# Report of the International Auditors

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

We have audited the financial statements on pages 55 to 102 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

## *Respective responsibilities of directors and auditors*

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## *Basis of opinion*

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## *Opinion*

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*

Hong Kong, China
31 March 2006

# Consolidated Income Statement

*For the year ended 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|---|
| **Turnover** | 6 | **15,798,665** | 13,348,471 |
| **Cost of sales** | | **(15,309,488)** | (12,219,933) |
| **Gross profit** | | **489,177** | 1,128,538 |
| Other operating income | | **46,948** | 16,661 |
| Selling expenses | | **(210,503)** | (177,406) |
| Administrative expenses | | **(365,543)** | (437,415) |
| Other operating expenses | 7 | **(806,066)** | (92,083) |
| Employee reduction expenses | 8 | **(90,939)** | (21,694) |
| Net loss on disposal of property, plant and equipment | | **(19,323)** | (67,633) |
| **Operating (loss)/profit before financing costs** | | **(956,249)** | 348,968 |
| Financial income | 9(a) | **5,865** | 14,623 |
| Financial expenses | 9(a) | **(58,952)** | (86,799) |
| **Net financing costs** | 9(a) | **(53,087)** | (72,176) |
| **(Loss)/profit before taxation** | 9 | **(1,009,336)** | 276,792 |
| **Income tax expense** | 10(b) | **41,343** | (33,860) |
| **(Loss)/profit for the year** | 12 | **(967,993)** | 242,932 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 29 | **(967,508)** | 240,383 |
| Minority interests | | **(485)** | 2,549 |
| **(Loss)/profit for the year** | | **(967,993)** | 242,932 |
| **Dividend payable to equity shareholders of the Company attributable to the year:** | | | |
| **Final dividend proposed after the balance sheet date** | 13(a) | **–** | 100,000 |
| **Basic (loss)/earnings per share (in Rmb)** | 14(a) | **(0.242)** | 0.060 |

The notes on pages 61 to 102 form part of these financial statements.

# Consolidated Balance Sheet

*As at 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15(a) | **6,283,767** | 8,044,113 |
| Construction in progress | 16 | **275,871** | 268,306 |
| Lease prepayments | 17 | **120,142** | 203,558 |
| Available-for-sale equity securities | 20 | **62,500** | 62,500 |
| Deferred tax assets | 10(c) | **110,191** | 56,459 |
| | | **6,852,471** | 8,634,936 |
| **Current assets** | | | |
| Inventories | 21 | **1,236,018** | 1,626,564 |
| Trade and other receivables | 22 | **1,118,153** | 614,215 |
| Deposits with banks and other financial institutions | 23 | **25,998** | 130,834 |
| Cash and cash equivalents | 24 | **356,855** | 228,152 |
| Assets classified as held for sale | 4 | **243,618** | – |
| | | **2,980,642** | 2,599,765 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **1,456,322** | 1,309,961 |
| Bank loans | 26(a) | **137,500** | 509,726 |
| Income tax payable | | **9,785** | 52,163 |
| Liabilities classified as held for sale | 4 | **55,589** | – |
| | | **1,659,196** | 1,871,850 |
| **Net current assets** | | **1,321,446** | 727,915 |
| **Total assets less current liabilities** | | **8,173,917** | 9,362,851 |
| **Non-current liabilities** | | | |
| Bank loans | 26(a) | **50,000** | 190,000 |
| **Net assets** | | **8,123,917** | 9,172,851 |
| **Equity** | | | |
| Share capital | 27 | **4,000,000** | 4,000,000 |
| Share premium | | **2,518,833** | 2,518,833 |
| Reserves | 28 | **1,246,672** | 1,246,617 |
| Retained profits | 29 | **306,308** | 1,354,872 |
| **Total equity attributable to equity shareholders of the Company** | | **8,071,813** | 9,120,322 |
| Minority interests | | **52,104** | 52,529 |
| **Total equity** | | **8,123,917** | 9,172,851 |

Approved and authorised for issue by the Board of Directors on 31 March 2006.

**Xu Zheng-ning**
*Chairman*

**Xiao Wei-zhen**
*Managing Director*

The notes on pages 61 to 102 form part of these financial statements.

# Balance Sheet

*As at 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2005 Rmb'000 | 2004 Rmb'000 (restated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15(b) | **5,992,601** | 7,511,335 |
| Construction in progress | 16 | **275,871** | 266,699 |
| Lease prepayments | 17 | **120,142** | 123,142 |
| Interest in subsidiaries | 18 | **58,915** | 493,260 |
| Interest in jointly controlled entity | 19 | **121,584** | – |
| Available-for-sale equity securities | 20 | **62,500** | 62,500 |
| Deferred tax assets | 10(c) | **110,191** | 50,830 |
| | | **6,741,804** | 8,507,766 |
| **Current assets** | | | |
| Inventories | 21 | **1,157,898** | 1,428,039 |
| Trade and other receivables | 22 | **1,096,194** | 669,231 |
| Deposits with banks and other financial institutions | 23 | **–** | 32,000 |
| Cash and cash equivalents | 24 | **281,947** | 160,239 |
| Assets classified as held for sale | 4 | **188,029** | – |
| | | **2,724,068** | 2,289,509 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **1,376,797** | 1,214,410 |
| Bank loans | 26(a) | **90,000** | 413,878 |
| Income tax payable | | **2,112** | 46,412 |
| | | **1,468,909** | 1,674,700 |
| **Net current assets** | | **1,255,159** | 614,809 |
| **Total assets less current liabilities** | | **7,996,963** | 9,122,575 |
| **Non-current liabilities** | | | |
| Bank loans | 26(a) | **50,000** | 190,000 |
| **Net assets** | | **7,946,963** | 8,932,575 |
| **Equity** | | | |
| Share capital | 27 | **4,000,000** | 4,000,000 |
| Share premium | | **2,518,833** | 2,518,833 |
| Reserves | 28 | **1,246,672** | 1,246,617 |
| Retained profits | 29 | **181,458** | 1,167,125 |
| **Total equity** | | **7,946,963** | 8,932,575 |

Approved and authorised for issue by the Board of Directors on 31 March 2006.

**Xu Zheng-ning**
*Chairman*

**Xiao Wei-zhen**
*Managing Director*

The notes on pages 61 to 102 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

| | Note | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | (a) | **689,798** | 381,555 |
| Interest paid | | **(57,521)** | (89,606) |
| Income tax paid | | **(54,767)** | (91,380) |
| **Net cash from operating activities** | | **577,510** | 200,569 |
| **Cash flow from investing activities** | | | |
| Capital expenditure | | **(205,993)** | (530,628) |
| Capital expenditure by a jointly controlled entity | | **(16,316)** | – |
| Proceeds from capital injection by a venturer | | **60,792** | – |
| Proceeds from disposal of property, plant and equipment | | **134,962** | 8,068 |
| Interest and dividend income received | | **8,009** | 14,816 |
| Decrease in deposits with banks and other financial institutions | | **104,836** | 534,135 |
| **Net cash from investing activities** | | **86,290** | 26,391 |
| **Cash flow from financing activities** | | | |
| Proceeds from bank loans | | **4,336,443** | 4,849,631 |
| Proceeds from bank loans of a jointly controlled entity | | **177,500** | – |
| Repayment of bank loans | | **(4,991,078)** | (5,308,725) |
| Proceeds from venturer's loans of a jointly controlled entity | | **60,658** | – |
| Dividends paid | | **(100,000)** | (100,000) |
| Dividends paid to minority shareholders | | **(2,940)** | (3,475) |
| **Net cash used in financing activities** | | **(519,417)** | (562,569) |
| **Net increase/(decrease) in cash and cash equivalents** | | **144,383** | (335,609) |
| **Cash and cash equivalents at 1 January** | | **228,152** | 563,761 |
| **Cash and cash equivalents at 31 December** | 24 | **372,535** | 228,152 |

The notes on pages 61 to 102 form part of these financial statements.

# Notes to the Consolidated Cash Flow Statement

*For the year ended 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

**(a) Reconciliation of (loss)/profit before taxation to cash generated from operations is as follows:**

| | 2005 | 2004 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| (Loss)/profit before taxation | **(1,009,336)** | 276,792 |
| Depreciation charge | **848,052** | 940,286 |
| Interest income | **(4,509)** | (11,497) |
| Dividend income | **(3,500)** | (3,000) |
| Interest expense | **56,586** | 82,734 |
| Gain on disposal of investment | **(3,650)** | – |
| Impairment losses of property, plant and equipment | **783,621** | 66,728 |
| Net loss on disposal of property, plant and equipment | **19,323** | 67,633 |
| Decrease/(increase) in inventories | **338,628** | (635,849) |
| Increase in trade and other receivables | **(465,802)** | (32,853) |
| Decrease in lease prepayments | **4,981** | 4,980 |
| Increase/(decrease) in trade and other payables | **125,404** | (374,399) |
| Cash generated from operations | **689,798** | 381,555 |

The notes on pages 61 to 102 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2005*
*(Prepared under International Financial Reporting Standards)*

| | | Attributable to equity shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital Rmb'000 | Share premium Rmb'000 | Reserves Rmb'000 | Retained earnings Rmb'000 | Total Rmb'000 | Minority interests Rmb'000 | Total equity Rmb'000 |
| As at 1 January 2004 | | | | | | | | |
| – as previously reported | | 4,000,000 | 2,518,833 | 1,188,963 | 1,261,057 | 8,968,853 | – | 8,968,853 |
| – as previously presented separately from liabilities and equity | 3(c) | – | – | – | – | – | 53,455 | 53,455 |
| – as restated | | 4,000,000 | 2,518,833 | 1,188,963 | 1,261,057 | 8,968,853 | 53,455 | 9,022,308 |
| Profit for the year | | | | | | | | |
| – attributable to equity shareholders of the Company | | – | – | – | 240,383 | 240,383 | – | 240,383 |
| – minority interests | 3(c) | – | – | – | – | – | 2,549 | 2,549 |
| Appropriation | | – | – | 46,568 | (46,568) | – | – | – |
| Dividends | | – | – | – | (100,000) | (100,000) | – | (100,000) |
| Distributions to minority interests | | – | – | – | – | – | (3,475) | (3,475) |
| Others | | – | – | 11,086 | – | 11,086 | – | 11,086 |
| As at 31 December 2004 | | 4,000,000 | 2,518,833 | 1,246,617 | 1,354,872 | 9,120,322 | 52,529 | 9,172,851 |
| As at 1 January 2005 | | | | | | | | |
| – as previously reported | | 4,000,000 | 2,518,833 | 1,246,617 | 1,354,872 | 9,120,322 | – | 9,120,322 |
| – as previously presented separately from liabilities and equity | 3(c) | – | – | – | – | – | 52,529 | 52,529 |
| – as restated, before opening balance adjustment in respect of negative goodwill | | 4,000,000 | 2,518,833 | 1,246,617 | 1,354,872 | 9,120,322 | 52,529 | 9,172,851 |
| – opening balance adjustment in respect of negative goodwill | 3(b) | – | – | – | 18,944 | 18,944 | – | 18,944 |
| – as restated, after opening balance adjustment, carried forward | | 4,000,000 | 2,518,833 | 1,246,617 | 1,373,816 | 9,139,266 | 52,529 | 9,191,795 |
| Addition of minority interests | | – | – | – | – | – | 3,000 | 3,000 |
| Loss for the year | | | | | | | | |
| – attributable to equity shareholders of the Company | | – | – | – | (967,508) | (967,508) | – | (967,508) |
| – minority interests | 3(c) | – | – | – | – | – | (485) | (485) |
| Dividends | | – | – | – | (100,000) | (100,000) | – | (100,000) |
| Distributions to minority interests | | – | – | – | – | – | (2,940) | (2,940) |
| Others | | – | – | 55 | – | 55 | – | 55 |
| **As at 31 December 2005** | | **4,000,000** | **2,518,833** | **1,246,672** | **306,308** | **8,071,813** | **52,104** | **8,123,917** |

The notes on pages 61 to 102 form part of these financial statements.

## *1. Background of the Company*

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

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

## *2. Significant accounting policies*

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

### (a) Statement of compliance

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

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

The Group also prepares a set of financial statements which complies with the PRC Accounting Rules and Regulations. Significant differences between the financial statements prepared in accordance with IFRS and the PRC Accounting Rules and Regulations are summarised on pages 152 and 153.

The IASB has issued a number of new and revised IFRSs and IASs ("**new IFRSs**") that are effective for accounting periods beginning on or after 1 January 2005.

Information on the changes in accounting policies resulting from initial application of these new IFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

### (b) Basis of preparation

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

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

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

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

## 2. *Significant accounting policies* (Continued)

### (b) Basis of preparation (Continued)

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 35.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except those disclosed in note 3.

### (c) Basis of consolidation

*(i) Subsidiaries and controlled entities*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

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

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

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

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

## 2. Significant accounting policies *(Continued)*

### (c) Basis of consolidation *(Continued)*

*(ii) Jointly controlled entities*

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

Investments in jointly controlled entities are accounted for in the consolidated financial statements on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expense caption of the Group's income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's balance sheet, from the date that joint control commences until the date that joint control ceases.

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

*(iii) Goodwill*

Goodwill represents the excess of the cost of business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy s).

Negative goodwill is recognised immediately in the income statement as it arises. Negative goodwill arising on acquisition represents the excess of the fair value of the net identifiable assets of subsidiaries acquired over the cost of acquisition.

### (d) Translation of foreign currencies

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

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

Foreign currency translation differences relating to funds borrowed to finance the construction of property, plant and equipment to the extent that they are regarded as an adjustment to interest charges are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

### (e) Cash and cash equivalents

Cash equivalents consist of time deposits with banks with an initial term of less than three months when acquired. Cash equivalents are stated at cost, which approximate fair value.

## 2. *Significant accounting policies* *(Continued)*

### (f) Trade and other receivables

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

### (g) Inventories

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

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

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

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

### (h) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation (see note 15(c)) less accumulated depreciation and impairment losses (see accounting policy s). Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

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

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

| | |
|---|---|
| Buildings | 25 to 40 years |
| Plant, machinery and equipment | 8 to 22 years |
| Motor vehicles and other fixed assets | 4 to 10 years |

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

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

## 2. Significant accounting policies *(Continued)*

### (i) Lease prepayments

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

### (j) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

### (k) Investments

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

### (l) Trade and other payables

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

### (m) Provisions and contingent liabilities

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

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

### (n) Revenue recognition

*(i) Sales of goods*

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

## 2. *Significant accounting policies* *(Continued)*

**(n) Revenue recognition** *(Continued)*

*(ii) Rendering of services*

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

*(iii) Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

*(iv) Dividend income*

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

**(o) Net financing costs**

Net financing costs comprise interest expense on borrowings, interest income form bank deposits, foreign exchange gains and losses and bank charges.

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

**(p) Repairs and maintenance expenses**

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

**(q) Research and development costs**

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

**(r) Retirement benefits**

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in note 30.

## 2. Significant accounting policies *(Continued)*

### (s) Impairment losses

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

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

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

*(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amount of an asset or the cash generating unit to which it belongs, exceeds its recoverable amount.

– *Calculation of recoverable amount*

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

– *Reversals of impairment losses*

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

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

### (t) Dividends

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

## 2. Significant accounting policies *(Continued)*

### (u) Income tax

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

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

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

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

### (v) Non-current assets held for sale

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

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

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

### (w) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

## 2. Significant accounting policies *(Continued)*

### (x) Operating leases

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

## 3. Changes in accounting policies

The IASB has issued a number of new IFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and Company after the adoption of these new IFRSs have been summarised in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 36).

### (a) Accounting for investments in subsidiaries (IAS 27, Consolidated and separate financial statements)

In prior years, in the balance sheet of the Company, investments in subsidiaries are accounted for using the equity method.

With effect from 1 January 2005, in order to comply with IAS 27, investments in subsidiaries are accounted for using the cost method. Investment in subsidiaries and retained earnings balances in the balance sheet of the Company for the comparative period has been restated accordingly. There was no impact to the Group's consolidated financial statements.

The following table discloses the adjustments that have been made in accordance with IAS 27 to each of the line items in the balance sheet of the Company as previously reported as at 31 December 2004.

*(i) Effect on the Company's non-current assets*

| | **Balance as at 31 December 2004 (as previously reported)** | **Effect of new policy** | **Balance as at 31 December 2004 (as restated)** |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Interest in subsidiaries | 687,661 | (194,401) | 493,260 |

## 3. Changes in accounting policies *(Continued)*

### (a) Accounting for investments in subsidiaries (IAS 27, Consolidated and separate financial statements) *(Continued)*

*(ii) Effect on the Company's equity*

| | 2004 (as previously reported) | Effect of new policy | 2004 (as restated) |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Retained earnings brought forward as at 1 January 2004 | 1,266,104 | (186,725) | 1,079,379 |
| Profit attributable to shareholders for 2004 | 241,990 | (7,676) | 234,314 |
| Retained earnings carried forward as at 31 December 2004 | 1,361,526 | (194,401) | 1,167,125 |

### (b) Amortisation of negative goodwill (IFRS 3, Business combinations)

In prior years, negative goodwill was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such case it was recognised in the consolidated income statement as those expected losses were incurred.

With effect from 1 January 2005 and in accordance with IFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the consolidated income statement as it arises.

In accordance with the transitional arrangements under IFRS 3, the carrying amount of negative goodwill as at 1 January 2005 that arose from a business combination for which the agreement date was before 31 March 2004 was derecognised as at that date with a corresponding adjustment to the opening balance of retained earnings as at 1 January 2005. Comparative amounts have not been restated.

As a result of adopting this new accounting policy, the carrying amount of negative goodwill of Rmb 18,944,000 as at 1 January 2005 in respect of the amounts previously credited to those non-monetary assets that are depreciable or amortisable (i.e. property, plant and equipment) has been reversed and credited to the opening balance of retained earnings as at 1 January 2005. This has increased the Group's depreciation charge and loss before taxation for the year ended 31 December 2005 by Rmb 3,043,000.

## 3. Changes in accounting policies *(Continued)*

**(c) Minority interests (IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements)**

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the Company).

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests at the balance sheet date are presented in the consolidated balance sheet as part of equity, separately from interests attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the equity shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative year has been restated accordingly.

**(d) Related party disclosures (IAS 24, Related party disclosures)**

The definition of related parties under IAS 24 as disclosed in note 31 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or any entity that is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-retirement benefit plans. The disclosure of such related party transactions in note 31 for the comparative year has been made accordingly.

## 4. Non-current assets held for sale

Assets classified as held for sale:

| | Note | The Group 2005 *Rmb'000* | The Company 2005 *Rmb'000* |
|---|---|---|---|
| Property, plant and equipment | *15(a)* | **74,643** | **–** |
| Construction in progress | *16* | **1,748** | **–** |
| Lease prepayments | | **78,435** | **–** |
| Inventories | | **51,918** | **–** |
| Trade and other receivables | | **21,194** | **147,659** |
| Cash and cash equivalents | *24* | **15,680** | **–** |
| Interest in a subsidiary | | **–** | **40,370** |
| | | **243,618** | **188,029** |

## 4. Non-current assets held for sale *(Continued)*

Liabilities classified as held for sale:

| | The Group 2005 Rmb'000 |
|---|---|
| Trade and other payables | **(20,498)** |
| Bank loans | **(35,091)** |
| | **(55,589)** |

The assets and liabilities of a subsidiary, Foshan Tianma Chemical Fibre Company Limited ("**Tianma Chemical Fibre**"), are presented as held for sale following the decision of the Group's management on 28 October 2005 to sell this disposal group in order to streamline the Group's operational and organisational structure in view of the current market condition of the chemical polyester industry. As at 31 December 2005, the disposal group comprised assets (before an impairment loss) of Rmb 635,379,000 less liabilities of Rmb 55,589,000. An impairment loss of Rmb 391,761,000 on the measurement of the disposal group to fair value less cost to sell has been recognised and is included in "Other operating expenses" of the income statement. The carrying amount of the disposal group, net of impairment, is Rmb 188,029,000 as at 31 December 2005. Subsequent to the balance sheet date, the Group entered into a conditional sale and purchase agreement to dispose of its 100% equity interest in Tianma Chemical Fibre to two third-party purchasers (note 37(b)).

## 5. Segment reporting

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

## 6. 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.

## 7. Other operating expenses

| | **2005** *Rmb'000* | 2004 *Rmb'000* |
|---|---|---|
| Impairment losses of property, plant and equipment | | |
| – filament plant *(note 15(d))* | **391,860** | 40,867 |
| – Tianma Chemical Fibre *(note 15(e))* | **391,761** | – |
| – others | **–** | 25,861 |
| | **783,621** | 66,728 |
| Loss on scrap sales of auxiliary materials | **14,727** | – |
| Flood prevention fees | **7,000** | 9,292 |
| Others | **718** | 16,063 |
| Other operating expenses | **806,066** | 92,083 |

## 8. Employee reduction expenses

In accordance with the Group's employee reduction plan, the Group recorded employee reduction expenses of Rmb 90,939,000 (2004: Rmb 21,694,000), including Tianma Chemical Fibre's estimated severance payment of Rmb 67,000,000, during the year ended 31 December 2005 in respect of the reduction of 1,814 (2004: 343) employees, including Tianma Chemical Fibre's 1,324 employees.

## 9. (Loss)/profit before taxation

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

| | **2005** | 2004 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| **(a) Net financing costs:** | | |
| Interest income | **(4,509)** | (11,497) |
| Net foreign exchange gain | **(1,356)** | (3,126) |
| Financial income | **(5,865)** | (14,623) |
| Interest on borrowings | **60,129** | 89,189 |
| Less: Borrowing costs capitalised into construction in progress * | **(3,543)** | (6,455) |
| Net interest expense | **56,586** | 82,734 |
| Others | **2,366** | 4,065 |
| Financial expenses | **58,952** | 86,799 |
| Net financing costs | **53,087** | 72,176 |

* The borrowing costs have been capitalised at an average rate of 3.7% (2004: 4.9%) per annum for construction in progress.

## 9. (Loss)/profit before taxation *(Continued)*

**(b) Other items:**

| | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|
| Cost of inventories # | **15,309,488** | 12,219,933 |
| Staff costs: | | |
| – wages and salaries, welfare and other costs | **534,105** | 590,220 |
| – contributions to defined contribution schemes | **86,107** | 85,950 |
| Total staff costs # | **620,212** | 676,170 |
| Depreciation # | **848,052** | 940,286 |
| Repairs and maintenance expenses # | **158,581** | 189,875 |
| Research and development costs # | **44,844** | 36,868 |
| Write-down of inventories | **23,568** | 26,110 |
| Amortisation of lease prepayments | **4,981** | 4,980 |
| Auditors' remuneration – audit service | **6,488** | 6,617 |
| Loss of bills receivable | **25,000** | – |
| Gain on disposal of investment | **(3,650)** | – |
| Dividend income from unlisted investment | **(3,500)** | (3,000) |

# Cost of inventories includes Rmb 1,418,986,000 (2004: Rmb 1,550,138,000) relating to staff costs, depreciation, repairs and maintenance expenses and research and development costs, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

The number of employees of the Group as at 31 December 2005 was about 12,000 (2004: 14,000).

## 10. Income tax

**(a)** The charge for PRC income tax of the Company is calculated at the rate of 15% (2004: 15%) on the estimated assessable income of the year determined in accordance with the relevant income tax rules and regulations. The Company has not received notice from the Ministry of Finance and the State Administration of Taxation that the 15% tax rate will be revoked in 2006. It is possible that the Company's tax rate will increase in future years.

The income tax rates applicable to the Company's principal subsidiaries in the PRC range from 15% to 33%. No provision has been made for overseas income tax as the Group did not earn income subject to overseas income tax.

The PRC income tax rate applicable to the jointly controlled entity is 27%. Starting from the year in which taxable income is made after the offset of deductible losses incurred in prior years, the jointly controlled entity is entitled to an exemption from PRC income tax for the first and second years and a 50% reduction in the PRC income tax rate for the third to fifth years.

## 10. Income tax *(Continued)*

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

| | 2005<br>Rmb'000 | 2004<br>Rmb'000 |
|---|---|---|
| Current tax expense | | |
| – Current year | **10,615** | 63,285 |
| – Under/(over)-provision in respect of prior years | **1,774** | (1,966) |
| | **12,389** | 61,319 |
| Origination of deferred tax assets *(note (c))* | **(53,732)** | (27,459) |
| | **(41,343)** | 33,860 |

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

| | 2005<br>Rmb'000 | 2004<br>Rmb'000 |
|---|---|---|
| (Loss)/profit before taxation | **(1,009,336)** | 276,792 |
| Expected income tax using the Company's tax rate of 15% | **(151,400)** | 41,519 |
| Differential tax rate of subsidiaries | **5,297** | 1,567 |
| Effect of tax losses not recognised | **98,371** | 2,274 |
| Under/(over)-provision of income tax in respect of prior years | **1,774** | (1,966) |
| Non-deductible expenses | **3,750** | 1,475 |
| Tax exempt revenue | **(3,951)** | (1,419) |
| Write-off/(recognition) of deferred tax assets in respect of prior years | **4,816** | (9,590) |
| Income tax expense | **(41,343)** | 33,860 |

## 10. Income tax (Continued)

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

| | The Group | | | | |
|---|---|---|---|---|---|
| | Balance at 1 January 2004 | Recognised in income statement | Balance at 31 December 2004 | Recognised in income statement | Balance at 31 December 2005 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | **Rmb'000** |
| **Current** | | | | | |
| Provisions, primarily for receivables and inventories | – | 18,527 | 18,527 | (8,473) | **10,054** |
| **Non-current** | | | | | |
| Land use rights | 31,548 | (792) | 30,756 | (792) | **29,964** |
| Property, plant and equipment | (2,548) | 9,724 | 7,176 | (1,538) | **5,638** |
| Tax losses | – | – | – | 64,535 | **64,535** |
| | 29,000 | 27,459 | 56,459 | 53,732 | **110,191** |

| | The Company | | | | |
|---|---|---|---|---|---|
| | Balance at 1 January 2004 | Recognised in income statement | Balance at 31 December 2004 | Recognised in income statement | Balance at 31 December 2005 |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | **Rmb'000** |
| **Current** | | | | | |
| Provisions, primarily for receivables and inventories | – | 12,898 | 12,898 | (2,844) | **10,054** |
| **Non-current** | | | | | |
| Land use rights | 31,548 | (792) | 30,756 | (792) | **29,964** |
| Property, plant and equipment | (2,548) | 9,724 | 7,176 | (1,538) | **5,638** |
| Tax losses | – | – | – | 64,535 | **64,535** |
| | 29,000 | 21,830 | 50,830 | 59,361 | **110,191** |

The Group has not recognised a deferred tax asset in respect of unutilised tax losses amounting to Rmb 98,371,000 (2004: Rmb 2,274,000). Except for this, there is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

## 11. Directors' and supervisors' emoluments

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

| Name | Fees | | Basic salaries, allowance and bonus | | Retirement scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| **Directors:** | | | | | | | | |
| Xu Zheng-ning | **–** | – | **199** | 190 | **8** | 40 | **207** | 230 |
| Sun Zhi-hong | **–** | – | **199** | 190 | **8** | 40 | **207** | 230 |
| Qian Heng-ge | **–** | – | **199** | 190 | **8** | 40 | **207** | 230 |
| Xiao Wei-zhen | **–** | – | **193** | 174 | **8** | 37 | **201** | 211 |
| Long Xing-ping | **–** | – | **166** | 158 | **8** | 33 | **174** | 191 |
| Zhang Hong | **–** | – | **166** | 158 | **8** | 33 | **174** | 191 |
| Shen Xi-jun | **–** | – | **166** | 158 | **8** | 33 | **174** | 191 |
| Cao Yong | **–** | – | **166** | 158 | **8** | 33 | **174** | 191 |
| Li Zhen-feng | **–** | – | **166** | 154 | **8** | 33 | **174** | 187 |
| **Independent non-executive directors:** | | | | | | | | |
| Li Zhong-he | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Wang Hua-cheng | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Yi Ren-ping | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| Qian Zhi-hong | **40** | 40 | **–** | – | **–** | – | **40** | 40 |
| **Supervisors:** | | | | | | | | |
| Zhou Wen-fei | **–** | – | **166** | 149 | **8** | 31 | **174** | 180 |
| Tao Chun-sheng | **–** | – | **109** | 92 | **8** | 19 | **117** | 111 |
| Chen Jian | **–** | – | **166** | 149 | **8** | 31 | **174** | 180 |
| Huang Zhi-wei | **30** | 30 | **–** | – | **–** | – | **30** | 30 |
| Chu Su-hua | **30** | 30 | **–** | – | **–** | – | **30** | 30 |
| **Senior management:** | | | | | | | | |
| Zhang Zhong-an | **–** | – | **166** | 149 | **8** | 31 | **174** | 180 |
| Wu Chao-yang | **–** | – | **116** | 108 | **8** | 19 | **124** | 127 |
| | **220** | 220 | **2,343** | 2,177 | **112** | 453 | **2,675** | 2,850 |

For the years ended 31 December 2005 and 2004, no emolument was paid to directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

### (b) Five individuals with highest emoluments

The five individuals with highest emoluments of the Company in 2005 and 2004 were all executive directors whose total emoluments have been shown above.

## 12. (Loss)/profit attributable to equity shareholders of the Company

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of Rmb 952,611,000 (2004(restated): a profit of Rmb 234,314,000) which has been dealt with in the financial statements of the Company.

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

| | **2005** | 2004 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| | | *(restated)* |
| Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's financial statements | **(952,611)** | 234,314 |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | **48,000** | – |
| Company's (loss)/profit for the year *(note 29)* | **(904,611)** | 234,314 |

## 13. Dividend

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

| | **2005** | 2004 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Final dividend proposed after the balance sheet date of Rmb nil (2004: Rmb 2.5 cents) per share | **–** | 100,000 |

Pursuant to a resolution passed at the Board of Directors' meeting on 29 March 2005, a final dividend of Rmb 2.5 cents per share totalling Rmb 100,000,000 was approved by shareholders at the Annual General Meeting. No final dividend was proposed after the balance sheet date in respect of the year ended 31 December 2005.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

| | **2005** | 2004 |
|---|---|---|
| | ***Rmb'000*** | *Rmb'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of Rmb 2.5 cents (2004: Rmb 2.5 cents) per share | **100,000** | 100,000 |

## 14. (Loss)/earnings per share

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of Rmb 967,508,000 (2004: a profit of Rmb 240,383,000) and the weighted average number of ordinary shares of 4,000,000,000 (2004: 4,000,000,000) in issue during the year.

### (b) Diluted (loss)/earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2005 and 2004.

## 15. Property, plant and equipment

### (a) The Group

| | Buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost or valuation:** | | | | |
| At 1 January 2004 | 2,079,189 | 12,353,340 | 621,226 | 15,053,755 |
| Additions | 3,939 | 604 | 8,486 | 13,029 |
| Transfer from construction in progress *(note 16)* | 18,953 | 557,191 | 11,801 | 587,945 |
| Disposals | (16,908) | (184,594) | (46,186) | (247,688) |
| At 31 December 2004 | 2,085,173 | 12,726,541 | 595,327 | 15,407,041 |
| **Representing:** | | | | |
| Cost | – | – | – | – |
| Valuation – 2004 | 2,085,173 | 12,726,541 | 595,327 | 15,407,041 |
| | 2,085,173 | 12,726,541 | 595,327 | 15,407,041 |
| At 1 January 2005 | 2,085,173 | 12,726,541 | 595,327 | 15,407,041 |
| Additions | | | | |
| – proportionate share of the jointly controlled entity | 71,800 | 196,361 | 2,980 | 271,141 |
| – others | 696 | – | – | 696 |
| Transfer from construction in progress *(note 16)* | | | | |
| – proportionate share of the jointly controlled entity | – | 126 | 2,020 | 2,146 |
| – others | 37,202 | 113,085 | 15,331 | 165,618 |
| Derecognition of negative goodwill *(note 3(b))* | 9,145 | 31,493 | 3,918 | 44,556 |
| Disposals | | | | |
| – transfer to the jointly controlled entity | (151,367) | (1,560,927) | (28,383) | (1,740,677) |
| – others | (25,290) | (49,687) | (41,761) | (116,738) |
| Transfer to assets held for sale *(note 4)* | (185,322) | (802,081) | (33,590) | (1,020,993) |
| **At 31 December 2005** | **1,842,037** | **10,654,911** | **515,842** | **13,012,790** |

## 15. *Property, plant and equipment* *(Continued)*

### (a) The Group *(Continued)*

| | Buildings Rmb'000 | Plant, machinery and equipment Rmb'000 | Motor vehicles and other fixed assets Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|
| **Representing:** | | | | |
| Cost | 47,507 | 169,021 | 21,269 | 237,797 |
| Valuation – 2004 | 1,723,194 | 10,313,846 | 491,593 | 12,528,633 |
| Valuation – 2005 | 71,336 | 172,044 | 2,980 | 246,360 |
| | 1,842,037 | 10,654,911 | 515,842 | 13,012,790 |
| **Accumulated depreciation and impairment losses:** | | | | |
| At 1 January 2004 | 617,175 | 5,455,141 | 455,585 | 6,527,901 |
| Depreciation charge for the year | 76,838 | 784,270 | 79,178 | 940,286 |
| Impairment losses | 453 | 65,530 | 745 | 66,728 |
| Written back on disposal | (6,244) | (128,607) | (37,136) | (171,987) |
| At 31 December 2004 | 688,222 | 6,176,334 | 498,372 | 7,362,928 |
| At 1 January 2005 | 688,222 | 6,176,334 | 498,372 | 7,362,928 |
| Depreciation charge for the year | 72,903 | 710,080 | 65,069 | 848,052 |
| Impairment losses *(note d, e)* | 77,971 | 699,244 | 6,406 | 783,621 |
| Derecognition of negative goodwill *(note 3(b))* | 2,595 | 19,099 | 3,918 | 25,612 |
| Written back on disposal | | | | |
| – transfer to the jointly controlled entity *(note d)* | (29,049) | (1,215,523) | (22,693) | (1,267,265) |
| – others | (5,899) | (38,427) | (33,249) | (77,575) |
| Transfer to assets held for sale *(note 4)* | (136,474) | (783,317) | (26,559) | (946,350) |
| **At 31 December 2005** | **670,269** | **5,567,490** | **491,264** | **6,729,023** |
| **Net book value:** | | | | |
| At 31 December 2004 | 1,396,951 | 6,550,207 | 96,955 | 8,044,113 |
| **At 31 December 2005** | **1,171,768** | **5,087,421** | **24,578** | **6,283,767** |

## 15. Property, plant and equipment *(Continued)*

### (b) The Company

| | Buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost or valuation:** | | | | |
| At 1 January 2004 | 1,872,386 | 11,588,876 | 580,469 | 14,041,731 |
| Additions | – | – | 277 | 277 |
| Transfer from construction in progress *(note 16)* | 18,496 | 536,958 | 11,716 | 567,170 |
| Disposals | (16,908) | (184,117) | (45,781) | (246,806) |
| At 31 December 2004 | 1,873,974 | 11,941,717 | 546,681 | 14,362,372 |
| **Representing:** | | | | |
| Cost | – | – | – | – |
| Valuation – 2004 | 1,873,974 | 11,941,717 | 546,681 | 14,362,372 |
| | 1,873,974 | 11,941,717 | 546,681 | 14,362,372 |
| At 1 January 2005 | 1,873,974 | 11,941,717 | 546,681 | 14,362,372 |
| Transfer from construction in progress *(note 16)* | 37,189 | 111,655 | 15,236 | 164,080 |
| Disposals | | | | |
| – transfer to the jointly controlled entity | (151,367) | (1,560,927) | (28,383) | (1,740,677) |
| – others | (14,887) | (49,687) | (41,392) | (105,966) |
| **At 31 December 2005** | **1,744,909** | **10,442,758** | **492,142** | **12,679,809** |
| **Representing:** | | | | |
| Cost | 37,189 | 111,655 | 15,236 | 164,080 |
| Valuation – 2004 | 1,707,720 | 10,331,103 | 476,906 | 12,515,729 |
| | 1,744,909 | 10,442,758 | 492,142 | 12,679,809 |
| **Accumulated depreciation and impairment losses:** | | | | |
| At 1 January 2004 | 568,255 | 5,081,884 | 433,177 | 6,083,316 |
| Depreciation charge for the year | 66,363 | 729,364 | 76,418 | 872,145 |
| Impairment losses | 453 | 65,530 | 745 | 66,728 |
| Written back on disposal | (6,244) | (128,130) | (36,778) | (171,152) |
| At 31 December 2004 | 628,827 | 5,748,648 | 473,562 | 6,851,037 |

## 15. *Property, plant and equipment* *(Continued)*

**(b) The Company** *(Continued)*

| | Buildings | Plant, machinery and equipment | Motor vehicles and other fixed assets | Total |
|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Accumulated depreciation and impairment losses:** | | | | |
| At 1 January 2005 | 628,827 | 5,748,648 | 473,562 | 6,851,037 |
| Depreciation charge for the year | 66,147 | 660,808 | 61,696 | 788,651 |
| Impairment losses *(note d)* | – | 386,724 | 5,136 | 391,860 |
| Written back on disposal | | | | |
| – transfer to the jointly controlled entity *(note d)* | (29,049) | (1,215,523) | (22,693) | (1,267,265) |
| – others | (5,756) | (38,427) | (32,892) | (77,075) |
| **At 31 December 2005** | **660,169** | **5,542,230** | **484,809** | **6,687,208** |
| **Net book value:** | | | | |
| At 31 December 2004 | 1,245,147 | 6,193,069 | 73,119 | 7,511,335 |
| **At 31 December 2005** | **1,084,740** | **4,900,528** | **7,333** | **5,992,601** |

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

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

The management believes that the carrying amount of property, plant and equipment did not differ materially from their fair values as at 31 December 2005.

## 15. *Property, plant and equipment* *(Continued)*

**(d)** In order to diversify of the Company's filament products and improve the relevant manufacturing processes, the Company entered into an equity joint venture contract ("**the JV Contract**") with UNIFI Asia Holding SRL ("**the venturer**") on 10 June 2005 to establish a joint venture ("**JV**") in the PRC to undertake the manufacture of polyester filament products in the PRC. The JV is a jointly controlled entity, which is 50% owned by the Company and 50% owned by the venturer (note 19). Pursuant to the JV Contract, the capital contributions made by the Company and the venturer will be in form of property, plant and equipment and cash respectively.

As required by the relevant PRC rules and regulations and the relevant provisions in the JV Contract, a revaluation of the Company's property, plant and equipment contributed and disposed of to the JV was carried out by an independent valuer registered in the PRC and a revaluation report was issued by Beijing China Enterprise Appraisal Company Limited on 25 May 2005. Immediately before the disposal of the relevant property, plant and equipment, the Company assessed their recoverable amount. Based on this assessment, an impairment loss of Rmb 391,860,000 in total was recognised to write down the carrying amount of these property, plant and equipment to their recoverable amount (included in "Other operating expenses" (note 7)) during 2005. The estimate of the recoverable amount was based on the property, plant and equipment's fair value less costs to sell, determined by reference to the revalued amount set out in the above revaluation report, which represents the disposition value of the property, plant and equipment agreed between the Company and the venturer.

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

**(e)** As mentioned in note 4, the Group decided to dispose of its 100% equity interest in Tianma Chemical Fibre before 31 December 2005. The Group assessed the recoverable amount of Tianma Chemical Fibre's property, plant and equipment as at 31 December 2005. Based on this assessment, an impairment loss of Rmb 391,761,000 was recognised to write down the carrying amount of the property, plant and equipment to the recoverable amount (included in "Other operating expenses" (note 7)) as at 31 December 2005. The estimate of recoverable amount was based on the property, plant and equipment's fair value less costs to sell, determined by reference to the selling price agreed with two independent third-party purchasers in the conditional sale and purchase agreement dated 24 March 2006 (note 37(b)).

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

## 16. *Construction in progress*

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Balance at 1 January | **268,306** | 294,963 | **266,699** | 290,402 |
| Additions | **174,931** | 561,288 | **173,252** | 543,467 |
| Additions of the jointly controlled entity | **2,146** | – | **–** | – |
| Transfer to property, plant and equipment *(note 15)* | **(167,764)** | (587,945) | **(164,080)** | (567,170) |
| Transfer to assets held for sale *(note 4)* | **(1,748)** | – | **–** | – |
| Balance at 31 December | **275,871** | 268,306 | **275,871** | 266,699 |

## 17. *Lease prepayments*

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

## 18. *Interest in subsidiaries*

| | The Company | |
|---|---|---|
| | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* |
| | | *(Restated)* |
| Unlisted shares, at cost | **58,915** | 58,915 |
| Amounts due from a subsidiary | **–** | 800,000 |
| Negative goodwill *(note 3(b))* | **–** | (18,944) |
| Less: Provision for impairment losses | **–** | (346,711) |
| | **58,915** | 493,260 |

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

## 18. Interest in subsidiaries *(Continued)*

All of these are controlled subsidiaries as defined under note 2(c) and have been consolidated into the Group financial statements.

| Name of company | Registered capital *(in thousand)* | Percentage of equity held directly by the Company | Percentage of equity held by subsidiary | Type of legal entity | Principal activity |
|---|---|---|---|---|---|
| Foshan Chemical Fibre United Company Limited | Rmb 32,933 | 90% | 10% | Limited company | Management and administration |
| Tianma Chemical Fibre | US$ 85,427 | 59% | 41% | Limited company | Manufacturing chemical products, chemical fibre, and textile products, and sales of its own manufactured products and provision of after-sales services |
| Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**") | Rmb 60,000 | 95% | – | Limited company | Investment holding and trading of polyester chips and polyester fibre |

None of the subsidiaries has issued any debt securities.

## 19. Interest in jointly controlled entity

| | The Company 2005 Rmb'000 | The Company 2004 Rmb'000 |
|---|---|---|
| Unlisted shares, at cost | **121,584** | – |

## 19. *Interest in jointly controlled entity* (Continued)

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

| Name of jointly controlled entity | Place of incorporation and operation | Registered capital *(in thousand)* | Interest held by the Company | Type of legal entity | Principal activity |
|---|---|---|---|---|---|
| Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**") | PRC | US$ 30,000 | 50% | Limited company | Manufacturing and processing of differentiated polyester textile filament products; conducting research in polyester textile products; sales of self-produced chemical plastic materials and provision of after-sales services |

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

| | **2005** *Rmb'000* |
|---|---|
| Non-current assets | **266,249** |
| Current assets | **46,832** |
| Current liabilities | **(202,978)** |
| Net assets | **110,103** |
| Income | **202,987** |
| Expenses | **(214,468)** |
| Loss for the year | **(11,481)** |

## 20. Available-for-sale equity securities

| | The Group and the Company | |
|---|---|---|
| | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* |
| Unlisted equity securities | | |
| – Sinopec Finance Company Limited ("**Sinopec Finance**") | **62,500** | 62,500 |

## 21. Inventories

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Raw materials | **623,778** | 953,553 | **616,510** | 883,102 |
| Work in progress | **114,421** | 128,745 | **111,307** | 123,282 |
| Finished goods | **313,305** | 312,725 | **250,340** | 255,936 |
| Goods in transit | **23,301** | 41,552 | **23,301** | – |
| | **1,074,805** | 1,436,575 | **1,001,458** | 1,262,320 |
| Spare parts and consumables | **161,213** | 189,989 | **156,440** | 165,719 |
| | **1,236,018** | 1,626,564 | **1,157,898** | 1,428,039 |

## 22. Trade and other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Trade receivables | **170,796** | 170,411 | **167,019** | 121,581 |
| Bills receivable | **817,439** | 310,550 | **748,856** | 259,987 |
| Amounts due from parent company and fellow subsidiaries – trade | **11,690** | 11,820 | **3,638** | 13,552 |
| Amount due from a jointly controlled entity – trade | **1,260** | – | **–** | – |
| | **1,001,185** | 492,781 | **919,513** | 395,120 |
| Amounts due from parent company and fellow subsidiaries – non-trade | **8,397** | 1,312 | **1,747** | 1,312 |
| Amounts due from subsidiaries – non-trade | **–** | – | **11,293** | 174,545 |
| Amount due from a jointly controlled entity – non-trade | **60,792** | – | **121,584** | – |
| Other receivables, deposits and prepayments | **47,779** | 120,122 | **42,057** | 98,254 |
| | **1,118,153** | 614,215 | **1,096,194** | 669,231 |

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 and amounts due from parent company and fellow subsidiaries – trade and amounts due from a jointly controlled entity – trade is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| *Invoice date:* | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Within 1 year | **996,518** | 488,060 | **917,357** | 394,164 |
| Between 1 and 2 years | **3,880** | 3,554 | **2,008** | 956 |
| Between 2 and 3 years | **628** | 1,165 | **148** | – |
| Over 3 years | **159** | 2 | **–** | – |
| | **1,001,185** | 492,781 | **919,513** | 395,120 |

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

## 23. Deposits with banks and other financial institutions

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Balances with banks and other financial institutions | **290,569** | 306,953 | **192,451** | 164,719 |
| Balances with banks and other financial institutions, which are related parties | | | | |
| – Sinopec Finance | **66,661** | 21,824 | **66,661** | 21,824 |
| – CITIC Industrial Bank | **25,592** | 30,060 | **22,820** | 5,658 |
| | **92,253** | 51,884 | **89,481** | 27,482 |
| | **382,822** | 358,837 | **281,932** | 192,201 |
| Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 24)* | **(356,824)** | (228,003) | **(281,932)** | (160,201) |
| | **25,998** | 130,834 | **–** | 32,000 |

## 24. Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Cash in hand | **31** | 149 | **15** | 38 |
| Balances with banks and other financial institutions with an initial term of less than three months *(note 23)* | **356,824** | 228,003 | **281,932** | 160,201 |
| Cash and cash equivalents in the balance sheet | **356,855** | 228,152 | **281,947** | 160,239 |
| Cash and cash equivalents attributable to a disposal group held for sale *(note 4)* | **15,680** | – | **–** | – |
| Cash and cash equivalents in the consolidated cash flow statement | **372,535** | 228,152 | **281,947** | 160,239 |

## 25. *Trade and other payables*

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Trade payables | **794,182** | 591,368 | **753,964** | 470,944 |
| Bills payable | **–** | 3,462 | **–** | – |
| Amounts due to parent company and fellow subsidiaries – trade | **47,694** | 64,172 | **46,450** | 64,172 |
| Amounts due to subsidiaries – trade | **–** | – | **46,084** | 51,685 |
| | **841,876** | 659,002 | **846,498** | 586,801 |
| Amounts due to parent company and fellow subsidiaries – non-trade | **10** | 21,492 | **10** | 21,492 |
| Other payables and accrued expenses | **614,436** | 629,467 | **530,289** | 606,117 |
| | **1,456,322** | 1,309,961 | **1,376,797** | 1,214,410 |

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Due within 1 month or on demand | **810,104** | 659,002 | **814,726** | 586,801 |
| Due after 1 month but within 6 months | **31,772** | – | **31,772** | – |
| | **841,876** | 659,002 | **846,498** | 586,801 |

The amounts due to parent company and fellow subsidiaries – non-trade are unsecured, interest free and have no fixed repayment terms.

Other payables and accrued expenses include an amount of Rmb 12,834,000 (2004: Rmb nil) which is expected to be settled after more than one year.

## 26. Bank loans

**(a)** Bank loans as at 31 December 2005 were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Within 1 year or on demand | | | | |
| (i) Short-term bank loans | **37,500** | 281,726 | **–** | 193,878 |
| (ii) Short-term loans from banks and other financial institutions, which are related parties | | | | |
| – Sinopec Finance | **–** | 20,000 | **–** | 20,000 |
| – CITIC Industrial Bank | **10,000** | 8,000 | **–** | – |
| (iii) Current portion of long-term bank loans | **90,000** | 200,000 | **90,000** | 200,000 |
| | **137,500** | 509,726 | **90,000** | 413,878 |
| After 1 year but within 2 years | **50,000** | 90,000 | **50,000** | 90,000 |
| After 2 years but within 3 years | **–** | 100,000 | **–** | 100,000 |
| | **50,000** | 190,000 | **50,000** | 190,000 |
| | **187,500** | 699,726 | **140,000** | 603,878 |

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

**(b)** At 31 December 2005, the Group's and the Company's weighted average interest rates per annum on short-term bank loans were 3.3% (2004: 3.6%) and 2.4% (2004: 3.9%) respectively.

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

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

| | | | The Group and the Company | |
|---|---|---|---|---|
| **Long-term bank loans** | **Interest rate** | **Interest type** | **2005** | 2004 |
| | | | ***Rmb'000*** | *Rmb'000* |
| – Due in 2005 | 4.94% | Fixed | **–** | 200,000 |
| – Due in 2006 | 4.94%-5.18% | Fixed | **90,000** | 90,000 |
| – Due in 2007 | 4.94%-5.18% | Fixed | **50,000** | 100,000 |
| Total long-term bank loans *(note 34(e))* | | | **140,000** | 390,000 |
| Less: Current portion of long-term bank loans | | | **(90,000)** | (200,000) |
| Non-current portion of long-term bank loans | | | **50,000** | 190,000 |

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

## 27. Share capital

| | The Group and the Company | |
|---|---|---|
| | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* |
| **Registered, issued and paid up capital:** | | |
| 2,400,000,000 "Domestic non-public legal person A" shares of Rmb 1 each | **2,400,000** | 2,400,000 |
| 200,000,000 "Social public A" shares of Rmb 1 each | **200,000** | 200,000 |
| 1,400,000,000 "H" shares of Rmb 1 each | **1,400,000** | 1,400,000 |
| | **4,000,000** | 4,000,000 |

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

## 28. Reserves

| | The Group and the Company | | | | | |
|---|---|---|---|---|---|---|
| | **Capital reserve** | **Excess over share capital** | **Statutory surplus reserve** | **Statutory public welfare fund** | **Discretionary surplus reserve** | **Total** |
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| | | *(note (a))* | *(note (b))* | *(note (c))* | *(note (d))* | |
| At 1 January 2004 | 3,927 | (224,400) | 489,762 | 325,127 | 594,547 | 1,188,963 |
| Transfer from retained profits *(note 29)* | – | – | 23,284 | 23,284 | – | 46,568 |
| Others | 11,086 | – | – | – | – | 11,086 |
| At 31 December 2004 | 15,013 | (224,400) | 513,046 | 348,411 | 594,547 | 1,246,617 |
| Others | 55 | – | – | – | – | 55 |
| **At 31 December 2005** | **15,068** | **(224,400)** | **513,046** | **348,411** | **594,547** | **1,246,672** |

*Notes:*

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

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

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

## 28. Reserves *(Continued)*

*Notes: (Continued)*

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

The Board of Directors of the Company has resolved not to make any profit appropriation (2004: Rmb 23,284,000) to the statutory public welfare fund.

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

Neither the Company nor any of its subsidiaries has proposed to transfer any of its profit after taxation to discretionary surplus reserve in respect of the financial year 2005 (2004: Rmb nil).

## 29. Retained profits

| | Note | The Group<br>*Rmb'000* | The Company<br>*Rmb'000*<br>*(restated)* |
|---|---|---|---|
| At 1 January 2004 | | | |
| – as previously reported | | 1,261,057 | 1,266,104 |
| – prior years adjustment in respect of investment in subsidiaries | *3(a)(ii)* | – | (186,725) |
| – as restated | | 1,261,057 | 1,079,379 |
| Profit attributable to equity shareholders, as restated | *3(a)(ii)* | 240,383 | 234,314 |
| Transfer to reserves | *28* | (46,568) | (46,568) |
| Dividend in respect of previous year and approved during the year | *13(b)* | (100,000) | (100,000) |
| At 31 December 2004 | | | |
| – as restated, before opening balance adjustment in respect of negative goodwill | | 1,354,872 | 1,167,125 |
| – opening balance adjustment in respect of negative goodwill | *3(b)* | 18,944 | 18,944 |
| – as restated, after opening balance adjustment, carried forward | | 1,373,816 | 1,186,069 |
| Loss attributable to equity shareholders | | (967,508) | (904,611) |
| Dividend in respect of previous year and approved during the year | *13(b)* | (100,000) | (100,000) |
| **At 31 December 2005** | | **306,308** | **181,458** |

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. As at 31 December 2005, the amount of accumulated losses, which was the amount determined in accordance with the PRC Accounting Rules and Regulations, was Rmb 331,931,000 (2004: retained profits of Rmb 724,967,000). No dividend (2004: Rmb 100,000,000) in respect of the financial year 2005 was proposed after the balance sheet date.

## 30. Retirement benefits

As stipulated by the regulations of the PRC, the Company, its subsidiaries and its jointly controlled entity in the PRC participate in basic defined contribution retirement schemes organised by their respective municipal governments under which they are governed. Details of the schemes of the Company, its principal subsidiary, Tianma Chemical Fibre, and its jointly controlled entity, Yihua UNIFI, are as follows:

| **Administrator** | **Beneficiary** | **Contribution rate** | |
|---|---|---|---|
| | | **2005** | 2004 |
| Yizheng Municipal Government, Jiangsu Province | Employees of the Company | **19%** | 18% |
| Foshan Municipal Government, Guangdong Province | Employees of Tianma Chemical Fibre | **10%** | 10% |
| Yizheng Municipal Government, Jiangsu Province | Employees of Yihua UNIFI | **19%** | – |

All employees are entitled to retirement benefits equal to a fixed proportion of their salaries and benefits in kind prevailing at their normal retirement ages.

Other than the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. The assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2005 was 9% (2004: 9%).

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

## 31. Related party transactions

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

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

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

## 31. *Related party transactions* *(Continued)*

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

| | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|
| **Yangzi** | | |
| Purchases of raw materials | **3,364,716** | 2,768,827 |
| **Zhenhai** | | |
| Purchases of raw materials | **2,637,487** | 1,771,026 |
| **Yihua and its subsidiaries ("Yihua Group")** | | |
| Sales | **385,778** | 658,276 |
| Purchases | **113,070** | 120,068 |
| Miscellaneous service fee charges *(see note below)* | **20,000** | 105,797 |
| Miscellaneous service fee income *(see note below)* | **–** | 20,059 |
| Trademark licence fee *(see note below)* | **–** | 10,000 |
| Payments relating to the construction and maintenance work | **–** | 41,329 |
| Gain on disposal of investment in Yihua Kangqi | **3,650** | – |

*Note:* The above service fee income and charges were received and paid in accordance with the terms of the agreements dated 8 February 1994, 21 December 2001, 27 November 2002, 1 July 2003 and 19 February 2005 signed between the Company and Yihua.

| | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|
| **Sinopec Corp and its subsidiaries (excluding Yangzi and Zhenhai)** | | |
| Service charges for the purchase of raw materials | **19,226** | – |
| Purchase of equipment | **–** | 10,053 |
| Purchase of raw materials | **517,023** | 266,418 |
| **CPC and its subsidiaries (excluding Yangzi, Zhenhai, Yihua Group, Sinopec Corp and its subsidiaries and Sinopec Finance)** | | |
| Payments for construction work | **–** | 15,860 |
| Purchase of raw materials and spare parts | **35,191** | 194,919 |
| Insurance premium | **25,730** | 34,152 |
| Safety security compensation income | **19,652** | – |
| **Sinopec Finance** | | |
| Interest income | **79** | 4,339 |
| Interest expense | **1,606** | 5,519 |

## 31. Related party transactions *(Continued)*

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

| | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|
| **CITIC Industrial Bank** | | |
| Interest income | 32 | 957 |
| Interest expense | 10,938 | 16,871 |
| Bills custody fee | 3,030 | – |
| **Yihua UNIFI** | | |
| Sales of finished goods | 232,098 | – |
| Sales of property, plant and equipment | 371,116 | – |

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the terms of the agreements governing such transactions.

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

The Group operates in an economic regime currently predominated by state-owned entities. Apart from transactions with CPC and its fellow subsidiaries, the Group conducts certain of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "**state-owned entities**") in the ordinary course of business. These transactions, include sales and purchase of goods, rendering and receiving services and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The Group believes that it has provided meaningful disclosure of related party transactions in note (a) above.

**(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:

| | 2005 Rmb'000 | 2004 Rmb'000 |
|---|---|---|
| Short-term employee benefits | 2,563 | 2,397 |
| Retirement scheme contributions | 112 | 453 |

**(d) Contributions to defined contribution retirement scheme**

The Group participates in various defined contribution retirement schemes organised by municipal and provincial governments for its staff. Details of the Group's retirement schemes are disclosed in note 30.

## 32. Contingent liabilities

At 31 December 2004, contingent liabilities in respect of guarantees given to banks by the Company in respect of bank credit facilities granted to a wholly-owned subsidiary totalling Rmb 147,968,000. No such guarantees were given by the Company as at 31 December 2005.

## 33. Capital commitments

Capital commitments relate primarily to construction of buildings, plant, machinery and purchase of equipment. The Group and the Company had capital commitments outstanding at 31 December 2005 not provided for in the financial statements as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | ***Rmb'000*** | *Rmb'000* | ***Rmb'000*** | *Rmb'000* |
| Contracted for | **–** | – | **121,584** | – |
| Authorised but not contracted for | **186,358** | 562,908 | **186,358** | 562,908 |
| | **186,358** | 562,908 | **307,942** | 562,908 |

## 34. Financial instruments

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions, trade and other receivables and unlisted available-for-sale securities investment. The financial liabilities of the Group include bank loans and trade and other payables. The Group does not hold or issue financial instruments for trading purpose. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2005 and 2004.

### (a) Interest rate risk

The interest rates and terms of repayment of bank loans of the Group are disclosed in note 26.

### (b) Credit risk

*Deposits with banks and other financial institutions*

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

*Trade and other receivables*

The Group does not have a significant exposure to any individual customer or counterparty. The major concentration of credit risk arises from exposures to a substantial number of trade debtors operating in one geographical region, the PRC.

### (c) Foreign currency risk

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

## 34. Financial instruments *(Continued)*

### (d) Concentration of supplier risk

The Group is exposed to concentration of supplier risk as a substantial portion of its raw materials is purchased from a limited number of suppliers and these suppliers are primarily related parties (see note 31). To mitigate this risk and to ensure adequate supplies of raw materials, the Group has signed annual purchase contracts with these related-party suppliers and has also sourced materials from various third-party suppliers.

### (e) Fair value

The fair value of unlisted available-for-sale securities investment could not reasonably be estimated without incurring excessive costs as the investment is unquoted equity securities and there is no quoted market price for such securities in the PRC.

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

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

The following table presents the carrying amount and fair value of the Group's long-term bank loans at 31 December 2005:

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***Rmb'000*** | ***Rmb'000*** | *Rmb'000* | *Rmb'000* |
| Long-term bank loans *(note 26(c))* | **140,000** | **136,005** | 390,000 | 376,656 |

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

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

## 35. Accounting estimates and judgements

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

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

**Impairments**

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

**Depreciation**

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

**Impairment for bad and doubtful debts**

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

**Net realisable value of inventories**

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

## 36. *Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005*

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

| | **Effective for accounting period beginning on or after** |
|---|---|
| IFRS 6, Exploration for and evaluation of mineral resources | 1 January 2006 |
| IFRS 7, Financial instruments: disclosures | 1 January 2007 |
| IFRIC 4, Determining whether an arrangement contains a lease | 1 January 2006 |
| IFRIC 5, Rights to interests arising from decommissioning, restoration environmental rehabilitation funds | 1 January 2006 |
| IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment | 1 December 2005 |
| IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies | 1 March 2006 |
| IFRIC 8, Scope of IFRS 2 | 1 May 2006 |
| IFRIC 9, Reassessment of embedded derivatives | 1 June 2006 |
| Amendment to IAS 1, Presentation of financial statements: capital disclosures | 1 January 2007 |
| Amendment to IAS 19, Employee benefits – Actuarial gains and losses, group plans and disclosures | 1 January 2006 |
| Amendment to IAS 21, Net investment in a foreign operation | 1 January 2006 |
| Amendment to IAS 39, Financial instrument: recognition and measurement | |
| – Cash flow hedge accounting of forecast intragroup transactions | 1 January 2006 |
| – The fair value option | 1 January 2006 |
| – Financial guarantee contracts | 1 January 2006 |
| Amendment to IFRS 1, First-time adoption of International Financial Reporting Standards | 1 January 2006 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 4, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8, IFRIC 9 and the amendments to IAS 19, IAS 21, and IFRS 1 are not applicable to any of the Group's operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

## 37. Subsequent events

**(a)** Pursuant to the equity transfer agreement signed on 20 March 2006, the Company sold all its 2% equity interest in Sinopec Finance to CPC for a cash consideration of Rmb 82,000,000. The estimated gain on disposal of the investment is Rmb 19,500,000, which is to be recognised in 2006.

**(b)** Pursuant to the conditional sale and purchase agreement dated 24 March 2006 entered into with two independent third-party purchasers, the Group sold its entire equity interest in Tianma Chemical Fibre together with the amounts due from Tianma Chemical Fibre to the Group for an estimated net consideration of Rmb 177,860,000. Assets and liabilities of Tianma Chemical Fibre were classified as held for sale as of 31 December 2005 (note 4). Apart from Tianma Chemical Fibre's operating loss to be incurred during the period from 1 January 2006 to the effective disposal date, the directors consider that no other significant gain or loss attributable to the Group on the disposal will be recognised upon completion of the transaction in 2006. The transaction will be validated upon the original PRC approving authorities and receipt of at least 80% of the consideration for the disposal. The directors expect that the sale is to be completed by the end of June 2006.

## 38. Parent companies

As at 31 December 2005, the directors consider the immediate parent company and the ultimate parent company to be Sinopec Corp and CPC respectively, which are established in the PRC. The immediate parent company produces financial statements available for public use.

## 39. Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies, details of which are set out in note 3.