intangible assets

Rmb'000

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Original cost	757,451	–	–	757,451
Land use right	406,123	–	–	406,123
Technology right	208,893	–	–	208,893
Patent right	142,435	–	–	142,435
Accumulated amortisation	381,181	14,752	–	395,933
Land use right	108,937	4,240	–	113,177
Technology right	133,602	10,445	–	144,047
Patent right	138,642	67	–	138,709
Net carrying amount	376,270			361,518
Land use right	297,186			292,946
Technology right	75,291			64,846
Patent right	3,793			3,726
Provision for impairment	–	–	–	–
Land use right	–	–	–	–
Technology right	–	–	–	–
Patent right	–	–	–	–
Carrying Amount	376,270			361,518
Land use right	297,186			292,946
Technology right	75,291			64,846
Patent right	3,793			3,726

The amortisation charge of the Group is Rmb14,752,000 during the period.

As at 30 June 2010 and 31 December 2009, no borrowing costs of the Group were capitalised in the carrying amounts of intangible assets at the end of the period.

As at 30 June 2010 and 31 December 2009, the above intangible assets were not pledged or guaranteed.

5. Notes to consolidated financial statements (continued)

(11) Deferred tax assets and liabilities

(a) Recognised deferred assets

Rmb'000

Item	**30 June 2010** Deductible temporary difference	**30 June 2010** Deferred tax assets	31 December 2009 Deductible temporary difference	31 December 2009 Deferred tax assets
Deferred tax assets:				
Bad debts provisions for other receivables	**2,470**	**618**	–	–
Provision for diminution in value of inventories	**17,850**	**4,462**	–	–
Provision of long-term equity investment in and receivables from the subsidiary	**213,094**	**53,273**	–	–
Provision for impairment of fixed assets	**379,158**	**94,790**	–	–
Difference between accounting policy and tax laws in depreciation rate of fixed assets	**41,184**	**10,296**	–	–
Deferred income	**48,500**	**12,125**	–	–
Sales discount	**59,454**	**14,864**	–	–
Total	**761,710**	**190,428**	–	–

(b) Unrecognised deferred assets

Rmb'000

Item	**30 June 2010** The Company	**30 June 2010** YCFC Jingwei	31 December 2009 The Company	31 December 2009 YCFC Jingwei
Deductible temporary differences	**–**	**277,466**	607,390	292,372
Cumulative unutilised tax losses	**586,235**	**298,708**	755,816	281,089
Total	**586,235**	**576,174**	1,363,206	573,461

5. Notes to consolidated financial statements (continued)

(11) Deferred tax assets and liabilities (continued)

(c) Under current tax legislation, the aforesaid unutilised tax losses will be expired in the following years

Rmb'000

Years	30 June 2010 The Company	30 June 2010 Yihua Jingwei	31 December 2009 The Company	31 December 2009 Yihua Jingwei
2010	**–**	**22,962**	–	22,962
2011	**–**	**72,947**	–	72,947
2012	**–**	**49,012**	–	49,012
2013	**586,235**	**76,159**	755,816	76,159
2014	**–**	**60,009**	–	60,009
2015	**–**	**17,619**	–	–
Total	**586,235**	**298,708**	755,816	281,089

(12) Provisions for impairment

Rmb'000

Item	Note	Balance at the beginning of the period	Increase during the period	Decrease during the period Reversal	Decrease during the period Sold	Decrease during the period Write-off	Balance at the end of the period
Provisions for bad and doubtful debts	5(4)	1,352	1,118	–	–	–	2,470
Provisions for diminution in value of inventories	5(6)	37,742	–	–	–	–	37,742
Provisions for impairment of fixed assets	5(8)	654,782	300	–	17,100	9,200	628,782
Total		693,876	1,418	–	17,100	9,200	668,994

For the details of impairment losses of different assets, please refer to corresponding notes.

(13) Bills payable

Rmb'000

Category	30 June 2010	31 December 2009
Bank acceptance bills	**–**	240,000

The above bills are due within one year.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of bills payable.

(14) Accounts payable

Accounts payable by category

Rmb'000

Item	30 June 2010	31 December 2009
Amounts due to related parties	**1,247,717**	895,742
Amounts due to third parties	**335,786**	285,974
Total	**1,583,503**	1,181,716

Accounts payable by currency

Rmb'000

	30 June 2010			31 December 2009		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
RMB			**372,450**			382,943
USD	**178,332**	**6.791**	**1,211,053**	116,985	6.828	798,773
Total			**1,583,503**			1,181,716

As at 30 June 2010, there were no individually significant balances aged over one year included in the Group's accounts payable.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of accounts payable.

(15) Advances from customers

Advances from customers by category

Rmb'000

Item	30 June 2010	31 December 2009
Amounts due to related parties	**10,031**	19,983
Amounts due to third parties	**166,120**	238,932
Total	**176,151**	258,915

As at 30 June 2010, there were no individually significant balances aged over one year included in the Group's advances from customers.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of advances from customers.

5. Notes to consolidated financial statements (continued)

(16) Employee benefits payable

Rmb'000

Item	Balance at the beginning of the period	Arisen during the period	Paid during the period	Balance at the end of the period
Salaries, bonuses and allowances	57,912	240,992	186,417	112,487
Staff welfare fees	–	8,615	8,615	–
Social insurances				
-Basic medical insurance premium	–	15,933	15,933	–
-Basic pension insurance premium	–	38,863	38,863	–
-Unemployment insurance premium	–	3,819	3,819	–
-Work injury insurance premium	–	911	764	147
-Supplementary pension insurance premium	13,430	11,315	5,828	18,917
-Supplementary medical insurance premium	–	5,012	5,012	–
Housing fund	–	24,582	24,582	–
Others	780	35,300	35,302	778
Total	72,122	385,342	325,135	132,329

As at 30 June 2010, "others" mentioned above included labour union fees, and staff education fee, with an amount of Rmb778,000.

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

Administrator	Beneficiary	Contribution rate 2010	2009
Yizheng Municipal Government, Jiangsu Province	Employees of the Group and 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 Group and the Company have set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Group and the Company in an independent fund administered by representatives from the Group and the Company. The scheme is funded by contributions from the Group and the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2010 was 5% (2009: 5%).

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

5. Notes to consolidated financial statements (continued)

(16) Employee benefits payable (continued)

During the period ended 30 June 2010, in accordance with the Group's employee reduction plans, the Group incurred Rmb409,000 (2009: Rmb1,022,000) on the reduction of 6 (2009: 16) employees, which were mainly included in "General and administrative expenses".

During the period ended 30 June 2010, in accordance with the Company's employee reduction plans, the Company incurred Rmb241,000 (2009: Rmb1,022,000) on the reduction of 4 (2009: 16) employees, which were mainly included in "General and administrative expenses".

(17) Tax payable

Rmb'000

Item	30 June 2010	31 December 2009
Business tax	**58**	65
Individual income tax	**2,256**	6,464
Property tax	**–**	2,721
Education fee surcharge	**4,234**	3,982
Land use tax	**–**	4,299
Others	**2,874**	142
Total	**9,422**	17,673

(18) Other payables

Other payables by category

Rmb'000

Item	30 June 2010	31 December 2009
Amount due to related parties	**22,920**	26,722
Amount due to third parties	**240,865**	276,801
Total	**263,785**	303,523

As at 30 June 2010, there were no individually significant balances aged over one year included in the Group's other payables.

No amount due to shareholders who hold 5% or more of the voting rights of the Company is included in the balances of other payables.

(19) Provisions

Rmb'000

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Compensation payable on breach of contracts	5,198	–	5,198	–

5. Notes to consolidated financial statements (continued)

(20) Deferred income

Rmb'000

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Government grants	21,256	27,750	506	48,500

The Group received government grants of Rmb27,750,000 as for 3,000 tonne/year high performance polyethylene project during this period.

(21) Share capital

Rmb'000

	Balance at the beginning of the period	Increase/Decrease for the period					Balance at the end of the period
		New issue	Stock dividend	Equity Fund	Others	Subtotal	
2,400,000,000 "Domestic non-public legal person A" shares	2,400,000	–	–	–	–	–	2,400,000
200,000,000 "Social public A" shares	200,000	–	–	–	–	–	200,000
1,400,000,000 "H" shares	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.

(22) Capital reserve

Rmb'000

Item	Balance at the beginning of the period	Increase during the period	Decrease during the period	Balance at the end of the period
Share premium	3,078,825	–	–	3,078,825
Other capital reserve	28,339	–	–	28,339
Including:				
Other comprehensive income	–	–	–	–
Total	3,107,164	–	–	3,107,164

5. Notes to consolidated financial statements (continued)

(23) Specific reserve

Rmb'000

Item	Balance at the beginning of the period	Appropriation during the period	Utilisation during the period	Balance at the end of the period
Specific reserve	–	324	–	324

In accordance with PRC regulations, the Group and the Company appropriated Safety Fund to "Specific Reserve" account for manufacturing equipments in high-risk environment, which was recongnised as part of the cost of related products. During this period, the Group and the Company had not used any part of Safety Fund.

(24) Surplus reserve

According to the resolutions passed at the 2009 Annual General Meeting (8 June 2010), the Group proposed no transfers to the statutory surplus reserve.

(25) Retained earnings/(Accumulated losses)

Rmb'000

Item	Amount
Accumulated losses at the beginning of the period	(61,754)
Add: Profit attribute to parent company's shareholders	429,541
Accumulated profits at the end of the period	367,787

(26) Operating income and operating cost

(a) Operating income and operating cost

Rmb'000

Item	For the six months ended 30 June 2010	2009
Operating income from principal activities	**7,532,251**	6,074,497
Other operating income	**64,266**	61,078
Operating cost	**6,913,950**	5,358,807

(b) Operating income and operating cost by industries

Rmb'000

	For the six months ended 30 June			
	2010		2009	
Industry	**Operating income**	**Operating cost**	Operating income	Operating cost
Chemical fibre	**7,596,517**	**6,913,950**	6,135,575	5,358,807

5. Notes to consolidated financial statements (continued)

(26) Operating income and operating cost (continued)

(c) Operating income and operating cost by products

Rmb'000

Product	For the six months ended 30 June 2010 Operating income	2010 Operating cost	2009 Operating income	2009 Operating cost
Polyester chips	**2,861,501**	**2,584,417**	1,976,311	1,676,482
Bottle-grade polyester chips	**1,355,044**	**1,244,462**	1,419,186	1,282,158
Staple fibre and hollow fibre	**2,379,865**	**2,127,836**	1,876,750	1,577,192
Filament	**837,774**	**786,305**	731,908	696,577
Others	**162,333**	**170,930**	131,420	126,398
Total	**7,596,517**	**6,913,950**	6,135,575	5,358,807

(d) Operating income and operating cost by regions

Rmb'000

Region	For the six months ended 30 June 2010 Operating income	2010 Operating cost	2009 Operating income	2009 Operating cost
Mainland	**7,110,027**	**6,457,705**	5,818,059	5,059,480
Hong Kong, Macau, Taiwan, and overseas	**486,490**	**456,245**	317,516	299,327
Total	**7,596,517**	**6,913,950**	6,135,575	5,358,807

(e) Revenue from the top five customers for six months ended 30 June 2010 is set out as follows

Rmb'000

Name	Operating income	Percentage of total operating income *(%)*
1. Hangzhou Wahaha Group Co., Ltd	348,479	4.6
2. Zhangjiagang Longjie Special Chemical Fiber Co., Ltd.	234,314	3.1
3. Suqian Painted Packing Co., Ltd.	198,897	2.6
4. Shaoxing Weiming Plastic Co., Ltd.	126,338	1.7
5. Jiangsu Yongyin Chemical Fiber Co., Ltd.	123,478	1.6
Total	1,031,506	13.6

5. Notes to consolidated financial statements (continued)

(27) Business taxes and surcharges

Rmb'000

Item	For the six months ended 30 June 2010	2009	Taxation basis and rates
Business tax	**448**	151	3% or 5% of taxable income
Urban maintenance and construction tax	**12,080**	10,293	7% of VAT and business tax paid
Education fee surcharges	**6,902**	5,960	4% of VAT and business tax paid
Total	**19,430**	16,404	

(28) Net financial income

Rmb'000

Item	For the six months ended 30 June 2010	2009
Interest expenses from loans and discounting bills	**1,878**	3,448
Interest income from deposits and receivables	**(21,300)**	(8,303)
Net exchange gains	**(2,102)**	(4,743)
Other financial expenses	**659**	716
Total	**(20,865)**	(8,882)

(29) Impairment loss

Rmb'000

Item	For the six months ended 30 June 2010	2009
Provision for bad and doubtful debts of accounts receivable, prepayments and other receivables	**1,118**	1,175
Provisions for diminution in value of inventories	**–**	19,892
Provisions for fixed assets impairment	**300**	4,390
Total	**1,418**	25,457

5. Notes to consolidated financial statements (continued)

(30) Investment income

Investment income by category

Rmb'000

Item	For the six months ended 30 June 2010	2009
Investment income from disposal of available-for-sale financial assets	**873**	–

(31) Non-operating income

(a) Non-operating income by category

Rmb'000

Item	Note	For the six months ended 30 June 2010	2009
Gains on disposal of non-current assets		**10,199**	9,458
Including: Gains on disposal of fixed assets		**10,199**	9,458
Government grants	*(b)*	**584**	238
Others		**443**	67
Total		**11,226**	9,763

(b) Details of government grants

Rmb'000

Item	For the six months ended 30 June 2010	2009	Description
Allowance for high performance polyethylene project	**464**	196	Amortisation of Hi-tech achievement transformation project of Jiangsu Science and Technology Department
Allowance for project of stove desulfurization	**42**	42	Amortisation of specific project of Yizheng Finance Bureau
Others	**78**	–	Government grants for car purchase
Total	**584**	238	

5. Notes to consolidated financial statements (continued)

(32) Non-operating expenses

Rmb'000

Item	For the six months ended 30 June 2010	2009
Losses on disposal of non-current assets	**1,184**	568
Including: Losses on disposal of fixed assets	**1,184**	568
Government administrative fees and charges	**–**	3,267
Others	**242**	125
Total	**1,426**	3,960

(33) Income tax expenses

Rmb'000

Item	For the six months ended 30 June 2010	2009
Current tax expenses for the period	**–**	–
Deferred tax	**(190,428)**	–
Total	**(190,428)**	–

Reconciliation between income tax expenses and accounting profits is as follows

Rmb'000

Item	For the six months ended 30 June 2010	2009
Profit before income tax	**239,113**	307,978
Expected income tax calculated by 25%	**59,778**	76,995
Add: Tax effect of deductible temporary difference	**(197,947)**	(26,748)
Tax effect of unused tax losses not recognised	**(53,952)**	(50,458)
Tax effect of non-deductible expenses	**1,693**	211
Income tax expenses	**(190,428)**	–

5. Notes to consolidated financial statements (continued)

(34) Calculation procedures of basic and diluted earnings per share

(a) Basic earnings per share

Basic earnings per share equals to consolidated profit attribute to ordinary shareholders of the Company divided by weighted average of outstanding ordinary shares.

	For the six months ended 30 June	
		Rmb'000
	2010	2009
Consolidated profit attributable to the Company's ordinary equity shareholders	**429,541**	307,978
Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000
Basic earnings per share (Yuan per share)	**0.107**	0.077

(b) Diluted earnings per share

Diluted earnings per share equals to adjusted consolidated profit attribute to ordinary shareholders of the Company divided by weighted average of adjusted outstanding ordinary shares.

	For the six months ended 30 June	
		Rmb'000
	2010	2009
Consolidated profit attributable to the Company's ordinary equity shareholders (diluted)	**429,541**	307,978
Weighted average number of the Company's ordinary shares (diluted)	**4,000,000,000**	4,000,000,000
Diluted earnings per share (Yuan per share)	**0.107**	0.077

	For the six months ended 30 June	
	2010	2009
Calculation process for weighted average ordinary shares		
Number of the Company's ordinary shares at the beginning of the period	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the period	**4,000,000,000**	4,000,000,000

	For the six months ended 30 June	
Calculation process for weighted average (diluted) ordinary shares	**2010**	2009
Number of the Company's ordinary shares at the beginning of the period	**4,000,000,000**	4,000,000,000
Weighted average number of the Company's ordinary shares at the end of the period (diluted)	**4,000,000,000**	4,000,000,000

5. Notes to consolidated financial statements (continued)

(35) Notes to cash flow statement

(a) Other cash paid relating to operating activities

Rmb'000

Item	For the six months ended 30 June **2010**	2009
Repair and maintenance expense	**148,259**	123,474
Freight expense	**68,354**	88,379
Technology development expense	**14,918**	16,144
Community service fee	**25,729**	25,178
Compensation on breach of contracts	**–**	11,207
Audit & Consulting fee	**5,683**	8,249
Decrease in other operating receivables and increase in other operating payables	**19,250**	(50,517)
Others	**17,431**	27,630
Total	**299,624**	249,744

(b) Other cash received relating to investing activities

Rmb'000

Item	For the six months ended 30 June **2010**	2009
Interests income received	**21,300**	8,303
Government grants received	**27,750**	5,000
Total	**49,050**	13,303

5. Notes to consolidated financial statements (continued)

(36) Supplement to cash flow statement

(a) Supplement to cash flow statement

Rmb'000

Item	For the six months ended 30 June 2010	2009
1. Reconciliation of net profit to cash (outflow)/inflow from operating activities:		
Net profit	**429,541**	307,978
Add: Provision for impairments	**1,418**	25,457
Depreciation of fixed assets	**243,880**	252,160
Amortisation of intangible assets	**14,752**	14,752
Amortisation of deferred income	**(506)**	(238)
Net gain on disposal of fixed assets and intangible assets	**(9,015)**	(8,890)
Net financial income	**(21,300)**	(8,303)
Investments income	**(873)**	–
Increase in deferred tax assets	**(190,428)**	–
Decrease in provisions	**(5,198)**	–
Increase in gross inventories	**(694,524)**	(366,898)
Decrease in operating receivables (Increase listed with "-")	**(308,106)**	821,158
Increase in operating payables (Decrease listed with "-")	**93,340**	(222,885)
Net cash (outflow)/inflow from operating activities	**(447,019)**	814,291
2. Change in cash and cash equivalents:		
Cash at the end of the period	**1,579,211**	1,654,620
Less: Cash at the beginning of the period	**1,334,367**	906,294
Add: Cash equivalents at the end of the period	**–**	–
Less: Cash equivalents at the beginning of the period	**–**	–
Net increase in cash and cash equivalents	**244,844**	748,326

(b) Cash and cash equivalents held by the Group are as follows

Rmb'000

Item	At 30 June 2010	At 30 June 2009
Cash		
Including: Cash on hand	**20**	19
Bank deposits available on demand	**1,579,191**	1,654,601
Cash equivalent	**–**	–
Cash and cash equivalents at the end of the period	**1,579,211**	1,654,620

Notes: Restricted cash and cash equivalents and short-term investments are not included in cash and cash equivalents disclosed above.

6 Related parties and related party transactions

(1) Information of the parent company is as follows

Name	Relationship with the Company	Types of legal entity	Register place	Legal represse-ntative	Principal activities	Registered capital	Percentage of equity interest	Percentage of voting interest	Ultimate holding company	Organisation Code
Sinopec Corp.	The immediate holding company	Joint stock limited company	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing	Su Shu-lin	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	Rmb86.7 billion	42%	42%	CPC	71092609-4

(2) Information of the subsidiary of the Company is as follows

Name of the subsidiary	Type of subsidiary	Types of legal entity	Registered place	Legal representative	Principal activities	Registered Capital	Percent -age of equity interest	Percent -age of voting interest	Organ-isation Code
YCFC Jingwei	Wholly-owned subsidiary	Limited liability company	Yizheng, Jiangsu Province	Shen Xijun	Manufacturing processing and sale of differentiated polyester textile filament products	Rmb483,672 thousand	100	100	77644167-1

(3) Other related parties

Name	Relationship with the Company	Organization Code
CPC	Ultimate holding company	10169286-X
CITIC	Shareholder	10168558-X
Sinopec Asset and Management Corp	With a common ultimate holding company	71093386-8
Sinopec Finance	With a common ultimate holding company	10169290-7
China CITIC Bank	Subsidiary of CITIC	10169072-5

6 Related parties and related party transactions (continued)

(4) Transactions with related parties

The following transactions with related parties are based on normal commercial terms or by the relevant agreements.

Transactions with related parties on purchasing or sales of goods and rendering or receiving of services

The Group

Rmb'000

Related parties	Type of transactions	Contents of transaction	Pricing and decision-making process of transactions	For the six months ended 30 June 2010 Amount	2010 Percentage (%)	2009 Amount	2009 Percentage (%)
Sinopec Corp and its subsidiaries	Trade	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**3,151,230**	**47.87**	2,923,530	61.47
Ibid	Trade	Service charges for the purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**10,976**	**100**	6,353	100
Ibid	Trade	Service charges for the sale of finished goods	Based on normal commercial terms or by the relevant agreements	**20,000**	**100**	–	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**118,847**	**1.56**	95,039	1.55
Ibid	Non-trade	Miscellaneous service fee charges	Based on normal commercial terms or by the relevant agreements	**6,000**	**100**	6,000	100
Ibid	Non-trade	Purchase of equipments	Based on normal commercial terms or by the relevant agreements	**–**	**–**	9,000	15.62
Ibid	Non-trade	Insurance premium	Based on normal commercial terms or by the relevant agreements	**–**	**–**	2,115	100
Sinopec Finance	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**3,493**	**16.40**	455	5.48
China CITIC Bank	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**380**	**1.78**	658	7.92
Ibid	Non-trade	Interest expenses	Based on normal commercial terms or by the relevant agreements	**–**	**–**	4	0.12
YCFC Jingwei	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**–**	**–**	90,348	1.47
Key management personal	Payment of remuneration	Remuneration	Based on normal commercial terms or by the relevant agreements	**1,578**	**100**	1,438	100
Ibid	Payment of remuneration	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**85**	**100**	74	100

6 Related parties and related party transactions (continued)

(4) Transactions with related parties (continued)

Transactions with related parties on purchasing or sales of goods and rendering or receiving of services (continued)

The Company

Rmb'000

Related parties	Type of transactions	Contents of transaction	Pricing and decision-making process of transactions	For the six months ended 30 June 2010 Amount	2010 Percentage (%)	2009 Amount	2009 Percentage (%)
Sinopec Corp and its subsidiaries	Trade	Purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**3,151,230**	**48.23**	2,923,530	61.99
Ibid	Trade	Service charges for the purchase of raw materials	Based on normal commercial terms or by the relevant agreements	**10,976**	**100**	6,353	100
Ibid	Trade	Service charges for the sale of finished goods	Based on normal commercial terms or by the relevant agreements	**20,000**	**100**	–	–
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries and Sinopec Finance)	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**118,847**	**1.58**	92,182	1.52
Ibid	Non-trade	Miscellaneous service fee charges	Based on normal commercial terms or by the relevant agreements	**6,000**	**100**	6,000	100
Ibid	Non-trade	Purchase of equipment	Based on normal commercial terms or by the relevant agreements	**–**	**–**	9,000	15.72
Ibid	Non-trade	Insurance premium	Based on normal commercial terms or by the relevant agreements	**–**	**–**	2,115	100
Sinopec Finance	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**3,493**	**16.54**	455	5.68
China CITIC Bank	Non-trade	Interest income	Based on normal commercial terms or by the relevant agreements	**380**	**1.8**	657	8.2
YCFC Jingwei	Trade	Sales of finished goods	Based on normal commercial terms or by the relevant agreements	**314,835**	**4.2**	271,226	4.48
Key management personal	Payment of remuneration	Remuneration	Based on normal commercial terms or by the relevant agreements	**1,578**	**100**	1,438	100
Ibid	Payment of remuneration	Retirement scheme contributions	Based on normal commercial terms or by the relevant agreements	**85**	**100**	74	100

6 Related parties and related party transactions (continued)

(5) The balances of receivables and payables with related parties

The Group

Rmb'000

Item	**Related parties**	**At 30 June 2010**	At 31 December 2009
Prepayments	Sinopec Corp and its subsidiaries	**–**	710
Accounts payable	Sinopec Corp and its subsidiaries	**1,247,674**	895,699
Advances from customers	Sinopec Corp and its subsidiaries	**9,827**	16,905
Other payables	Sinopec Corp and its subsidiaries	**15,903**	16,575
Accounts receivable	CPC and its subsidiaries	**4,662**	3,408
Other receivables	CPC and its subsidiaries	**8,630**	10,532
Accounts payable	CPC and its subsidiaries	**43**	43
Advances from customers	CPC and its subsidiaries	**204**	3,078
Other payables	CPC and its subsidiaries	**7,017**	10,147

The Company

Rmb'000

Item	Related parties	**At 30 June 2010**	At 31 December2009
Prepayments	Sinopec Corp and its subsidiaries	**–**	710
Accounts payable	Sinopec Corp and its subsidiaries	**1,247,674**	895,699
Advances from customers	Sinopec Corp and its subsidiaries	**9,827**	16,905
Other payables	Sinopec Corp and its subsidiaries	**15,903**	16,575
Accounts receivable	CPC and its subsidiaries	**4,662**	3,408
Other receivables	CPC and its subsidiaries	**8,630**	10,532
Accounts payable	CPC and its subsidiaries	**43**	43
Advances from customers	CPC and its subsidiaries	**204**	3,078
Other payables	CPC and its subsidiaries	**7,017**	10,147
Accounts receivable	YCFC Jingwei	**164,234**	176,625
Advances from customers	YCFC Jingwei	**15,102**	8,387
Other payables	YCFC Jingwei	**7,848**	14,342

7 Contingency

Other contingency and financial effects

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax ("EIT") for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2010. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

8 Commitments

Capital commitments

		Rmb'000
Item	**At 30 June 2010**	At 31 December 2009
Authorised and contracted for	**158,256**	–
Authorised but not contracted for	**462,774**	118,103
Total	**621,030**	118,103

9 Other significant matters

(1) Segment reporting

The Group has identified five reportable segments for financial statements based on the internal structure, management requirements and internal reporting policy. The five reportable segments are: polyester chips, bottle-grade polyester chips, staple fibre and hollow fibre, filament and purified terephthalic acid ("PTA"). All segments manufacture and sell chemical fibre products and raw materials, and are primarily engaged in the PRC. The Group's most senior executive management review reportable segments' financial information periodically for the purposes of allocating resources and assessing the performance.

(a) Operating results and assets information of reportable segments

The Group's most senior executive management review segments' assets and operating results periodically, for the purposes of allocating resources to, and assessing the performance of segments. The information is prepared on the basis as follow.

Segment assets comprise of property, plant and equipment and inventories.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which arise from the depreciation or amortisation of assets attributable to those segments. However, other than internal sales among reporting segments, assistance provided by one segment to another (including occupied assets) is not measured.

"Gross profit" is used to measure reportable segments' operating results.

9 Other significant matters (continued)

(1) Segment reporting (continued)

(a) Operating results and assets information of reportable segments (continued)

Information regarding reportable segments as provided to the Group's top management for resource allocation and performance assessment for six months ended 30 June 2010 is set out below.

Rmb'000

Item	For six months ended 30 June 2010 Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Un-allocated items	Total
Revenue from external customers	2,861,501	1,355,044	2,379,865	837,774	–	162,333	–	–	7,596,517
Inter-segment revenue	46,671	–	–	–	–	–	(46,671)	–	–
Revenue for reportable segments	2,908,172	1,355,044	2,379,865	837,774	–	162,333	(46,671)	–	7,596,517
Cost for reportable segments	2,627,821	1,244,462	2,127,836	786,305	–	170,930	(43,404)	–	6,913,950
Profit/(loss) for reportable segments	280,351	110,582	252,029	51,469	–	(8,597)	(3,267)	–	682,567
Other important items:									
– Depreciation and amortisation	31,250	19,069	19,206	7,575	116,406	46,486	–	18,640	258,632
– Impairment of fixed assets	246	–	–	–	54	–	–	–	300
– Provisions of inventories	–	–	–	–	–	–	–	–	–

Item	At 30 June 2010 Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	Others	Offset	Un-allocated items	Total
– Assets for reportable segments	685,126	399,978	453,001	211,722	1,067,654	1,001,389	(2,679)	1,820,353	5,636,544

9 Other significant matters (continued)

(1) Segment reporting (continued)

(a) Operating results and assets information of reportable segments (continued)

Information regarding reportable segments as provided to the Group's top management for resource allocation and performance assessment for six months ended 30 June 2009 is set out below

Rmb'000

	For six months ended 30 June 2009								
Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	All Others	Offset	Un-allocated items	Total
Revenue from external customers	1,976,311	1,419,186	1,876,750	731,908	–	131,420	–	–	6,135,575
Inter-segment revenue	59,884	–	–	–	–	–	(59,884)	–	–
Revenue for reportable segments	2,036,195	1,419,186	1,876,750	731,908	–	131,420	(59,884)	–	6,135,575
Cost for reportable segments	1,728,581	1,282,158	1,577,192	696,577	–	126,398	(52,099)	–	5,358,807
Profit/(loss) for reportable segments	307,614	137,028	299,558	35,331	–	5,022	(7,785)	–	776,768
Other important items:									
– Depreciation and Amortisation	32,749	22,314	20,571	15,783	115,122	41,902	–	18,471	266,912
– Impairment of fixed assets	–	–	–	–	4,390	–	–	–	4,390
– Write-down of inventories	–	–	–	19,892	–	–	–	–	19,892

	At 31 December 2009								
Item	Polyester chips	Bottle-grade polyester chips	Staple fibre and hollow fibre	Filament	PTA	All Others	Offset	Un-allocated items	Total
– Assets for reportable segments	647,577	403,198	401,468	231,800	1,167,200	931,449	(1,762)	1,222,917	5,003,847

The relatively insignificant portions of revenue are mostly generated by five other segments: logistics center, power center, water supply center, thermal center and high performance polyethylene center. These segments did not reach any of the materiality requirements to be reportable segments of the Group.

9 Other significant matters (continued)

(2) Risk analysis, sensitivity analysis, and determination of fair values for financial instruments

The Group have exposure to the following risks from the use of financial instruments

- credit risk;
- liquidity risk;
- interest rate risk;
- currency risk.

The aforesaid risk exposures and their causes, risk management objectives, policies and processes, as well as risk measurement method, and so on, are discussed bellow.

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

The Group's risk management policies are established to identify and analyse the risks faced by 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 Group's activities. 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.

(a) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's and deposits with banks and other financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily place cash deposits only with large financial institutions in the PRC with acceptable credit rating.

The majority of 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 Group perform ongoing credit evaluations of their customers' financial condition and generally do not require collateral on trade debtors. 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 carrying amounts of cash and cash equivalents, time deposits with banks and other financial institutions, accounts receivable and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry, country or area in which the customers operate and therefore significant concentrations of credit risk arise primarily when the Group has significant exposure to individual customers. At the balance sheet date, 38.34% (2009: 72.94%) of the total accounts receivable were due from the five largest customers of the Group respectively.

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

9 Other significant matters (continued)

(2) Risk analysis, sensitivity analysis, and determination of fair values for financial instruments (continued)

(b) Liquidity Risk

Liquidity risk means that the Group will not be able to meet its financial obligations on the due date. 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 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 Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

(c) Interest rate risk

Interest-bearing financial instruments with fixed rate and variable rate make the Group exposure to the interest rate risk of fair value and cash flow. Except for time deposits with banks with fixed interest rates, the Group has no other significant interest-bearing assets and liabilities.

(i) The Group's interest-bearing financial instruments at the balance sheet date are as follow

Rmb'000

	At 30 June 2010		At 31 December 2009	
Item	**Annual rate *(%)***	**Amount**	Annual rate *(%)*	Amount
Fixed rate financial assets				
Financial assets				
– Cash at bank	**1.71-2.25**	**454,608**	1.71-2.25	559,600

Rmb'000

	At 30 June 2010		At 31 December 2009	
Item	**Annual rate *(%)***	**Amount**	Annual rate *(%)*	Amount
Variable rate financial assets				
Financial assets				
– Cash at bank	**0.36**	**1,124,583**	0.36	774,677

9 Other significant matters (continued)

(2) Risk analysis, sensitivity analysis, and determination of fair values for financial instruments (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 30 June 2010, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would increase/decrease the Group's shareholders' equity by approximately Rmb11,246,000 respectively (31 December 2009: Rmb7,747,000), and net profit by approximately Rmb11,246,000 (31 December 2009: Rmb7,747,000) (the related income tax impact was not considered). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and that the change was applied to the Group's variable rate instruments outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2009.

(d) Currency risk

For accounts receivable and payable not denominated in functional currency, the Group will purchase or sale foreign currency to keep net currency risk exposure under acceptable level when short-term imbalance occurred.

(i) Risk exposure of balance sheet items in foreign currency at 30 June 2010 and 31 December 2009 is set out below. The amounts of risk exposure present in Rmb are calculated by spot exchange rate at balance sheet date.

Rmb'000

Item	**At 30 June 2010 USD items**	At 31 December 2009 USD items
Cash at bank and on hand	**33,283**	42,634
Accounts receivable	**152,526**	84,858
Accounts payable	**(1,211,053)**	(798,773)
Total of balance sheet exposure	**(1,025,244)**	(671,281)
Forward foreign exchange contracts for hedging	**–**	–
Net value of balance sheet exposure	**(1,025,244)**	(671,281)

(ii) The applicable major foreign currency exchange rate of the Group is analysed as follow

Rmb'000

	Average exchange rate		**Middle exchange rate at balance date**	
Item	**January to June 2010**	January to December 2009	**At 30 June 2010**	At 31 December 2009
USD	**6.825**	6.831	**6.791**	6.828

9 Other significant matters (continued)

(2) Risk analysis, sensitivity analysis, and determination of fair values for financial instruments (continued)

(d) Currency risk (continued)

(iii) Sensitivity analysis

Assuming all other risk variables remained constant and the related income tax impact was not considered, a 5% strengthening of renminbi against the US$ at 30 June would have increased shareholders' equity and net profit (or decrease net loss) for the period of the Group by the amount shown below, whose effect is in renminbi and translated using the spot rate at the balance sheet date.

Rmb'000

Item	Shareholders' equity	Net profit
At 30 June, 2010		
USD	51,262	51,262
At 31 December 2009		
USD	33,565	33,565

A 5% weakening of the renminbi against the US$ at 30 June 2010 and 31 December 2009 would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant and the related income tax impact was not considered.

(e) Fair value

As at 30 June 2010 and 31 December 2009, the fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts.

(f) Determination of Fair value

The main methods and assumptions applied by the Group to estimate fair value are as follow

(i) Financial assets

If no active market exists for available-for-sale financial assets, 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.

(ii) Accounts receivable

The fair value is based on present value of future cash flow forecast, and the discount rate is market rate at balance sheet date.

10 Major notes to financial statements of the Company

(1) Accounts receivable

(a) Accounts receivable by category

Rmb'000

Category	*Note*	At 30 June 2010 Carrying amounts Amount	Percentage *(%)*	At 30 June 2010 Bad debts provision Amount	Percentage *(%)*	At 31 December2009 Carrying amounts Amount	Percentage *(%)*	At 31 December2009 Bad debts provision Amount	Percentage *(%)*
Individually significant accounts receivable	*(b)*	290,000	58.31	125,766	100	290,655	70.43	114,030	100
Individually and collectively insignificant accounts receivable		207,300	41.69	–	–	122,056	29.57	–	–
Total		497,300		125,766		412,711		114,030	

(b) Bad debts provision for individually significant accounts receivable at the end of the period

Rmb'000

Content	Carrying amount	Provision	Percentage *(%)*	Note
Individually significant accounts receivable	290,000	125,766	43.37	Since full impairment provision to YCFC Jingwei's long-term equity investment can't offset the effect of Jingwei's accumulated loss, the Company provided impairment of the accounts receivables from YCFC Jingwei.

(c) Ageing analysis of accounts receivable

Rmb'000

Ageing	At 30 June 2010 Carrying amount Amount	Percentage *(%)*	Provision	At 31 December2009 Carrying amount Amount	Percentage	Provision
Within 1 year (inclusive)	207,300	41.69	–	412,711	100	114,030
1 and 2 years	290,000	58.31	125,766	–	–	–
Total	497,300		125,766	412,711		114,030

10 Major notes to financial statements of the Company (continued)

(1) Accounts receivable (continued)

(c) Ageing analysis of accounts receivable (continued)

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

Since full impairment provision to YCFC Jingwei's long-term equity investment can't offset the effect of Jingwei's accumulated loss, the Company provided impairment of the accounts receivables from YCFC Jingwei.

During the period ended 30 June 2010, the Company had no individually significant accounts receivable fully or substantially provided for.

As at 30 June 2010, Company had no individually significant accounts receivable due over 3 years.

(d) As at 30 June 2010, accounts receivable due from five biggest debtors of the Company are as follows

Rmb'000

	Name	**Relationship**	**Amount**	**Ageing**	**Percentage of total accounts receivable** *(%)*
1.	YCFC Jingwei	Wholly-owned subsidiary	290,000	1 to 2 years	58.31
2.	LG International Corp.	Third Party	25,503	Within 6 months	5.13
3.	Shaoxing Xiangyu Green Packing Co., Ltd.	Third Party	14,575	Within 6 months	2.93
4.	Yangzhou Thermal Power Co., Ltd.	Third Party	13,683	Within 6 months	2.75
5.	Daewoo International Corp.	Third Party	13,518	Within 6 months	2.72
	Total		357,279		71.84

(e) Accounts receivable due from related parties

Rmb'000

Name	**Relationship**	**Amount**	**Percentage** *(%)*
YCFC Jingwei	Wholly-owned subsidiary	290,000	58.31
Yihua Group	With a common ultimate holding company	4,662	0.94
Total		294,662	59.25

10 Major notes to financial statements of the Company (continued)

(2) Other receivables

(a) Other receivables by category

Rmb'000

Category	At 30 June 2010				At 31 December 2009			
	Carrying amount		Provision		Carrying amount		Provision	
	Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*	Amount	Percentage *(%)*
Individually and collectively insignificant other receivables	**47,879**	**100**	**2,470**	**100**	37,493	100	1,352	100

(b) Ageing analysis of other receivables

Rmb'000

Ageing	At 30 June 2010			At 31 December 2009		
	Carrying amount			Carrying amount		
	Amount	Percentage *(%)*	Provision	Amount	Percentage *(%)*	Provision
Within 1 year (inclusive)	**28,428**	**59.38**	**–**	35,505	94.70	–
1 and 2 years (inclusive)	**17,787**	**37.15**	**838**	54	0.14	22
2 and 3 years (inclusive)	**54**	**0.11**	**22**	1,496	3.99	898
Over 3 years	**1,610**	**3.36**	**1,610**	438	1.17	432
Total	**47,879**		**2,470**	37,493		1,352

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

During the period ended 30 June 2010, the Company had no individually significant other receivables fully or substantially provided for.

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

As at 30 June 2010, the Company had no individually significant other receivables due over 3 years.

10 Major notes to financial statements of the Company (continued)

(2) Other receivables (continued)

(c) As at 30 June 2010, other receivables due from five biggest debtors of the Company are as follows

Rmb'000

	Name	Relationship	Amount	Ageing	Percentage *(%)*
1.	Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	7,560	1 year to 2 years	15.79
2.	Tianhua Chemical Machinery and Automation Research and Design Institute	Third party	6,016	1 year to 2 years	12.57
3.	Hangzhou Boiler Group Co., Ltd	Third party	2,659	1 year to 2 years	5.55
4.	Beijing Yijing Business Hotel Management Co., Ltd.	Third party	1,458	Within 1 year	3.05
5.	Sinopec Foreign Affairs Division	With a common ultimate holding company	1,070	Within 6 months	2.23
	Total		18,763		39.19

(d) Accounts receivable due from related parties

Rmb'000

Name	Relationship	Amount	Percentage *(%)*
Sinopec Nanhua Chemical Machinery Factory	With a common ultimate holding company	7,560	15.79
Sinopec Foreign Affairs Division	With a common ultimate holding company	1,070	2.23
Total		8,630	18.02

(3) Long-term equity investment

Rmb'000

Investee	Accounting method	Initial investment cost	Balance at the beginning of the period	Increase/ decrease	Balance at the end of the period	Interest in investee *(%)*	Voting right in investee *(%)*	Provision	Provision for impairment during the period	At the end of the period
YCFC Jingwei	Cost method	303,361	303,361	–	303,361	100	100	(303,361)	–	–

10 Major notes to financial statements of the Company (continued)

(4) Operating income and operating cost

(a) Operating income and operating cost

Rmb'000

Item	For the six months ended 30 June 2010	2009
Operating income from principal activities	**7,434,691**	5,998,098
Other operating income	**68,786**	55,530
Operating cost	**6,821,503**	5,279,270

(b) Operating income and operating cost by industries

Rmb'000

	For the six months ended 30 June			
	2010		2009	
Industry	**Operating income**	**Operating cost**	Operating income	Operating cost
Chemical fibre	**7,503,477**	**6,821,503**	6,053,628	5,279,270

(c) Operating income and operating cost by products

Rmb'000

	For the six months ended 30 June			
	2010		2009	
Product	**Operating income**	**Operating cost**	Operating income	Operating cost
Polyester chips	**2,908,172**	**2,631,079**	2,036,195	1,735,946
Bottle-grade polyester chips	**1,355,044**	**1,244,462**	1,419,186	1,282,158
Staple fibre and hollow fibre	**2,379,865**	**2,127,836**	1,876,750	1,577,192
Filament	**676,991**	**625,741**	576,957	544,640
Others	**183,405**	**192,385**	144,540	139,334
Total	**7,503,477**	**6,821,503**	6,053,628	5,279,270

10 Major notes to financial statements of the Company (continued)

(4) Operating income and operating cost (continued)

(d) Operating income and operating cost by regions

Rmb'000

	For the six months ended 30 June			
	2010		2009	
Region	**Operating income**	**Operating cost**	Operating income	Operating cost
Mainland	**7,048,390**	**6,395,098**	5,749,997	4,994,339
Hong Kong, Macau, Taiwan and overseas	**455,087**	**426,405**	303,631	284,931
Total	**7,503,477**	**6,821,503**	6,053,628	5,279,270

(e) Revenue from the top five customers for six months end 30 June 2010 is set out as follows

Rmb'000

Name	**Operating income**	**Percentage of total operating income** *(%)*
1. Hangzhou Wahaha Group Co., Ltd	348,479	4.6
2. Zhangjiagang Longjie Special Chemical Fiber Co., Ltd.	234,314	3.1
3. Suqian Painted Packing Co., Ltd.	198,897	2.7
4. Shaoxing Weiming Plastic Co., Ltd.	126,338	1.7
5. Jiangsu Yongyin Chemical Fiber Co., Ltd.	123,478	1.6
Total	1,031,506	13.7

(5) Investment income

Investment income by category

Rmb'000

	For the six months ended 30 June	
Item	**2010**	2009
Investment income from disposal of available-for-sale financial investment	**873**	–

10 Major notes to financial statements of the Company (continued)

(6) Supplement to cash flow statement

Rmb'000

Item	For the six months ended 30 June **2010**	2009
1. Reconciliation of net profit to cash (outflow)/inflow from operating activities:		
Net profit	**430,457**	344,075
Add: Provision for impairments	**13,154**	5,565
Depreciation of fixed assets	**238,869**	240,577
Amortisation of intangible assets	**14,752**	14,752
Amortisation of deferred income	**(506)**	(238)
Net gain on disposal of fixed assets and intangible assets	**(3,671)**	(8,890)
Net financial income	**(21,113)**	(8,016)
Investment income	**(873)**	–
Increase in deferred tax assets	**(190,428)**	–
Decrease in provision	**(5,198)**	–
Increase in gross inventories	**(694,126)**	(375,457)
Decrease in operating receivables (Increase listed with "-")	**(305,164)**	528,233
Increase in operating payables	**83,673**	104,369
Net cash (outflow)/inflow from operating activities	**(440,174)**	844,970
2. Change in cash and cash equivalents:		
Cash at the end of the period	**1,573,882**	1,642,659
Less: Cash at the beginning of the period	**1,327,985**	906,294
Add: Cash equivalents at the end of the period	**–**	–
Less: Cash equivalents at the beginning of the period	**–**	–
Net increase in cash and cash equivalents	**245,897**	736,365

Supplementary information to the financial statements

1 Extraordinary gains during six months ended 30 June 2010

Rmb'000

Item	Amount	Note
Disposal of non-current assets	9,015	Net income from disposal of fixed assets
Employee reduction expenses	(409)	Expense paid for dismissing the labor contract
Government grants recognised in profit or loss during the period (other than the amount closely related to principal activities and generated according to national standards)	584	Government grants received, such as return of urban construction tax
Other non-operating income and expenses excluding the aforesaid items	201	Forfeiture income and accounts payable which cannot be paid
Effect on income tax	–	The Group has no taxable income after making good of previous years' loss, and previous years' loss hasn't been recognised as deferred tax assets, so the extra ordinary gains and losses have no effect on income tax.
Total	9,391	

The extraordinary gains and losses are listed as pre-tax amount.

2 Differences in the financial statements prepared under different GAAPs

The difference between ASBE and International Financial Reporting Standards ("IFRSs") on net profit and net assets of consolidated financial statements is analysed as follows:

Rmb'000

	Net profit		Net assets	
	For the six months ended 30 June 2010	For the six months ended 30 June 2009	**30 June 2010**	31 December 2009
Under ASBE	**429,541**	307,978	**7,475,275**	7,045,410
Adjustments under IFRSs				
Reversal of amortisation of revaluation surplus of land use rights	**2,619**	2,619	**(174,622)**	(177,241)
Effects of the above adjustments on taxation	**(655)**	(655)	**43,655**	44,310
Under IFRSs	**431,505**	309,942	**7,344,308**	6,912,479

Under ASBE, land use rights contributed by investors are stated at revalued amount, based on which amortisation and net book value are calculated. Under IFRS, land use rights are carried at historical cost less accumulated amortisation and impairment losses.

3 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" (2010 Revised) issued by the CSRC, the Group's return on net assets and earnings per share are summarised as follows

Profit for the current year	Return on weighted average net assets *(%)*	Earnings per share Basic earnings per share	 Diluted earnings per share
Net profit attributable to the Company's ordinary equity shareholders	5.916	Rmb0.107	Rmb0.107
Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders	5.787	Rmb0.105	Rmb0.105

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 24 August 2010 (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 2010 signed by the Vice Chairman and General Manager of the Company;

2. The financial report of the Company for the six months ended 30 June 2010 signed by the Vice Chairman and 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.*