中國石化儀征化纖股份有限公司

Sinopec Yizheng Chemical Fibre Company Limited

(a joint stock limited company established in the People's Republic of China)
(Stock Exchange of Hong Kong Limited Stock Code: 1033)
(Shanghai Stock Exchange Stock Code: 600871)

Annual Report 2007

Contents

IMPORTANT NOTE:

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

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

Company Profile

Sinopec Yizheng Chemical Fibre Company Limited ("**the Company**") and its subsidiaries ("**the Group**") is the largest modernized manufacturing station of chemical fibre and chemical fibre raw materials in the People's Republic of China (the "**PRC**"). In terms of polyester capacity in 2007, the Group ranks the sixth largest polyester manufacturer in the world, and the Company is the largest one-site polyester manufacturer in the world. (Source: PCI Magazine 2007)

The Company was located in Yizheng City, Jiangsu Province, and was established on 31 December 1993 following a reorganization of Yizheng Joint Corporation of Chemical Fibre Industry (currently Sinopec Asset and Management Corporation Yizheng Branch ("**Yihua**")) and an injection of the entire polyester production units and the ancillary production lines by Yihua. The Company issued 1 billion "H" shares in March 1994, 200 million "A" shares in January 1995 and a further 400 million new "H" shares in April 1995. The Company's "H" shares and new "H" shares were listed and commenced trading on the Stock Exchange of Hong Kong Limited (the "**HKSE**") on 29 March 1994 and 26 April 1995 respectively. The Company's "A" shares were listed and commenced trading on the Shanghai Stock Exchange (the "**SSE**") on 11 April 1995. China Petroleum & Chemical Corporation ("**Sinopec**") is the current controlling shareholder of the Company.

The Company is principally engaged in the production and sales of polyester chips and polyester fibre, and production of its raw materials purified terepthatic acid ("**PTA**"). Its principal activities include production and distribution of chemical fibre and petrochemical products, production of ancillary raw materials and textile machinery, research and development ("**R&D**") in textile technology, transportation and technological support for products manufactured by the Company.

The Company was a major construction project under the PRC's Sixth to Tenth Five-Year Plans. Its production facilities were imported from Germany, Japan, Italy and France etc. The Company's technology has reached an advanced level in the polyester industry through continuous technological improvements. The quality system of the Company's products received an international certificate in respect of ISO9001, and its product quality commands a leading position in the industry. The Company also received an international certificate in respect of ISO14001 environmental management system. At the end of 2007, the Group owned polymerization facilities with an annual capacity of 1,698,000 tonnes, solid-state-polymerization ("**SSP**") facilities with an annual capacity of 420,000 tonnes, spinning and drawing facilities for polyester fibre with an annual capacity of 736,000 tonnes, texturing facilities for polyester filament with an annual capacity of 42,500 tonnes, oxidation and purification facilities for PTA with an annual capacity of 959,000 tonnes and ancillary public utility facilities, which had a great advantage on the economies of scale.

1.	**Legal name**	:	Sinopec Yizheng Chemical Fibre Company Limited 中國石化儀征化纖股份有限公司
	Abbreviation	:	YCF 儀征化纖
2.	**Legal representative**	:	Mr. Qian Heng-ge
3.	**Registered and office address**	:	Yizheng City, Jiangsu Province, the PRC
	Postal code	:	211900
	Telephone	:	86-514-83232235
	Fax	:	86-514-83233880
	Internet website	:	http://www.ycfc.com
	E-mail	:	cso@ycfc.com
4.	**Company Secretary**	:	Mr. Tom C.Y. Wu
	Assistant Company Secretary	:	Ms. Michelle M. Shi
	Address	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited Yizheng City, Jiangsu Province, PRC
	Telephone	:	86-514-83231888
	Fax	:	86-514-83235880
	E-mail	:	cso@ycfc.com

Company Profile

5.	**Domestic Newspapers disclosing information**	:	China Securities, Shanghai Securities News, Securities Times
	Internet website designated by HKSE to disclose information:	:	http://www.hkex.com.hk
	Internet website designated by the China Securities Regulatory Commission ("CSRC") to publish the Annual Report	:	http://www.sse.com.cn
	Place where the Annual Report available for inspection	:	Company Secretary Office Sinopec Yizheng Chemical Fibre Company Limited
6.	**Places of listing, names and codes of the stock**	:	

H share
– HKSE
– Stock name: Yizheng Chemical
– Stock code: 1033

A share
– SSE
– Stock name: S Yihua
– Stock code: 600871

Financial Summary

1. Summary of the principal financial information and financial indicators of the Group:

1.1 Extracted from the financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs")

	For the year ended 31 December or as at 31 December				
	2007	2006	2005	2004	2003
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
		(as restated)	(as restated)		
Turnover	**17,175,656**	17,307,636	15,830,063	13,348,471	10,343,641
Profit/(loss) before taxation	**11,366**	64,333	(1,009,336)	276,792	313,398
Income tax (credit)/expense	**(11,890)**	23,450	(41,343)	33,860	48,652
Minority interests	**944**	415	(485)	2,549	5,615
Profit/(loss) attributable to equity shareholders of the Company	**22,312**	40,468	(967,508)	240,383	259,131
Total assets	**9,931,984**	10,046,111	9,692,187	11,234,701	11,921,981
Total liabilities	**1,764,135**	1,872,907	1,568,270	2,061,850	2,899,673
Total equity attributable to equity shareholders of the Company	**8,167,849**	8,125,552	8,071,813	9,120,322	8,968,853
Minority interests	**–**	47,652	52,104	52,529	53,455
Basic and diluted earnings/(loss) per share	**Rmb0.006**	Rmb0.010	Rmb(0.242)	Rmb0.060	Rmb0.065
Net assets per share	**Rmb2.042**	Rmb2.031	Rmb2.018	Rmb2.280	Rmb2.242
Ratio of shareholders' equity	**82.24%**	80.88%	83.28%	81.18%	75.23%
Return on net assets	**0.27%**	0.50%	(11.99%)	2.64%	2.89%

Financial Summary

1. Summary of the principal financial information and financial indicators of the Group:

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

		2006			2005	
	2007	As restated	As previously reported	Increase/ (decrease) from 2006	As restated	As previously reported
	Rmb'000	*Rmb'000*	*Rmb'000*	*(%)*	*Rmb'000*	*Rmb'000*
Total assets	**9,877,221**	10,025,803	10,115,603	(1.5)	9,861,983	9,984,875
Total equity attributable to equity shareholders of the Company	**8,308,677**	8,290,860	8,274,261	0.2	8,241,609	8,223,575
Net assets per share attributable to equity shareholders of the Company	**Rmb2.077**	Rmb2.073	Rmb2.069	0.2	Rmb2.060	Rmb2.056
Operating income	**17,175,656**	17,307,636	17,027,846	(0.8)	15,830,063	15,798,665
Profit/(loss) before income tax	**4,657**	59,053	60,742	(92.1)	(994,919)	(997,249)
Net profit/(loss) attributable to equity shareholders of the Company	**17,817**	35,980	37,415	(50.5)	(952,299)	(954,279)
Net profit/(loss) deducted extraordinary gain and loss attributable to equity shareholders of the Company	**58,574**	19,436	21,772	201.4	(863,267)	(865,167)
Basic earnings/(loss) per share	**Rmb0.004**	Rmb0.009	Rmb0.009	(50.5)	Rmb(0.238)	Rmb(0.239)
Diluted earnings/(loss) per share	**Rmb0.004**	Rmb0.009	Rmb0.009	(50.5)	Rmb(0.238)	Rmb(0.239)
Basic earnings/(loss) per share net of extraordinary gain and loss	**Rmb0.015**	Rmb0.005	Rmb0.005	201.4	Rmb(0.216)	Rmb(0.216)
Fully diluted return on net assets	**0.21%**	0.43%	0.45%	Decrease 0.22 percentage points	(11.56%)	(11.60%)
Weighted average return on net assets	**0.22%**	0.44%	0.45%	Decrease 0.22 percentage points	(10.88%)	(10.91%)
Fully diluted return on net assets net of extraordinary gain and loss	**0.71%**	0.23%	0.26%	Increase 0.48 percentage points	(10.47%)	(10.52%)
Weighted average return on net assets net of extraordinary gain and loss	**0.71%**	0.24%	0.26%	Increase 0.47 percentage points	(9.86%)	(9.89%)
Net cash flows from operating activities	**(62,106)**	803,196	792,608	(107.7)	677,871	646,261
Net cash flows from operating activities per share	**Rmb(0.016)**	Rmb0.201	Rmb0.198	(107.7)	Rmb0.169	Rmb0.162

2. Details of the Group's results for the year ended 31 December 2007 (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

	(Expressed in Rmb'000)
Operating profit	27,191
Profit before income tax	4,657
Net profit attributable to equity shareholders of the Company	17,817
Extraordinary gain and loss (after taxation)*	(40,757)
Net profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	58,574
Net cash flow from operating activities	(62,106)

* **Extraordinary gain and loss**	(Expressed in Rmb'000)
Net losses on disposal of long-term equity investment, fixed assets and intangible assets	(12,558)
Employee reduction expenses	(101,719)
Effect of change in tax rate on deferred tax	40,659
Other non-operating expenses excluding losses on disposal of fixed assets	(15,137)
Other non-operating income excluding gains on disposal of fixed assets and intangible assets	7,932
Subtotal	(80,823)
Effect of income tax	40,089
Total	(40,734)
Including: Extraordinary gain and loss affecting net profit attributable to equity shareholders of the Company	(40,757)
Extraordinary gain and loss affecting net profit attributable to minority interests	23

3. Supplementary schedule for the income statement of the Group prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)

	Return on net assets (%)		Earnings per share (Rmb)	
Profit during the reporting period	**Fully diluted**	**Weighted average**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to equity shareholders of the Company	0.214	0.215	0.004	0.004
Profit deducted extraordinary gain and loss attributable to equity shareholders of the Company	0.705	0.706	0.015	0.015

Financial Summary

4. Statement of impairment of assets (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))

4.1 Statement of impairment of assets of the Group

	At 1 January 2007 (restated) *Rmb'000*	**Increase for the year** *Rmb'000*	**Decrease for the year** *Rmb'000*	**At 31 December 2007** *Rmb'000*
1. Total provisions for bad and doubtful debts	42,977	10,317	44,783	8,511
Including: Accounts receivable	21,756	–	20,498	1,258
Other receivables	21,221	10,317	24,285	7,253
2. Total provision for diminution in value of inventories	57,863	–	45,264	12,599
Including: Raw materials	4,600	–	4,600	–
Finished goods	4,523	–	4,523	–
Spare parts and consumables	48,740	–	36,141	12,599
3. Total provision for impairment of fixed assets	25,362	2,912	15,972	12,302
Including: Plant and buildings	–	1,140	–	1,140
Machinery, equipment and others	25,362	1,772	15,972	11,162
4. Total	126,202	13,229	106,019	33,412

4.2 Statement of impairment of assets of the Company

	At 1 January 2007 (restated) *Rmb'000*	**Increase for the year** *Rmb'000*	**Decrease for the year** *Rmb'000*	**At 31 December 2007** *Rmb'000*
1. Total provisions for bad and doubtful debts	70,312	10,317	72,906	7,723
Including: Accounts receivable	489	–	19	470
Other receivables	69,823	10,317	72,887	7,253
2. Total provision for diminution in value of inventories	57,863	–	45,264	12,599
Including: Raw materials	4,600	–	4,600	–
Finished goods	4,523	–	4,523	–
Spare parts and consumables	48,740	–	36,141	12,599
3. Total provision for impairment of fixed assets	25,362	2,019	15,972	11,409
Including: Plant and buildings	–	247	–	247
Machinery, equipment and others	25,362	1,772	15,972	11,162
4. Total	153,537	12,336	134,142	31,731

Financial Summary

5. **Changes of financial statements items (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006))**

Item	At 31 December 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*	Change *(%)*	Reason for change
Bills receivable	1,612,417	979,417	64.6	More customers used bills to settle their purchases from the Group
Accounts receivable	199,910	301,849	(33.8)	Enhanced control over collection of debts during the current year
Advances from customers	109,743	316,976	(65.4)	Advances received from customers in late 2006 were settled during the current year
Employee benefits payable	136,101	222,315	(38.8)	No unpaid staff welfare expenses at the current year end
Other payables	226,570	163,194	38.8	Sales discounts accrued and not settled at the current year end
Deferred tax liabilities	4,460	2,929	52.3	Increase in income tax rate that is expected to apply to the period when the liability is settled
Minority interests	–	47,652	(100.0)	The Company's subsidiary disposed of its subsidiaries during the current year

Item	2007 *Rmb'000*	2006 *Rmb'000*	Change *(%)*	Reason for Change
Business taxes and surcharges	44,141	31,170	41.6	Increase in city development tax and education surcharge during the current year
General and administrative expenses	632,856	431,925	46.5	Employee reduction expenses paid for the reform of the repairs and maintenance department and the payments for repair and maintenance expenses during the current year
Net financial income	28,051	5,617	399.4	Less loans borrowed during the current year
Non-operating income	20,371	53,093	(61.6)	No forfeited deposit and compensation income received during the current year
Income tax expenses	(14,104)	22,658	(162.2)	Increase in deferred tax income due to the increase in the income tax rate that is expected to apply to the period when the assets are realized
Minority interests	944	415	127.5	Increase in subsidiaries' profits during the current year

6. **Differences between the financial statements of the Group and the Company prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) and the IFRSs**

	PRC Accounting Standards for Business Enterprises (2006)		IFRSs	
	The Group	**The Company**	**The Group**	**The Company**
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*
Net profit attributable to equity shareholders of the Company	17,817	18,625	22,312	10,236

For detailed explanations of difference, please refer to the section on "**Reconciliation Statement of Differences in the Financial Statements Prepared Under Different GAAPs**" of this Annual Report.

Report of the chairman

Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

To all shareholders:

It is my pleasure to present to you the Group's audited annual results for the year ended 31 December 2007. The Group's consolidated turnover decreased by 0.8 per cent to Rmb17,175,656,000 (2006: Rmb17,307,636,000). Owing to the payment of Rmb89,239,000 for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre in the first half of 2007, and the operational circumstances of the domestic polyester industry did not distinctly changed in 2007, the profit attributable to equity shareholders of the Company was Rmb22,312,000 and basic earnings per share was Rmb0.006, while the profit attributable to equity shareholders of the Group was Rmb40,468,000 and basic earning per share was Rmb0.010 in 2006.

Pursuant to the requirements of the PRC's Company Law and the Company's Articles of Association, to offset the previous year loss, the Board proposed that no final cash dividend would be paid for the year ended 31 December 2007 (final cash dividend for 2006: Nil).

In 2007, because the global market price of crude oil went up and created some new records, the prices of parxylene ("**PX**") remained high, and the prices of mono-ethylene glycol ("**MEG**") increased significantly due to the malfunction of foreign facilities. But the prices of PTA dropped because several domestic facilities were put into production. Meanwhile, the total domestic polyester production capacity remained excessive. Moreover, due to the adjustment of PRC's VAT rebates policy and Renminbi appreciation, the downstream textile enterprises had experienced operation troubles. Therefore, the profit margin of polyester production became narrower and the operational environment for polyester industry was still tough.

In 2007, faced with the acute situation of profound adjustment in the polyester industry and the excessive polyester production capacity, the Group continued to extend reform adjustments and tried to expand its operations. By exerting efforts to strengthen fine management, reduce costs and expenses, and optimise its product structure, positive progress was achieved in various fields concerning production and operation.

In 2007, the Group maintained safe, stable and capacity production at its facilities. Main technological and economical indexes achieved good records. The production volume of PTA and the production volume and sales volume of polyester products have both reached historically high levels, and the quality of all products improved steadily. The results of reducing costs and expenses were obvious. Some measures drafted at the beginning of 2007 for reducing costs and expenses concerning were fulfilled. All reform adjustments proceeded smoothly. The divestiture of the overhaul and maintenance centre was smoothly completed. In 2007, the number of employees decreased by 1,351 by voluntary resignation contracts or through divestiture of the non-core business.

In 2007, the Group actively advanced effective development and accelerate the upgrade of industry structure. Preparation works for the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes were finished. PTA project will be started construction in the first half of 2008 and is expected to be completed and put into operation in the first half of 2010. Aramid fiber and high performance polyethylene projects are expected to be completed and put into operation in 2008, which will create profits for the Group.

In 2008, Owning to the excessive polyester production capacity, polyester industry will still remain at the stage of profound adjustment while the profit margin of polyester products will not be distinctly improved. Furthermore, some factors such as credit control, the adjustment of PRC's VAT rebates policy and Renminbi appreciation are expected to increase the business risks of downstream textiles enterprises, which in turn should intensify the market risk to the domestic polyester industry.

Report of the chairman

In 2008, the Group will follow the market lead and its aim for profitability, strengthen safe production and energy saving, fine management strictly, reduce costs and expenses, advance technology innovation, accelerate effective development, and refine the core business of polyester chemical industry manufacturing in the areas of competitiveness and risk management ability. To achieve this, the Group will (1) follow closely the market, strengthen product marketing and raw material purchases so as to expand profit margin; (2) comprehensively carry out the safety and environmental protection responsibility system to maintain safe and stable operation of facilities; (3) strictly fine management and constantly improve management; (4) vigorously conserve energy and raw materials and thoroughly mine the potential to improve efficiency; (5) extend product structural adjustment and continually advance technology innovation so as to add value to products. (6) concentrate new projects construction and promote the adjustment of industry structure.

Looking ahead, the Group is of the opinion that domestic polyester industry will continue to extend the change of polyester industry development mode – namely, from developing quantity to improving quality, advancing scientific contribution and developing environmental friendliness. The group will take the polyester market demand as guidance, insist on the goal of "maximising value with the lowest necessary headcount and costs", refine the core business of the polyester chemical industry by the products structure adjustment of existing assets and the industrial structure upgrading of added assets, so as to strengthen core competition capacity and achieve sustainable development.

Last but not least, I would like to express my deepest gratitude to the entire staff for their diligent work in the past year, and to all the shareholders for their kind support of the Group.

Qian Heng-ge
Chairman

7 April 2008, Nanjing

Business Review and Prospects

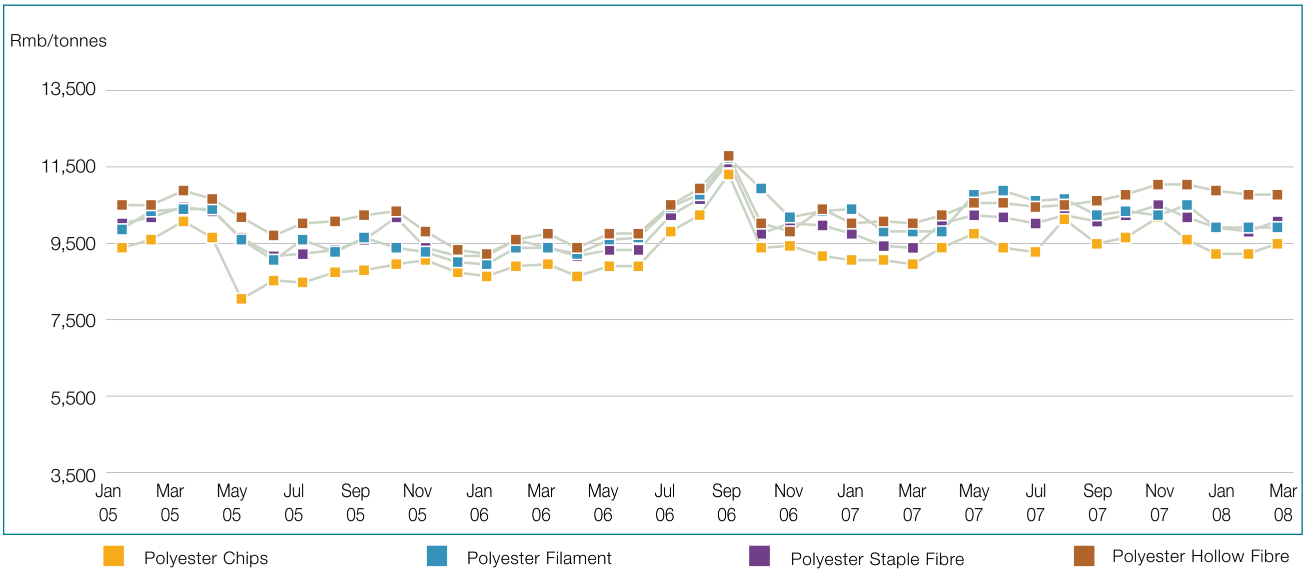
Financial figures, where applicable, contained herein have been extracted from the financial statements prepared in accordance with IFRSs.

In 2007, faced with a difficult operating environment, the Group continued to extend reform adjustments and expand its market. By exerting efforts to strengthen fine management, reduce expenses of management, procurement and sales, optimise product structure, positive progress was achieved in various fields concerning production and operations.

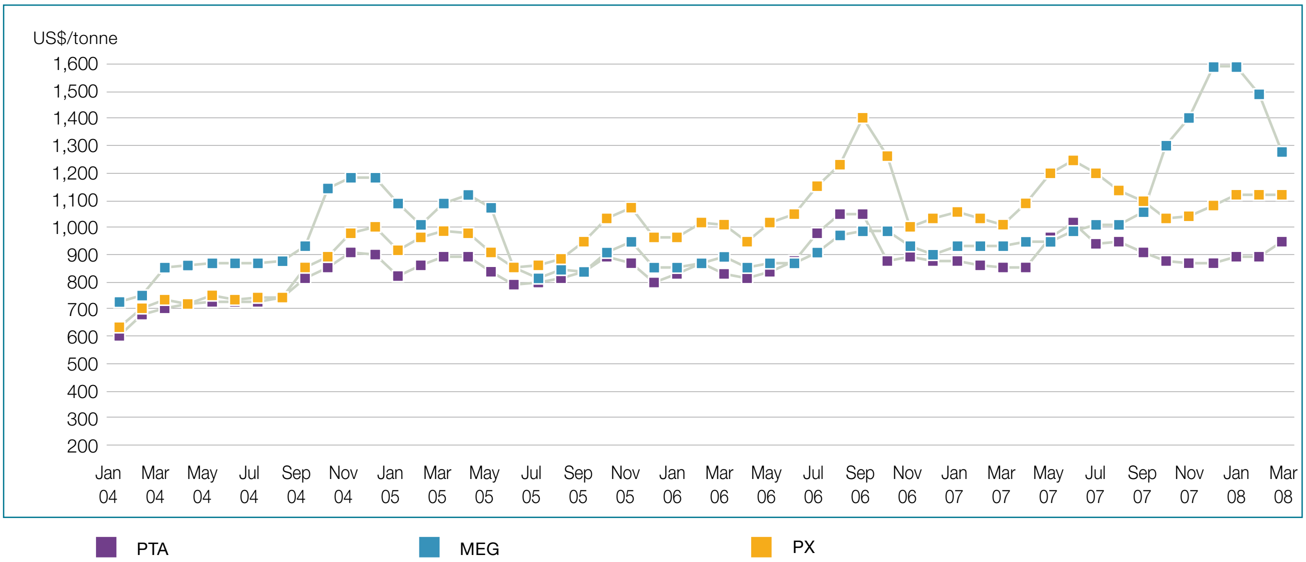
1. MARKET REVIEW

In 2007, the domestic polyester industry was still in the acute situation of profound adjustment and the total domestic polyester production capacity remained excessive. As a result, the operational environment for domestic polyester industry was still tough. In the first quarter, the prices of polyester raw materials and polyester products concussively declined owing to the relatively slow start-up of textile demand. In the second quarter, driven by the costs of polyester raw materials and the influence of downstream textile demand growth expedition, prices of domestic polyester products went up and the profit margin of polyester products increased. Since August, because the global market price of crude oil went up and created some new records, and the prices of MEG increased significantly as a result of the malfunction of foreign facilities, the profit margin of polyester products was significantly compressed.

PRODUCT PRICES QUOTED BY THE COMPANY (EXCLUDING VAT)



RAW MATERIAL CONTRACT PRICE OFFERED BY INTERNATIONAL SUPPLIERS



In 2007, the domestic polyester industry continued to expedite structural adjustments and the newly-added polyester production capacity, as shown in the increase of differential and high value-added products. The total polyester production capacity amounted to 23.0 million tonnes at the end of 2007, about 2 million tonnes higher than in 2006. The volume of the total domestic supply of polyester fibre amounted to 19,914,600 tonnes, an increase of 17.5 per cent over that of 2006, of the total volume, the domestic production volume increased by 19.5 per cent and the import volume decreased by 15.3 per cent as compared with their respective amounts in 2006. Meanwhile, the relatively rapid growth of the PRC's textile and clothes exports drove export volume to 175.62 billion dollars, which was 19.1 per cent higher than in 2006. Total domestic consumption volume of polyester fibre amounted to 18,223,200 tonnes, an increase of 14.1 per cent over the 2006 amount. The domestic demand for polyester fibre continually steady increased.

Domestic supply and demand of polyester fibre

	Polyester filament			Polyester staple fibre			Polyester fibre		
	2007 ’000 tonnes	2006 ’000 tonnes	+/(-) (%)	**2007 ’000 tonnes**	2006 ’000 tonnes	+/(-) (%)	**2007 ’000 tonnes**	2006 ’000 tonnes	+/(-) (%)
Production volume	**12,177.2**	9,913.3	22.8	**6,999.5**	6,132.8	14.1	**19,176.7**	16,046.1	19.5
Import volume	**246.5**	264.6	(6.8)	**200.3**	262.9	(23.8)	**446.8**	527.5	(15.3)
Export volume	**652.2**	392.1	66.3	**417.8**	293.7	42.3	**1,070.0**	685.8	56.0
Net import	**(405.7)**	(127.5)	218.2	**(217.5)**	(30.7)	606.2	**(623.2)**	(158.2)	293.7
Inventories at beginning of the year	**221.1**	323.1	(31.6)	**70.0**	56.8	23.2	**291.1**	379.9	(23.4)
Year-end inventories	**378.4**	221.1	71.1	**243.0**	70.0	247.1	**621.4**	291.1	113.5
Total supply volume	**12,644.8**	10,501.0	20.4	**7,269.8**	6,452.5	12.7	**19,914.6**	16,953.5	17.5
Total consumption volume	**11,614.2**	9,887.8	17.5	**6,609.0**	6,088.8	8.5	**18,223.2**	15,976.6	14.1

Source: The Chemical Fibre Association of China

2. PRODUCTION AND OPERATION REVIEW

(1) Production and Marketing

In 2007, the Group's production facilities maintained safe, stable and capacity operations at its facilities. The production volume of PTA and the production volume and sales volume of polyester products are have reached historically high levels. The total production volume of polyester products amounted to 2,133,145 tonnes, an increase of 3.7 per cent as compared with 2,057,887 tonnes in 2006. The capacity utilisation rate reached 96.9 per cent. The total production volume of PTA amounted to 1,024,919 tonnes, an increase of 2.1 per cent as compared with 1,003,858 tonnes in 2006. The Group increased its sales promotion in response to the increase in production volume. The Group's total sales volume of polyester products amounted to 1,714,726 tonnes in 2007, an increase of 0.2 per cent as compared with 1,712,006 tonnes in 2006. Excluding self-consumption volume and other factors, the ratio of sales to production reached 99.6 per cent. In 2007, the Group's export volume of polyester products rose dramatically to 144,833 tonnes, an increase of 23.1 per cent over the 117,628 tonnes for 2006.

(2) Cost control

In 2007, the weighted average price of polyester product (excluding VAT) of the Group increased by 1.2 per cent as compared with last year, while the weighted average purchase prices of principal purchased raw materials of the Group, such as PTA, MEG and PX, increased by 1.0 per cent as compared with last year. The Group tired to increase the profit margin of polyester products by reducing expenses of management, procurement and sales, and by strengthening fine management in production and operation. Measures drafted at the beginning of 2007 for reducing costs and expenses were conjointly implemented. Energy saving was effectively advanced and some technologies concerning environmental protection and energy conservation were carried out. Compared with 2006, the comprehensive energy consumption for every Rmb10,000 of production value decreased by 1.1 per cent, and despite the growth in the Group's production, total industrial water consumption decreased by 9.4 per cent and total COD emission decreased by 5.2 per cent. By exerting great efforts to improve the proportion of direct selling and to reduce intermediate expenses of sales, the Group's selling expenses were 0.5 per cent lower than those of 2006. Due to the payment for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre, administrative expenses increased by 11.9 per cent from those of 2006. Due to a significant increase in the interest income as a result of abundant cash and decrease in discounted bills, net finance income increased by 399.4 per cent from those of 2006. The total increase in selling expenses, administrative expenses and net finance income was 1.8 per cent from those figures for 2006.

(3) R&D

In 2007, The Group further exerted the integral advantage of product development team, and extended the work of fixing production line, variety and customer so as to organize products development and production. Development of thirty-six new polyester products was successfully completed. Fourteen patent rights were obtained. Products such as FG610 and FG620 film-grade chips, specialised staple fiber for textile and specialised staple fiber for hydrophilic were put into batch production and put into the market. In 2007, the Group's total production volume of specialised polyester chips amounted to 851,606 tonnes and the specialised rate was 81.8 per cent, 2.8 percentage points higher than that of last year. The total production volume of differential polyester fibre amounted to 466,069 tonnes and the differential rate of polyester fibre was 69.0 per cent, 5.1 percentage points higher than that of last year.

(4) Internal Reform and Management

In 2007, all reform adjustments advanced smoothly. Non-core business divestiture of the repairs and maintenance department was smoothly completed and the reform of other particular items also steadily advanced. The employment and remuneration system reforms were continually advanced. "Compete for Appointment" was carried out for operations and service positions and the position performance evaluation was further extended. In 2007, the number of employees decreased by 1,351 by voluntary resignation contracts or through divestiture of non-core business.

(5) Capital expenditure

In 2007, the Group's total capital expenditure amounted to Rmb110,568,000. In order to maximise investment contribution, the Group strengthened investment management in accordance with the prudence principle. Projects such as saving energy consumption, safety and environmental protection, and reducing costs and expenses, which increase profit generation from existing assets, were completed in succession. Meanwhile, the Group actively advanced effective development and accelerate the upgrade of industry structure. Preparation works for the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes were finished.

3. BUSINESS PROSPECTS AND WORK PLAN

(1) Market Analysis

According to the 2008 market analysis, the Group considers: Firstly, PRC's economy will still keep a fast growth and domestic demand for textiles will continue to expand, which will further drive the development of domestic polyester industry. Secondly, Due to the competitive advantage of the PRC's textile industry in the international market, the steady rise of the PRC's textile and costume exports is expected to continue as well, which will promote the steady increase in domestic demand for polyester products. At the same time, owning to the excessive polyester production capacity, polyester industry will still remain at the stage of profound adjustment while the profit margin of polyester products will not be distinctly improved. Furthermore, some factors such as credit control, the adjustment of PRC's VAT rebates policy and Renminbi appreciation are expected to increase the business risks of downstream textiles enterprises, which in turn should intensify the market risk to the domestic polyester industry. Since 1 January 2008, the PRC import tariffs on PTA, MEG and PX have remained at 6.5 per cent, 5.5 per cent and 2 per cent respectively. The new PRC import tariffs on polyester chip have been lowered to 6.5 per cent, while the import tariffs on polyester staple fibre and polyester filament both remain at 5 per cent.

It is expected that global crude oil prices will continue to fluctuate immoderately at a high level. The supply of PX and MEG will still remain limited. With new domestic PTA facilities to be put into operation, the limited supply of PTA will be gradually improved. The prices of domestic polyester products will fluctuate against the cost drive of polyester raw materials. As a result, the Group will still be faced with challenging operational conditions.

(2) Business strategy

In 2008, the Group will stick to market orientation, take profit as a center, continue to strengthen safe production and energy saving, vigorously fine management, reduce costs and expenses, advance technology innovation and accelerate effective development so as to refine the core business of polyester chemical manufacturing. The following will be set as priorities in 2008:

I. Follow closely the market, strengthen product marketing and raw material purchases so as to expand profit margin

The Group will follow closely the market, vigorously raise prices and profit by perfecting the coordination mechanism between production and marketing. The proportion of direct selling will be increased and intermediate expenses of sales will be reduced. Technical service in the process of sale will be strengthened. Customer visit, and new products and brand promotion will be also well organized so as to add value to products. The Group will analyse market changes and the Company's stock structure of raw materials so as to realise the change of raw material purchasing from ensuring supply to anticipating the market and further reduce purchasing costs. To meet the target ratio of 100 per cent sales-to-production, the planned volume of polyester products sales is 1,725,000 tonnes.

II. Comprehensively deploy the safety and environment protection responsibility system to maintain safe and stable operation of facilities

The Group will continue to strengthen safety and environment management, further put its safety responsibility system into effect, and strengthen spot management and implement controls over key facilities so as to reduce unexpected production interruptions and maintain safe, stable, high-grade, and low energy-consumption operations. Meanwhile, to realise the efficient operation of facilities, the Group will dynamically adjust and optimise the product mix and the capacity utilisation rate of facilities according to market changes, costs, and profits. In 2008, the planned volume of polyester product production is 2,163,000 tonnes, of which self-consumption volume is 438,000 tonnes. The planned production volume of PTA is 1,020,000 tonnes.

III. *Further strengthen fine management and constantly improve management*

The Group will strengthen system establishment by centering internal control system so as to control business risk. The Group will extend overall budget control and firmly manage unplanned expenses so as to realise its cost reduction targets. The quality of management will be strengthened, and quality standards will be enhanced to further regulate and improve product quality. A new round of "Compete for Appointment" will be carried out for management and technology positions so as to further optimize position standards and staff allocation. Meanwhile, the Group will extend performance evaluation so as to establish an effective stimulating and binding mechanism.

IV. *Conserve energy and raw materials and thoroughly to improve potential and efficiency*

The Group will take active and effective measures to realise the aim of the cost-and-expense reduction items set at the beginning of 2008. Meanwhile, the Group will improve control indicator system and appraised measure on energy saving and carry out position energy saving responsibility system so as to complete its energy saving targets. Compared with 2007, the comprehensive energy consumption for every Rmb10,000 of production value will be expected to decrease by 3.8 per cent, and despite the growth in the Group's production, total industrial water consumption will be expected to decrease by 1.8 per cent and total COD emission will be expected to decrease by 1.0 per cent.

V. *Extend product structural adjustments and continually advance technology innovation so as to add value to products*

The Group will stick to market orientation, take profit as a center, and strive to develop new products and continually add value by further exerting the integral advantage of product development team. Meanwhile, the Group will expand and optimise the production of specialised and differentiated products which have strong profitability so as to increase profit contribution. There are 38 product items planned for new development. The Group's projected production volume of differentiated fibre and specialised polyester chips products for 2008 will be 493,000 tonnes and 883,000 tonnes, respectively, while the differential rates for differentiated and specialised products are expected to be 72.3 per cent and 84.7 per cent.

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

The Group will accelerate effective development and actively advanced the upgrade of industrial structure. The construction of the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes will be initiated as soon as possible. PTA project with an annual capacity of 1,000,000 tonnes will be started construction in the first half of 2008 and is expected to be completed and put into operation in the first half of 2010. Aramid fiber project with an annual capacity of 100 tonnes and high performance polyethylene project with an annual capacity of 300 tonnes are expected to be completed and put into operation in 2008, which will create profits for the Group.

Management Discussion and Analysis

*The information set out below does not constitute part of the financial statements audited by KPMG or KPMG Huazhen, as set out on pages 56 to 100 and pages 101 to 168, respectively, of this Annual Report, and is included for information purpose. This discussion and analysis should be read in conjunction with the information contained in the Consolidated Financial Statements and Notes thereto (the "**Financial Statements**") presented in this Annual Report. Financial figures, except for specifically noted, contained herein have been extracted from the financial statements prepared in accordance with the IFRSs.*

1. RESULTS OF OPERATIONS

In 2007, under the severe market condition, the Group put great efforts in extending reform adjustments, strengthening fine management, optimizing production and operations, further reducing costs and expenses, and optimizing products structure. As a result, the Group achieved positive development in various fields.

(1) Turnover

In 2007, the Group's production facilities maintained safe, stable and capacity operations at its facilities. The production volume of polyester products and PTA are both reached historically high levels. The total production volume of polyester products was 2,133,145 tonnes, representing an increase of 3.7 per cent as compared with that of 2,057,887 tonnes for last year. The average capacity utilization rate for polyester facilities reached 96.9 per cent. The total production volume of PTA amounted to 1,024,919 tonnes, an increase of 2.1 per cent as compared with that of 1,003,858 tonnes for last year. The average capacity utilization rate for PTA facilities reached 97.7 per cent.

Production volume

	For the year ended 31 December			
	2007		2006	
	Production volume *(tonnes)*	**Per cent of total production volume *(%)***	Production volume *(tonnes)*	Per cent of total production volume *(%)*
Polyester products				
Chips	**1,457,946**	**68.3**	1,397,772	67.9
Of which: bottle-grade polyester chips	**416,318**	**19.5**	396,080	19.2
Staple fibre	**447,596**	**21.0**	452,928	22.0
Hollow fibre	**52,783**	**2.5**	52,458	2.6
Filament	**174,820**	**8.2**	154,729	7.5
Total	**2,133,145**	**100.0**	2,057,887	100.0

In 2007, the Group's total sales volume of the polyester products amounted to 1,714,726 tonnes, representing an increase of 0.2 per cent from 1,712,006 tonnes of 2006. The ratio of sales to production reached 99.6 per cent. Export sales of the polyester products amounted to 144,833 tonnes, representing an increase of 23.1 per cent as compared with the 117,628 tonnes for 2006. Due to the drive from the cost of polyester raw materials, the prices of polyester products increased. The weighted average prices (excluding VAT) of the Group's polyester products increased from Rmb9,661/tonne to Rmb9,779/tonne during the year, representing a 1.2 per cent increase. Though the increase in prices of polyester products was a little bit more than that of polyester raw materials, the profit margin of polyester products hadn't been improved significantly.

Management Discussion and Analysis

Sales volume

	For the year ended 31 December			
	2007		2006	
	Sales volume *(tonnes)*	**Percent of total sales volume *(%)***	Sales volume *(tonnes)*	Percent of total sales volume *(%)*
Polyester products				
Polyester chips	**1,025,404**	**59.8**	997,991	58.3
Of which: bottle-grade polyester chips	**416,166**	**24.3**	397,258	23.2
Staple fibre	**456,325**	**26.6**	477,094	27.9
Hollow fibre	**53,314**	**3.1**	53,098	3.1
Filament	**179,683**	**10.5**	183,823	10.7
Total	**1,714,726**	**100.0**	1,712,006	100

Average Prices for products (excluding VAT) *(Rmb/tonnes)*

	For the year ended 31 December		
Polyester products	**2007**	2006	Change (%)
Polyester chips	**9,458**	9,327	1.4
Staple fibre	**10,084**	9,924	1.6
Hollow fibre	**10,831**	10,494	3.2
Filament	**10,528**	10,547	(0.2)
Weighted average price	**9,779**	9,661	1.2

Turnover

	For the year ended 31 December			
	2007		2006	
	Turnover *Rmb'000*	**Per cent of turnover *%***	Turnover *Rmb'000*	Per cent of turnover *%*
Polyester products				
Polyester chips	**9,698,563**	**56.5**	9,308,194	53.8
Staple fibre	**4,601,461**	**26.8**	4,734,752	27.4
Hollow fibre	**577,443**	**3.3**	557,208	3.2
Filament	**1,891,669**	**11.0**	1,938,856	11.2
Others	**406,520**	**2.4**	768,626	4.4
Total	**17,175,656**	**100.0**	17,307,636	100.0

In 2007, despite the increase in sales volume and weighted average prices of polyester products (excluding VAT) by 0.2 per cent and 1.2 per cent respectively as compared with last year, the Group's turnover amounted to Rmb17,175,656,000, representing a decrease of 0.8 per cent as compared with Rmb17,307,636,000 for last year. This was mainly due to the decrease in others' turnover by 47.1 per cent as compared with last year.

(2) Cost of sales

In 2007, the Group's cost of sales amounted to Rmb16,555,142,000, representing 96.4 per cent of the turnover, which decreased by 0.4 percentage points as compared with last year. Total costs of raw materials increased by Rmb300,593,000 from Rmb14,013,334,000 in 2006 to Rmb14,313,927,000, which accounted for 86.5 per cent of cost of sales in 2007. The increase in total costs of raw materials was mainly due to the increase in purchase cost of MEG. The Group's weighted average purchase prices of polyester raw materials increased by 1.0 per cent as compared with last year. Of which, the average purchase costs of MEG increased by 15.0 per cent as compared with last year. But the average purchase cost of PTA and PX decreased by 6.5 per cent and 4.2 per cent respectively as compared with last year. To reduce the cost of sales and expand the profit margin of polyester products, the Group took measures to organize the safe and stable operation of facilities, reduce costs and expenses, increase PTA production volume and save energy consumption.

In 2007, despite the turnover decreased by 0.8 per cent as compared with last year, the Group's gross profit increased by Rmb67,886,000 to Rmb620,514,000 due to the decrease in cost of sale by 1.2 per cent as compared with last year. The Group's gross margin was 3.6 per cent, representing a slight increase of 0.4 percentage points as compared with last year.

(3) Selling, administrative and net finance income

	For the year ended 31 December		
	2007	2006	Change
	Rmb'000	*Rmb'000*	*(%)*
Selling expenses	**193,918**	194,861	(0.5)
Administrative expenses	**295,838**	264,411	11.9
Net finance income	**(28,051)**	(5,617)	399.4
Total	**461,705**	453,655	1.8

In 2007, due to the improvement of the proportion of direct selling and the reduction of intermediate expenses of sales, selling expenses decreased by Rmb943,000 as compared with last year. Due to the payment of Rmb89,239,000 for employee reduction expenses as in relation to the restructuring of the repairs and maintenance department, administrative expenses increased by Rmb31,427,000 as compared with last year. Due to a significant increase in the interest income as a result of abundant cash and decrease in discounted bills, net finance income increased by Rmb22,434,000 as compared with last year. The total increase in selling expenses, administrative expenses and net finance income was 1.8 per cent from that of 2006.

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

	For the year ended 31 December		
	2007	2006	Change
	Rmb'000	*Rmb'000*	*(%)*
Operating profit	**7,842**	97,055	(91.9)
Profit before taxation	**11,366**	64,333	(82.3)
Income tax (credit)/expense	**(11,890)**	23,450	(150.7)
Profit attributable to equity shareholders of the Company	**22,312**	40,468	(44.9)
Earnings per share (in Rmb)	**0.006**	0.010	(44.9)

In 2007, despite the Group exerted efforts to increase PTA production volume, strengthen internal management, exercise better control over costs and expenses, and optimising products mix, the Group's operating profit and profit before taxation amounted to Rmb7,842,000 and Rmb11,366,000 respectively, representing a decrease of 91.9 per cent and 82.3 per cent as compared with last year respectively due to the payment of Rmb89,239,000 for employee reduction expenses as a result of the divestiture of the overhaul and maintenance centre and the operational circumstances of the domestic polyester industry had not distinctly changed. Profit attributable to equity shareholders of the Group amounted to Rmb22,312,000, representing a decrease of 44.9 per cent as compared with last year.

(5) Statement of the operations by products

Polyester products contributed more than 10 per cent of the Group's income from operations and operating profit. The following is the statement of operations by products for the year ended 31 December 2007 in accordance with the PRC Accounting Standards for Business Enterprises (2006).

Products	Operating income	Cost of sales	Gross profit margin	Increase/ (decrease) in operating income as compared with last year	Increase/ (decrease) in cost of sales as compared with last year	Gross profit margin as compared with last year
	Rmb'000	*Rmb'000*	*(%)*	*(%)*	*(%)*	*(%)*
Polyester products	16,769,136	15,888,679	5.3	1.4	(0.9)	Increased by 2.3 percentage points
Of which: connected transactions	198,403	187,518	5.5	(7.7)	(8.6)	Increased by 0.9 percentage points

During 2007, the Company did not sell any products or provide any services to its controlling shareholders and their subsidiaries.

(6) Operations of principal subsidiaries and jointly controlled entity in 2007

1. Yihua Kangqi Chemical Fibre Company Limited ("**Kangqi Company**"). The Company holds 100 per cent of the equity interest of Kangqi Company. Kangqi Company's registered capital is Rmb60,000,000. Kangqi Company principal activities are sales of polyester fibre. As at 31 December 2007, the total assets of Kangqi Company were Rmb219,443,000. For the year ended 31 December 2007, Kangqi Company made a net profit of Rmb3,468,000.

2. Yihua UNIFI Fibre Industry Company Limited ("**Yihua UNIFI**"). The Company and UNIFI Asia holds 50 per cent of the equity interest of Yihua UNIFI respectively. Yihua UNIFI, whose registered capital is USD60,000,000, is a jointly controlled entity. Its principal activities are the production and sales of differential polyester filament and relative products, research and development of polyester and textile products, and after sales services for its products. As at 31 December 2007, the total assets of Yihua UNIFI were Rmb643,626,000. For the year ended 31 December 2007, Yihua UNIFI made a loss of Rmb49,054,000.

(7) Acquisition, divestment and investment

The Group did not make any material acquisition, divestment and investment in relation to any of its subsidiaries or jointly controlled entities in 2007.

2. FINANCIAL ANALYSIS

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

(1) Assets, liabilities and shareholders' equity analysis

	At 31 December 2007 *Rmb'000*	At 31 December 2006 *Rmb'000*	Changes in amount *Rmb'000*
Total assets	**9,931,984**	10,046,111	(114,127)
Current assets	**4,468,311**	4,026,062	442,249
Non-current assets	**5,463,673**	6,020,049	(556,376)
Total liabilities	**1,764,135**	1,872,907	(108,772)
Current liabilities	**1,764,135**	1,872,907	(108,772)
Minority interests	**–**	47,652	(47,652)
Total equity attributable to equity shareholders of the Company	**8,167,849**	8,125,552	42,297

As at 31 December 2007, the Group's total assets were Rmb9,931,984,000, total liabilities were Rmb1,764,135,000, and total equity attributable to equity shareholders of the Company were Rmb8,167,849,000. Compared with the assets and liabilities as at 31 December 2006 (hereinafter referred to as "**as compared with the end of last year**"), the variations and main causes of such changes are described as follows:

Total assets were Rmb9,931,984,000, a decrease of Rmb114,127,000 as compared with the end of last year. Current assets were Rmb4,468,311,000, an increase of Rmb442,249,000 as compared with the end of last year. The increase was mainly due to the significant increase in bills receivable by Rmb604,387,000 as more customers used bills to settle their purchases from the Group. Non-current assets were Rmb5,463,673,000, a decrease of Rmb556,376,000 as compared with the end of last year, which was mainly due to ordinary depreciation and amortization.

Total liabilities were Rmb1,764,135,000, a decrease of Rmb108,772,000 as compared with the end of last year. Current liabilities were Rmb1,764,135,000, a decrease of Rmb108,772,000 as compared with the end of last year, which was mainly due to the decrease of Rmb100,425,000 in trade and other payables.

Total equity attributable to equity shareholders of the Company was Rmb8,167,849,000, an increase of Rmb42,297,000 as compared with the end of last year, mainly due to Rmb22,312000 for profit attributable to equity shareholders of the Group.

As at 31 December 2007, total liabilities to total assets ratio was 17.8 per cent, and 18.6 per cent as at 31 December 2006.

(2) Cash flow analysis

At the end of 2007, cash and cash equivalents decreased by Rmb473,406,000, representing a decrease from Rmb933,153,000 as at 31 December 2006 to Rmb459,747,000 as at 31 December 2007. The following table lists major items in the consolidated cash flow statement of the Group for the year 2007 and 2006.

Major items in cash flow statement	**2007**	2006	Change
	Rmb'000	*Rmb'000*	*Rmb'000*
Net cash flow from operating activities	**(68,349)**	791,332	(859,681)
Net cash flow from investing activities	**(404,818)**	(47,705)	(357,113)
Net cash flow from financing activities	**(239)**	(177,354)	177,115
Net (decrease)/increase in cash and cash equivalents	**(473,406)**	566,273	(1,039,679)
Cash and cash equivalents at the beginning of the year	**933,153**	366,880	566,273
Cash and cash equivalents at the end of the year	**459,747**	933,153	(473,406)

In 2007, the Group's net cash outflow from operating activities was Rmb68,349,000, representing a decrease of Rmb859,681,000 as compared with last year. The main reasons were: (1) Trade and other receivables increased by Rmb703,169,000, whereas, there was an increase by Rmb399,353,000 in this regard in 2006. As a result, the net cash flow from operating activities decreased by Rmb304,266,000. (2) Trade and other payables decreased by Rmb69,872,000, whereas, there was an increase by Rmb583,193,000 in this regard in 2006. As a result, the net cash flow from operating activities decreased by Rmb653,065,000.

In 2007, the Group's net cash outflow from investing activities was Rmb404,818,000, an increase of cash outflow by Rmb357,113,000 as compared with last year. The main reasons were time deposits with banks and other financial institutions increased by Rmb457,000,000, while the deposits in 2006 increased by Rmb92,002,000, which increased cash outflows by Rmb364,998,000.

In 2007, the Group's net cash outflow from financing activities was Rmb239,000, a decrease of cash outflow by Rmb177,115,000 as compared with last year. This was mainly because that the Group repaid all the long-term loans in 2006.

(3) Bank borrowings

As at 31 December 2007, the Group's bank borrowings were zero (as at 31 December 2006: nil).

(4) Assets charges

For the year ended 31 December 2007, there was not any charge on the Group's assets.

(5) Management of foreign exchange risk

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

(6) Debt-equity ratio

The debt-equity ratio of the Group was nil for 2007 (2006: nil). The ratio is computed as long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

3. CAPITAL EXPENDITURE

In 2007, the Group's capital expenditure amounted to Rmb110,568,000, which was mainly invested in projects such as saving energy consumption, safety and environment, and reducing costs and expenses, and preparation works for the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes.

The Group's capital expenditure for the year 2008 is expected to be approximately Rmb1,206,800,000, including: Rmb800,000,000 for the PTA project with an annual capacity of 1,000,000 tonnes, Rmb60,000,000 for the aramid fiber project with an annual capacity of 100 tonnes and Rmb100,000,000 for the high performance polyethylene project with an annual capacity of 300 tonnes. In order to maximize return on investment, the Group will strengthen investment management in accordance with the prudence principle. The planned capital expenditures will be funded from cash generated from operations and bank credit facilities.

Report of the Board of Directors

The Board has the pleasure in submitting the Company's Annual Report together with the audited financial statements for the year ended 31 December 2007.

DAILY OPERATION OF THE BOARD

All Directors of the Company (the "**Directors**") have complied with the Company Law and rules of the Company's Articles of Association, have fulfilled their responsibilities as set forth in the Company's Articles of Association, and diligently executed the resolutions of the Company's general meetings of shareholders.

The Board held thirteen meetings during the reporting period, details of which are as follows:

(1) The twelfth meeting of the fifth term of the Board was held on 9 February 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 13 February 2007.

(2) The thirteenth meeting of the fifth term of the Board was held on 30 March 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 2 April 2007.

(3) The fourteenth meeting of the fifth term of the Board was held on 27 April 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 30 April 2007.

(4) The fifteenth meeting of the fifth term of the Board was held on 11 May 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times, Hong Kong Economic Times and South China Morning Post on 14 May 2007.

(5) The sixteenth meeting of the fifth term of the Board was held on 29 June 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 2 July 2007.

(6) The seventeenth meeting of the fifth term of the Board was held on 4 July 2007. The meeting considered and approved the resolution regarding appointing the Deputy General Manager of the Company.

(7) The eighteenth meeting of the fifth term of the Board was held on 26 July 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 27 July 2007.

(8) The nineteenth meeting of the fifth term of the Board was held on 28 August 2007. The meeting considered the reform and adjustment of the Company.

(9) The twentieth meeting of the fifth term of the Board was held on 30 August 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 31 August 2007.

(10) The twenty-first meeting of the fifth term of the Board was held on 14 September 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 17 September 2007.

(11) The twenty-second meeting of the fifth term of the Board was held on 30 October 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 31 October 2007.

(12) The twenty-third meeting of the fifth term of the Board was held on 8 November 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 9 November 2007.

(13) The twenty-fourth meeting of the fifth term of the Board was held on 14 December 2007. The related announcement was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 17 December 2007.

Report of the Board of Directors

DETAILS OF THE BOARD EXECUTING THE RESOLUTIONS OF SHAREHOLDERS' GENERAL MEETINGS

During the reporting period, the Board executed the resolutions of the Annual General Meeting for 2006 ("**2006 AGM**") and Extraordinary General Meeting ("**EGM**").

The Board will continue to act with integrity and be diligent, and will faithfully work for the best interests of the Group and its shareholders.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the production and sale of polyester chips and polyester fibre, and the production of its principal polyester raw material, PTA.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years (extracted from the financial statements prepared in accordance with the IFRSs) is set forth in the section on "Financial Summary" of the Annual Report.

A summary of the results and of the assets and liabilities of the Group for the last three financial years (extracted from the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006)) is set forth in the section on "Financial Summary" of the Annual Report.

CHANGES IN SHARE CAPITAL AND CAPITAL

Changes in share capital

1. *Share capital structure*

Details of the share structure are as follows:

Unit of share: 1,000 Shares

	Before change		Increase/(decrease)					After change	
	Number	Per cent	New issue	Bonus share	Shares transferred from reserve fund	Others	Sub-total	Number	Per cent
I. Non-circulating shares:									
1. Promoter shares									
Including:									
Owned on behalf of the State	–	–	–	–	–	–	–	–	–
Domestic legal persons shares	2,400,000	60%	–	–	–	–	–	2,400,000	60%
Overseas legal persons shares	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
2. Social fund raising legal persons shares	–	–	–	–	–	–	–	–	–
3. Internal employee hares	–	–	–	–	–	–	–	–	–
4. Pre-emptive rights shares	–	–	–	–	–	–	–	–	–
Total number of non-circulating shares	2,400,000	60%	–	–	–	–	–	2,400,000	60%
II. Circulating shares									
1. Rmb ordinary shares	200,000	5%	–	–	–	–	–	200,000	5%
2. domestic listed foreign capital shares	–	–	–	–	–	–	–	–	–
3. overseas listed foreign capital shares	1,400,000	35%	–	–	–	–	–	1,400,000	35%
4. others	–	–	–	–	–	–	–	–	–
Total number of circulating shares	1,600,000	40%	–	–	–	–	–	1,600,000	40%
III. Total number of shares	4,000,000	100%	–	–	–	–	–	4,000,000	100%

During the reporting period, there was no change in the total amount of shares and the capital structure of the Company.

The Company acknowledged that, based on information available to the Company immediately before publishing the 2007 Annual Report, and understood by its Directors as well, the number of its shares held by the public met the requirements in the Rules Governing the Listing of Securities on the HKSE (the "**Listing Rule**")

2. *Share issue and listings*

The issuance and listings of shares subsequent to the establishment of the Company are as follows:

Type of Share	"A" Share	"H" Share	
Date of issue/ Period for lodging application	18-26 January 1995	14-17 March 1994	25-26 April 1995
Issue price	Rmb2.68 per share	HK$2.38 per share	HK$2.45 per share
Number of shares issued	200,000,000 shares	1,000,000,000 shares	400,000,000 shares
Date of listing	11 April 1995	9 March 1994	26 April 1995
Place of listing	Shanghai	Hong Kong	Hong Kong
Number of shares approved for trading	200,000,000 shares	1,000,000,000 shares	400,000,000 shares

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

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

4. *Pre-emptive rights*

According to the Laws of the PRC and the Articles of Association of the Company, the Company does not have any pre-emptive rights.

5. *Internal employee shares*

The Company has not issued any internal employee shares.

Shareholders

1. *Number of shareholders*

The number of shareholders of the Company as at 31 December 2007 is as follows:

Type	Number of shareholders
Legal person share ("A" share)	2
Social public share ("A" share)	41,770
"H" share	548
Total	42,320

2. *Change in shares with selling restrictions*

Name of Shareholder	Number of shares with selling restrictions	Number of additional shares could be traded through listing	Number of additional shares with selling restrictions	Balance of shares with selling restrictions	Reason of selling restriction	Date when the shares could be traded through listing
Qian Heng-ge	2,000	500	0	1,500	Shares held by present director	5 April 2007
Xu Zheng-ning	2,600	2,600	0	0	Shares held by resigned director	7 August 2007
Total	4,600	3,100	0	1,500	–	–

3. *The shareholdings of the top ten major and circulating shareholders of the Company*

As at 31 December 2007, the shareholdings of the top ten major shareholders and circulating shareholders of the Company are as follows:

Number of shareholders at the end of the year	42,320

Details of the top ten major shareholders

Names of shareholders	Nature of shareholders	Number of shares held at the end of the year (shares)	Percent to total share capital (%)	Number of non-circulating shares (shares)	Number of pledged or frozen shares*
Sinopec	Domestic legal person shareholder	1,680,000,000	42.00	1,680,000,000	Nil
Hong Kong Securities Clearing Company ("**HKSCC**") (Nominees) Limited**	Overseas capital shareholder	1,385,723,305	34.64	Circulating shares	Nil
CITIC Group Corporation ("**CITIC**") ***	Domestic legal person shareholder	720,000,000	18.00	720,000,000	Nil
Fujian Guoli Technology Investment Company Limited	Domestic Circulating shares	4,177,419	0.10	Circulating shares	Not applicable
China Minsheng Banking Corporation – Orient Well-chosen Mix-type Open-end Securities Investment Fund	Domestic Circulating shares	4,019,847	0.10	Circulating shares	Not applicable
Beijing Buchang Pharm-Biology Technology Company Limited	Domestic Circulating shares	2,405,575	0.06	Circulating shares	Not applicable
Wang Yu	Domestic Circulating shares	2,094,949	0.05	Circulating shares	Not applicable
Fortune Trust Investment Company Limited – Aggregate Capital Trust No.16 2006	Domestic Circulating shares	1,550,000	0.04	Circulating shares	Not applicable
Lu Bao-hong	Domestic Circulating shares	1,338,000	0.03	Circulating shares	Not applicable
Lin Zhu-mei	Domestic Circulating shares	1,087,600	0.027	Circulating shares	Not applicable

Details of the top ten circulating shareholders

Names of shareholders	Number of circulating shares held at the end of year (shares)	Classification
HKSCC (Nominees) Limited**	1,360,147,305	"H" shares
Fujian Guoli Technology Investment Company Limited	4,177,419	Circulating "A" shares
China Minsheng Banking Corporation – Orient Well-chosen Mix-type Open-end Securities Investment Fund	4,019,847	Circulating "A" shares
Beijing Buchang Pharm-Biology Technology Company Limited	2,405,575	Circulating "A" shares
Wang Yu	2,094,949	Circulating "A" shares
Fortune Trust Investment Company Limited - Aggregate Capital Trust No.16 2006	1,550,000	Circulating "A" shares
Lu Bao-hong	1,338,000	Circulating "A" shares
Lin Zhu-mei	1,087,600	Circulating "A" shares
Cai Min	1,000,000	Circulating "A" shares
Cheung Kwong Kwan	1,000,000	"H" shares
Explanation of connected relationship or activities in concert among the above shareholders	The Company is not aware of that there is any connected relationship or activities in concert among the above shareholders.	

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

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

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

4. *The controlling shareholder*

Name of the controlling shareholder	:	Sinopec, holding 42 per cent of the Company's shares
Legal representative	:	Su Shu-lin
Date of establishment	:	25 February 2000
Registered capital	:	Rmb86,702,439,000
Principal activities	:	Engaged in exploring for and developing, producing and trading crude oil and natural gas; processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products; producing, distributing and trading petrochemical products.

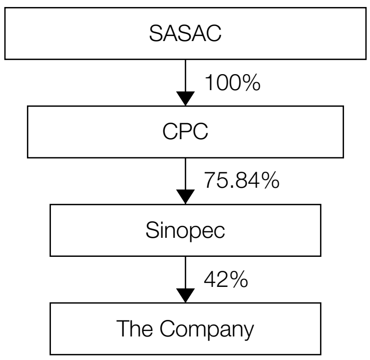
During the reporting period, there has been no change in the controlling shareholder of the Company.

5. *Controlling company of the controlling shareholder*

Name of the controlling company of the controlling shareholder	:	China Petrochemical Corporation ("**CPC**")*
Legal representative	:	Su Shu-lin
Date of establishment	:	24 July 1998
Registered capital	:	Rmb130,645,104,000
Principal activities	:	Through reorganization in 2000, CPC injected its principal petroleum and petrochemical operations into Sinopec, and retained operations in certain smaller scale petrochemical facilities and refineries, provision of well drilling services, oil testing services, in–well operation services, manufacture and maintenance of production equipment, engineering construction, utility services and social services.

During the reporting period, there has been no change in the controlling company of the controlling shareholder of the Company.

* *CPC is a state-authorized investment organization and a state-controlled company, directed by State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**").*



6. *Other substantial shareholders*

(1) CITIC

CITIC holds 18 per cent of the Company's shares.

Legal representative	:	Kou Dan
Date of establishment	:	4 October 1979
Registered capital	:	Rmb30,000,000,000
Principal activities	:	provide services in bank, security, insurance, trust, future, rent, and engage in industries of information, material, engineer, import and export, etc..

(2) The shares held by HKSCC (Nominees) Limited are on behalf of its customers. As at 31 December 2007, the Company was not informed of whether any of its individual "H" shareholder held more than 10 per cent of the total shares of the Company.

7. *The interest or short position held by the substantial shareholders and other persons in the Company's shares or underlying shares*

As at 31 December 2007, so far as the Directors, Supervisors and Senior Management of the Company are aware of, each of the following persons, not being a Director, Supervisor or Senior Management of the Company, had an interest in the Company's shares which is required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("**SFO**")

Name of shareholder	**Number of share held** (shares)	**Per cent of shareholding in the Company's total issued share capital** (%)	**shareholding in the Company's total issued domestic shares** (%)	**Per cent of shareholding in the Company's total issued** (%)	**Short position**
Sinopec*	1,680,000,000	42.00	64.62	Not applicable	—
CITIC	720,000,000	18.00	27.69	Not applicable	—

* *As at 31 December 2007, CPC holds 75.48% of the equity interest in Sinopec.*

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

Save as disclosed above and so far as the Directors, Supervisors and Senior Management of the Company are aware of, as at 31 December 2007, no other person had an interest or short position in the Company's shares or underlying shares (as the case may be) which are required to be disclosed to the Company and the HKSE under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

Report of the Board of Directors

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Changes in Directors, Supervisors and Senior Management

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

Profiles of Present Directors, Supervisors and Senior Management

Directors

1. Mr. Qian Heng-ge, aged 57, Chairman of the Company, Secretary of Chinese Communist Party Committee (the "CCPC") of the Company, and Senior Economist. Mr. Qian joined Yihua in 1984. Since then, he had served as Deputy Head of the General Manager Office of Yihua and Head of the General Manager Office of the Company. In June 1995, he was elected as Chairman of the Supervisory Committee, and appointed as Deputy Secretary of the CCPC and Secretary of the Discipline and Inspection Commission of the Company. He was re-elected as Chairman of the Supervisory Committee and appointed as Secretary of the CCPC of the Company in December 1996. In January 1998, he was elected as Executive Director, appointed as Deputy General Manager of the Company and appointed as Director of Yihua. In March 1998, he was appointed as Deputy Secretary of the CCPC of the Company and Yihua. He was elected as Vice Chairman of the Company in December 1999. In April 2002, he was appointed as General Manager of Yihua. In July 2004, he was appointed as Secretary of CCPC of the Company and Yihua, and Chairman of Yihua. In December 2005, he was re-elected as Vice Chairman of the Company. In February 2007, he was elected as Chairman of the Company. For a long period of time, Mr. Qian has held leading positions in administration and human resources management and has extensive experience in overall management in extra-large-scale enterprise. Mr. Qian graduated from Distance Learning College of the Communist Party Central Academy in 1987, majoring in business administration. He completed the course of MBA in Nanjing University in 2000.

2. Ms. Sun Zhi-hong, aged 58, Vice Chairwoman of the Company, Deputy Director of the Finance Department of CITIC, and Director of CITIC Offshore Helicopter Co. Ltd., Senior Accountant and CPA of the PRC. She held the position of Deputy Director of the Finance Department of CITIC since January 1999. She was elected as Vice Chairwoman of the Company in December 1999, and was re-elected in December 2005. Ms. Sun has extensive experience in financial management in large-scale enterprise. Ms. Sun graduated from China Central Broadcasting and Television University in 1986, majoring in accounting and completed the graduate course of International Business Administration in Beijing Economic College in 1995.

3. Mr. Xiao Wei-zhen, aged 54, Vice Chairman and General Manager of the Company, Chairman of Kangqi Company, Chairman of Yihua UNIFI Company, and Senior Engineer (at professor level). Mr. Xiao receives special subsidies by the State Council of the PRC. Mr. Xiao joined Yihua in 1982. Since then, he had served as Deputy Director and Chief Engineer of Polyester Plant No. 2, and then Director of Polyester Plant No. 4 of the Company. In December 1996, he was appointed as Deputy General Manager of the Company. In November 1997, he was transferred to be Head of Production and Marketing Department in China Eastern United Petrochemical (Group) Company Limited ("**Eastern United**"). In January 1998, he was elected as Executive Director of the Company. In May 1998, he was appointed as Deputy General Manager of the Company. In July 2004, he was appointed as Managing Director of the Company and Director of Yihua. He was re-elected as Managing Director of the Company in December 2005. In February 2007, he was elected as Vice Chairman of the Company. Mr. Xiao has extensive experience in production, technological improvement and business administration in extra-large-scale chemical fibre enterprise. Mr. Xiao graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2003.

4. Ms. Long Xing-ping, aged 56, Director of the Company and Deputy Director of Overall Planning Department of CITIC, and Senior Engineer. She was elected as Director of the Company in December 1999. She was appointed as Deputy Director of Overall Planning Department of CITIC since April 2002. In December 2005, she was re-elected as Director of the Company. Ms. Long was engaged in the designing of chemical fibre machines and scientific research, and has extensive experience in business administration in large-scale industrial enterprise. Ms. Long graduated from Beijing Chemical Engineering College in 1975, majoring in machinery.

5. Mr. Zhang Hong, aged 49, Director of the Company and Head of No. 2 Division of Audit Department of CITIC, Senior Accountant and CPA of the PRC. He held the position of Head of No. 2 Division of Audit Department of CITIC since December 2002. In December 2002, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. Mr. Zhang was engaged in financial management and internal audit for years, and has extensive experience in internal management systems, financial analysis and auditing in large-scale enterprise. Mr. Zhang graduated from No. 2 Branch, Renmin University of China in 1983, majoring in finance.

6. Mr. Guan Diao-sheng, aged 45, Director of the Company, Deputy Director of Chemicals Segment of Sinopec, Master of Engineering, Senior Engineer. Mr. Guan has joined petrochemical industry since 1985, he served as Deputy Director of Technology Department of Liaoyang Oil & Chemical Fibre Company in 1987, Deputy Director of Technology Section of Production Department of CPC in 1995, Director of Chemical Fibre Section of Refining and Petrochemical Department of CPC in 1998, and Deputy Director of Chemicals Segment of Sinopec in December 2001, in June 2002, he was elected as Director of the Company, and re-elected in December 2005. Mr. Guan has extensive experience in chemical fibre industry management. Mr. Guan graduated from China Textile University in 1985, majoring in chemical fibre.

7. Mr. Shen Xi-jun, aged 47, Director and Deputy General Manager of the Company, and Senior Engineer (at professor level). He receives special subsidies awarded by the State Council of the PRC. Mr. Shen joined Yihua in 1982. He had served as Deputy Director of Polyester Plant No.3 and the Assistant to General Manager of Yihua. In January 1996, he was appointed as Deputy General Manager of Yihua. In January 1998, he was appointed as Deputy General Manager of the Company and was re-appointed in December 2002. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. He has extensive experience in production and project management in large-scale enterprises. He has won several titles and awards granted by the Central Committee of the Communist Youth League of the PRC, China National Textile Council, Human Resources Department of Jiangsu Provincial Government and Jiangsu Provincial Communist Party Committee. Mr. Shen graduated from the Department of Chemical Engineering of Dalian Institute of Technology in 1982, specialising in macromolecule chemical engineering. He completed the course of MBA in Nanjing University in 1998. Mr. Shen graduated from Research Institute of Petroleum Processing in 2006, majoring in applied chemistry and became Doctor of engineering in 2007.

8. Ms. Li Zhong-he*, aged 66, Independent Director of the Company and President of Jiangsu Venture Capital Association, Master. In December 2002, she was elected as Independent Director of the Company. In December 2005, she was re-elected as Independent Director of the Company. For a long period of time, Ms. Li had held various high positions in government departments and has extensive experience in industry management. Ms. Li graduated from Tsinghua University in 1968, majoring in numerical controlled machine tool.

9. Mr. Wang Hua-cheng*, aged 45, Independent Director of the Company and Professor of Renmin University of China, Tutor of Doctor Degree Candidate. In December 2002, he was elected as Independent Director of the Company. In December 2005, he was re-elected as Independent Director of the Company. For a long period of time, Mr. Wang has been engaging in teaching and researching of financial management and accounting. He has studied the relevant fields extensively. Mr. Wang graduated from Renmin University of China in 1998, majoring in accounting and became Doctor of Economics (Accounting).

10. Ms. Yi Ren-ping*, aged 64, Independent Director of the Company and Advisor of Nanjing Audit University, Deputy Director and Secretary General of China Institute of Internal Audit, Research Fellow, Senior Accountant and CPA of the PRC. In December 2002, she was elected as Independent Director of the Company. In December 2005, she was re-elected as Independent Director of the Company. For a long period of time, Ms. Yi has been engaging in teaching and researching of accounting and auditing, and in management in relevant authorities. She has studied auditing and accounting extensively. Ms. Yi receives special subsidies awarded by the State Council of the PRC and is a member of Chinese People's Political Consultative Conference of Jiangsu Province. Ms. Yi graduated from Central Finance Institute in 1966, majoring in accounting.

11. Ms. Qian Zhi-hong*, aged 66, Independent Director of the Company and Senior Economist. In December 2002, she was elected as Independent Director of the Company. In December 2005, she was re-elected as Independent Director of the Company. For a long period of time, Ms. Qian had held the positions of senior management in commercial bank and has extensive experience in financial management. Ms. Qian graduated from Suzhou Financial College in 1959.

* *Independent Directors*

Supervisors

1. Mr. Cao Yong, aged 49, Chairman of Supervisory Committee of the Company, Chairman of Trade Union of the Company, Deputy Secretary of the CCPC, and Secretary of the Discipline and Inspection Commission of the Company, Senior Engineer. He joined Yihua in 1981. He served as Deputy Director of Planning and Developing Department, Deputy Director and Director of Polyester Plant No.3. In December 1997, he was transferred to be Deputy Director of Planning and Developing Department in Eastern United and in May 1998 he served as Director of Polyester Plant No.1. In August 2001 he was appointed as Assistant to General Manager of Yihua and in January 2003 he was appointed as Deputy General Manager of Yihua. In March 2003, he was appointed as Director of Yihua. In July 2004 he was appointed as Chairman of Trade Union, Deputy Secretary of the CCPC of the Company and Yihua. In August 2004, he was elected as Director of the Company. In December 2005, he was re-elected as Director of the Company. In February 2007, he was elected Chairman of Supervisory Committee of the Company. Mr. Cao has extensive experience in planning, production and development in large-scale enterprises. Mr. Cao graduated from Nanjing Chemical Engineering College in 1981, majoring in chemical engineering. He completed the course of MBA in Nanjing University in 2000. In January 2005, he obtained an engineering master degree in Suzhou University, majoring material engineering.

2. Mr. Tao Chun-sheng, aged 52, Supervisor of the Company, Deputy Secretary of the Discipline and Inspection Commission and Director of Supervisory Department of the Company, and Senior P&I Engineer. Mr. Tao joined Yihua in 1987, he had been engaged in editing and secretarial affairs in CATV Station, General Manager Office and Office for the Party Committee of the Company successively. In March 1997, he served as Deputy Director of Office for the Party Committee of the Company. In March 2000, he held positions of Deputy Director of General Manager Office and Office for the Party Committee. He became to be Deputy Secretary of the Discipline and Inspection Commission and Deputy Director of Supervisory Department of the Company and Yihua in September 2004. In March 2005, he was elected as Supervisor of the Company. In December 2005, he was re-elected as Supervisor of the Company. In January 2006, he was appointed as Director of Supervisory Department of the Company. Mr. Tao has extensive experience in large-scale enterprise. Mr. Tao graduated from Distance Learning College of the Communist Party Central Academy in December 1994, majoring in business administration, and became an undergraduate. Mr. Tao is the Supervisor who represents the staff of the Company

3. Mr. Chen Jian, aged 45, Supervisor of the Company and Project Manager of Overall Planning Department of CITIC, and Engineer. Mr. Chen had served as technician and engineer in chemical fibre enterprise. He was elected as Supervisor of the Company in December 1999 and re-elected in December 2005. Mr. Chen has extensive experience in the field of chemical fibre production, international trade of related products and investment project management. Mr. Chen graduated from East China Textile Institute of Science and Technology in 1984, majoring in chemical fibre.

4. Mr. Shi Gang**, aged 47, Independent Supervisor of the Company, Director of Industrial and Commercial Bank of China, and Senior Economist. He was elected as Independent Supervisor of the Company in December 2005. For a long period of time, Mr. Shi has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Shi graduated from Distance Learning College of the Communist Party Central Academy in 1995, majoring in economic administration.

5. Mr. Wang Bing**, aged 36, Independent Supervisor of the Company, General Manager of Company Financing Department of Jiangsu Branch, Bank of China, Economist and Master. He was elected as Independent Supervisor of the Company in December 2005. For a long period of time, Mr. Wang has held the positions of senior management in commercial banks and has extensive experience in banking. Mr. Wang graduated from Suzhou University in 1996, majoring in English Language.

** *Independent Supervisors*

Senior Management

1. Mr. Zhang Zhong-an, aged 47, Deputy General Manager, and Senior Engineer. He joined Yihua in 1982, and served as Deputy Director of Polyester Plant No. 1, Deputy Director and Director of Production Department. In January 2002, He served as Deputy General Engineer and Director of Technology Development Department. In July 2004, he was appointed as Deputy General Manager of the Company and Director of Yihua. Mr. Zhang has extensive experience in production, R&D and technical management. Mr. Zhang graduated from East China Petrochemical Institute in 1982, majoring in macromolecular chemistry. He completed the course of MBA in Nanjing University in 2000.

2. Mr. Li Jian-xin, aged 50, Senior Engineer (at professor level). He is engaged in the work of production, technology, operation and administration of large-scale petrochemical enterprises. He had served as Deputy Director of Intermediate Experiment Factory, Polyester Plant No. 4 and Polyester Plant No. 3 of the former Yizheng Joint Corporation of Chemical Fibre Industry (currently Yihua), Administrative Vice General Manager of Yizheng Chemical Fibre Foshan Polyester Company Limited, Director of Yizheng Chemical Fibre Film Factory, General Manager of Yizheng Chemical Fibre Film Company Limited. In 2003, he was appointed as the Assistant to General Manager of Yihua. In June 2004, he was appointed as Deputy General Manager and Director of Yihua. In June 2007, he was appointed as Deputy Manager of Yihua. In July 2007, he was appointed as Deputy General Manager of the Company. He has ample experience in the production, technology, operation and administration of large-scale petrochemical enterprises. He was awarded the national and provincial Science & Technology Progress Prize several times. Mr. Li graduated from the Department of Fibre Engineering and Equipment of the Beijing Chemical Industry Institute in 1982, and completed the course for an MBA at Nanjing University in 2000.

3. Mr. Li Jian-ping, aged 45, Chief Financial Officer of the Company, Chief Legal Consultant and Senior Accountant. Mr. Li has been engaged in audit and financial management of large-scale chemical enterprise for a long period of time. He had held the position of Deputy Director of Audit Department, Director of Finance Department of Jinling Petrochemical Company. He was appointed as Deputy Chief Financial Officer of Sinopec Jinling Petrochemical Corporation Limited ("**Jinling Petrochemical**") in 2000. He was also appointed as Chief Financial Officer of China Petroleum & Chemical Corporation Jinling Branch and Director of Jinling Petrochemical in 2000. He was appointed as Chief Financial Officer of the Company in December 2006. Mr. Li has extensive experience in financial management of large-scale chemical enterprise. Mr. Li graduated from Shanghai University Finance & Economics in 1986, majoring in accountant, and obtained Master of Economics degree in Shanghai University Finance & Economics in 1989.

4. Mr. Tom C. Y. Wu, aged 46, Company Secretary of the Company, and Senior Economist. He joined Yihua in 1982. Mr. Wu was engaged in production management, technology management and business administration. He participated in all of the Phase I, Phase II and Phase III Construction Projects of Yihua and is familiar with the Company's overall operation. In 1994, he served as Deputy Director of PET Film Plant of Yihua. He was elected as Company Secretary and appointed as treasurer of the Company in January 2001. In December 2002, he was re-elected as Company Secretary of the Company. Mr. Wu graduated from the Department of Chemical Engineering of Zhejiang University in 1982, majoring in macromolecular chemistry, and obtained MBA degree in Dalian University of Technology in September 2001.

Directors', Supervisors' and Senior Management's interests in shares and their remuneration

1. Procedure and basis of Directors', Supervisors' and Senior Management's remuneration policies

Pursuant to the resolution regarding the salaries of the fifth term Directors and Supervisors, approved by the EGM held on 23 December 2005, the resolution regarding the salaries of the Senior Management, approved by the first meeting of the fifth term of the Board held on the same day, and in accordance with service contract signed between the Company, Directors and Supervisors and with reference to the operating results of the Company in 2007 and the Company's appraisal and assessment system, the Board considered and passed the resolution regarding the Directors', Supervisors' and Senior Management's remuneration in the twenty-fifth meeting of the fifth term of the Board held on 7 April 2008.

2. According to the disclosure requirements under the Securities (Disclosure of Interests) Ordinance in Hong Kong (the "**SDI Ordinance**") and under the relevant PRC laws and regulations concerning information disclosures, in connection with Directors, Supervisors and Senior Management are as follows:

(1) Information on Directors, Supervisors and Senior Management

Name	Position	Term of office	Number of "A" shares held for personal interests At the beginning of the year	of the year	At the end Company held	Reason for Stock option of the change
Qian Heng-ge	Chairman	Dec. 2005 – Dec. 2008	2,000	2,000	Nil	No Change
Sun Zhi-hong	Vice Chairwoman	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Xiao Wei-zhen	Vice Chairman and General Manager	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Long Xing-ping	Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Zhang Hong	Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Guan Diao-sheng	Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Shen Xi-jun	Director, Deputy General Manager	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Li Zhong-he	Independent Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Wang Hua-cheng	Independent Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Yi Ren-ping	Independent Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Qian Zhi-hong	Independent Director	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Cao Yong	Chairman of Supervisory Committee	Feb. 2007 – Dec. 2008	0	0	Nil	No Change
Tao Chun-sheng	Supervisor	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Chen Jian	Supervisor	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Shi Gang	Independent Supervisor	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Wang Bing	Independent Supervisor	Dec. 2005 – Dec. 2008	0	0	Nil	No Change
Zhang Zhong-an	Deputy General Manager	From Jul. 2004	0	0	Nil	No Change
Li Jian-xin	Deputy General Manager	From Jul. 2007	0	0	Nil	No Change
Li Jian-ping	Chief Financial Officer	From Dec. 2006	0	0	Nil	No Change
Tom C. Y. Wu	Company Secretary	From Dec. 2002	0	0	Nil	No Change

(2) Information on Directors and Supervisors holding positions in corporate shareholders

Name	Name of corporate shareholders	Position held in corporate shareholders	Term of office	Remuneration and allowance received from the corporate shareholders
Sun Zhi-hong	CITIC	Deputy Director of Financial Department	From January 1999	Yes
Long Xing-ping	CITIC	Deputy Director of Overall Planning Department	From April 2002	Yes
Zhang Hong	CITIC	Head of No. 2 Division of Audit Department	From December 2000	Yes
Guan Diao-sheng	Sinopec	Deputy Director of Chemical Segment	From December 2001	Yes
Chen Jian	CITIC	Project Manager of Overall Planning Department	From December 1999	Yes

(3) Information on the remuneration of the Company's Directors and Supervisors of the fifth term of the Board and Supervisory Committee and Senior Management in 2007

Name	**Salaries** *(Rmb ten thousand)*
Qian Heng-ge	23.8
Sun Zhi-hong	23.8
Xiao Wei-zhen	23.8
Long Xing-ping	19.9
Zhang Hong	19.9
Guan Diao-sheng	–
Shen Xi-jun	19.9
Li Zhong-he	4.0
Wang Hua-cheng	4.0
Yi Ren-ping	4.0
Qian Zhi-hong	4.0
Cao Yong	19.9
Tao Chun-sheng	12.7
Chen Jian	19.9
Shi Gang	3.0
Wang Bing	3.0
Zhang Zhong-an	19.9
Li Jian-xin	19.9
Li Jian-ping	19.9
Tom C. Y. Wu	13.0
Total remuneration for the year	278.3
Total allowances to Independent Directors	16.0
Other benefits to Independent Directors	Nil
Name of directors or supervisors who did not receive any remuneration from the Company	Guan Diao-sheng

Other than as stated above, no Directors, Supervisors and Senior Management had any interests, either beneficial or non-beneficial, in the issued share capital of the Company, and other associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2007.

Report of the Board of Directors

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

As at 31 December, 2007, none of the Directors, Supervisors and Senior Management of the Company had any interest or short position in shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, Supervisor or Senior Management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as contained in Appendix 10 to the Listing Rules.

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

Directors' and Supervisors' service contracts

Each Director (excluding Independent Directors) of the fifth term of the Board of the Company entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2006;

2. Each Director (excluding Independent Directors) is entitled to an annual salary of not less than Rmb50,000. The aggregate annual salaries of all Directors (excluding Independent Directors) is not more than Rmb2,800,000 within the contract term.

Each Independent Director of the fifth term of the Board entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2006;

2. The aggregate annual allowance payable to all Independent Directors is Rmb160,000 within the contract term.

Each other Supervisor (excluding Independent Supervisors) of the fifth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set out below:

1. Each service contract is for a term of three years commencing 1 January 2006 (the service contract of Mr. Cao Yong is from 9 February 2007 to 31 December 2008) ;

2. Each Supervisor (excluding Independent Supervisors) is entitled to an annual salary of not less than Rmb50,000. The aggregate annual salaries of all Supervisors (excluding Independent Supervisors) is not more than Rmb800,000 within the contract term.

Each Independent Supervisor of the fifth term of the Supervisory Committee entered into a service contract with the Company on 23 December 2005. Particulars of these contracts are in all material respects identical and are set forth below:

1. Each service contract is for a term of three years commencing 1 January 2006;

2. The aggregate annual allowance payable to all Independent Supervisors is Rmb60,000 within the contract.

No Director or Supervisor has entered into a service contract with the Company which is not terminated by the Company within one year without payment other than statutory compensation.

Report of the Board of Directors

Directors' and Supervisors' interests in contracts

No contract of significance to which the Company, its parent companies or any of their subsidiaries was a party, in which a Director or Supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Special treatment to Directors, Supervisors and Senior Management

There has been no special treatment granted to the Directors, Supervisors or Senior Management during the reporting period.

Staff

During the reporting period, all reform adjustments advanced smoothly. Restructuring based on department specialisation was further extended, and management process and operation division were optimised. The employment and remuneration system reform were continually advanced. "Compete for Appointment" was carried out for operations and service positions. The position performance evaluation was deepened so as to improve employee morale.

As at 31 December 2007, the Company had 7,931 registered employees, a decrease of 1,414 employees year-over-year. Total retired staff amounted to 2,010.

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The Company had 32 employees with master or higher degree, 876 employees with bachelor or higher degree, 1,932 employees with tertiary or higher education background, 6,149 employees with senior high school or higher educational background.

The Company had 4,814 production staff, 92 sales staff, 691 engineers, technicians and research staff of the product technology center, 84 financial personnel and 459 administration staff.

Major litigation or arbitration

The Group was not engaged in any material litigation or arbitration during the reporting period.

Major events or discloseable circumstances during the year

Major events or discloseable circumstances during the reporting period are shown in "Significant Events" of the Annual Report.

Connected transactions

Details of the connected transactions entered into by the Company during the reporting period are set out in item 6 of "Significant Events" of the Annual Report.

Results

The results of the Group for the year ended 31 December 2007 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements prepared in accordance with the IFRSs and the PRC Accounting Standards for Business Enterprises (2006).

PROPOSED SCHEME OF PROFIT DISTRIBUTION

In accordance with the PRC Accounting Standards for Business Enterprises (2006), the net profit of the Company for 2007 was Rmb18,625,000 (the profit attributable to equity shareholders of the Company for 2007 was Rmb10,236,000 under IFRSs). The accumulated losses, including the accumulated losses of Rmb430,912,000 brought forward from the previous year, was Rmb412,287,000 at the end of 2007.

According to the relevant regulations of the PRC and the Articles of Association of the Company, no proposed transfers to the statutory surplus reserve. Moreover, According to items 167 of the Company Law that was effective from 1 January 2006, no proposed transfers to the statutory public welfare fund.

It is proposed that no final cash dividend for 2007 be paid.

The above proposed profit distribution scheme shall be submitted for approval in the 2007 AGM.

CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS AND THE EFFECT TO THE PROFIT

During the current reporting period, the Group has no financial instruments which are measured at fair value and whose changes are charged to the income statements.

Explanation on the adoption of significant accounting policies and interpretation on significant accounting estimate

For particulars of the Group's adoption of significant accounting policies and accounting estimate, please refer to note 4 of the financial statements prepared in accordance with the ASBE (2006).

For detailed explanations of differences between the financial statements prepared in accordance with the ASBE (2006) and the IFRSs, please refer to the section on "Supplementary information to the financial statements" of this Annual Report.

RESERVES

Changes in reserves of the Group during the reporting period are set forth in note 25 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

FIXED ASSETS

Movements in fixed assets of the Group, during the reporting period, are set forth in note 14 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

BANK LOANS AND OTHER BORROWINGS

The Company and the Group have no bank loans and other borrowings as at 31 December 2007.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and jointly controlled entities as at 31 December 2007 are set forth in note 17 and 18 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

RETIREMENT PLAN

Particulars of the retirement plan operated by the Group are set forth in note 27 of the financial statements prepared in accordance with the IFRSs of the Annual Report.

MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2007, 32.4 per cent of the total purchases (not including the purchase of items which are of capital nature) were attributable to the Group's largest supplier. The largest supplier is a subsidiary of Sinopec.

Details of the Group's five largest suppliers and customers:

For the year ended 31 December 2007, aggregate purchase amounts from the top five largest suppliers were Rmb9,242,754,000, representing 57.9 per cent of total purchases amounts. The top two of five largest suppliers were the controlling shareholder of the Company – Sinopec and its connected persons, and were no connected relationship with all directors of the Company.

For the year ended 31 December 2007, aggregate sales amounts to the top five largest customers were Rmb2,282,441,000, representing 13.3 per cent of total sales.

AUDITORS

KPMG Huazhen and KPMG retire and, being eligible, offer themselves for re-appointment.

A resolution for the re-appointment of KPMG Huazhen and KPMG as domestic and international auditors respectively of the Company for 2008, is to be proposed at 2007 AGM.

The signing Certified Public Accountants of the Company's domestic auditors, KPMG Huanzhen, were Hu qiong and Yu Xiaojun.

SHAREHOLDERS' GENERAL MEETING

During the reporting period, at its registered place in Yizheng City, Jiangsu Province on 29 June 2007, the Company held its 2006 AGM. Details are set forth in the section entitled "Summary of Shareholders' Meetings."

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

During the reporting period, the Company has complied with the Code of Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The Code of Corporate Governance Practices of the Company is set forth from page 45 to the page 51 in the Annual Report.

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

By Order of the Board
Qian Heng-ge
Chairman
7 April 2008, Nanjing

Report of the Supervisory Committee

To all Shareholders:

During the reporting period, all the Supervisors of the Company have complied with the Company Law, the Company's Articles of Association and other relevant laws and rules, fulfilled their responsibilities, protected the interests of the Company and the shareholders, abided by the principles of honesty and trustworthiness, and worked diligently.

The Supervisory Committee held three meetings during the reporting period, details of which are as follows:

1. The fourth meeting of the fifth term Supervisory Committee was held on 9 February 2007 in written proposal. Due to required change in his working position, the meeting resolved that the Mr. Zhou Wen-fei's resignation be accepted and that Mr. Zhou Wen-fei shall cease to act as Chairman of the Supervisory Committee. The Supervisory Committee unanimously agreed that Mr. Cao Yong shall be the Chairman of the Supervisory Committee.

2. The fifth meeting of the fifth term Supervisory Committee was held on 30 March 2007. The meeting mainly considered the operation achievements and financial results for 2006 and financial budget for 2007. The annual report of the Group for 2006 was also approved. In addition, the meeting earnestly talked about the resolution regarding disposal of partial fixed assets. The meeting approved the 2006 report of the Supervisory Committee and listened to the 2006 report of Independent Supervisors

3. The sixth meeting of the fifth term Supervisory Committee was held on 30 August 2007 in written proposal. The meeting considered the explanation of interim results for 2007 and assets disposal. The meeting approved the resolution regarding disposal of partial assets and no payment of interim dividend. In addition, the interim report of the Group for 2007 was also approved.

During the reporting period, supervisors attended the Board meeting as nonvoting delegates.

1. The Supervisory Committee supervises the legal operations of the Company and the performance of the Board and Senior Management according to pertinent requirements. The Supervisors participate in the Company's decision-making process and study the performance of the Board and Senior Management by serving as nonvoting delegates of the Board, attending important meetings and other activities of the Company.

   In 2007, the domestic polyester industry was still in the acute situation of profound adjustment and the total domestic polyester production capacity remained excessive, which gave relatively great pressure on production, operation and management. Meanwhile, internal reform adjustment also was a heavy task. Faced with various difficulties, the Company earnestly carried out the deployment and requirement of the Board and exerted great effort to expand business and strengthen internal management. The Company survived different market tests and achieved new development in various fields. Firstly, the Group basically maintained safe and stable operation. The production volume of polyester products and PTA amounted to 2,133,145 tonnes and 1,024,919 tonnes respectively, creating the historical best level. All technical and economic indexes were completed well. Secondly, the Company enhanced connection between production and sales, optimised facilities operation and product structure, increased production and efficiency and achieved full sales. Sales volume of polyester products amounted to 1,714,726 tonnes, increased by 0.2 per cent from last year, while export volume amounted to 144,833 tonnes, increased by 23.1 per cent from last year. The ratio of sales to production reached 99.6 per cent. Thirdly, the Company concentrated on saving energy, reducing cost and improving efficiency. By fulfilling environment protection responsibility system and applying energy saving technology, compared with 2006, the comprehensive energy consumption for every Rmb10,000 of production value decreased by 1.1 per cent, and despite the growth in the Group's production, total industrial water consumption decreased by 9.4 per cent and total COD emission decreased by 5.2 per cent. Fourthly, all reform adjustment work was advanced steadily. Non-core business divestiture of the overhaul and maintenance center was smoothly completed and the reform of other particular items also steadily advanced. Fifthly, The Group further exerted the integral advantage of product development team, and extended the work of fixing production line, variety and customer so as to organize products development and production. In 2007, the differential rate of polyester fibre and the specialized rate of polyester chips were 69.0 per cent and 81.8 per cent, 5.1 percentage points and 2.8 percentages points higher than that of last year respectively. Sixthly, the Group actively advanced effective development and accelerate the upgrade of industry structure. Preparation works for the three key projects such as the PTA project with an annual capacity of 1,000,000 tonnes, the aramid fiber project with an annual capacity of 100 tonnes and the high performance polyethylene project with an annual capacity of 300 tonnes were finished.

In 2007, the Group's operating income from was Rmb17,175,656,000 and net profit attributable to equity shareholders of the Company was Rmb17,817,000 in accordance with the PRC Accounting Standards for Business Enterprises (2006). The target set at the beginning of 2007 has been preferably fulfilled.

During the reporting period, the Board and the Senior Management operated in strict compliance with the laws and related regulations governing the conduct of an internationally-listed company, devoted themselves to the required responsibilities specified in the Company's Articles of Association, and earnestly carried out all the resolutions of the shareholders' general meetings and Board meetings. During the reporting period, the Company, the Directors and the Senior Management did not violate any laws, regulations or the Company's Articles of Association, and the Company was not involved in any material litigation or arbitration.

2. The Supervisory Committee has earnestly reviewed the pertinent information in the Financial Statements audited by KPMG and KPMG Huazhen, in which an unqualified audit opinion was issued.

The Supervisory Committee believes that KPMG and KPMG Huazhen scrupulously abide by the basic principle of independence, objectivity and equality when doing business. KPMG and KPMG Huazhen issued an unqualified audit option regarding the validity, fairness and accounting consistency of the balance sheet. The Supervisory Committee believes that the Financial Statements truly reflect the Group's state of affairs and the operating results, that each type of expenditure was reasonable and that the accruals were in accordance with the pertinent regulations.

The Company treated the connected transaction in compliance with pertinent regulations concerning a listed company. All connected transactions were fair and impartial and entered into according to the agreements. The Company promptly disclosed the related information in accordance with the standardized and complete procedures. There was nothing identified that had impaired the interests of shareholders or had caused any reduction of the Company's assets.

The situation with respect to market competition in 2008 is still challenging, and various uncertainty risks still exist. We believe that the Company will earnestly carry out the Board's deployment, further improve production and operation by catching hold of all favorable opportunities, and put measures of reform, development, and cost reduction into effect, so as to give a good return to investors.

In the coming year, the Supervisory Committee, in strict compliance with the Company Law and the Company's Article of Association, will continue to perform its duties earnestly and to protect the interests of the shareholders.

By Order of the Supervisory Committee
Cao Yong
Chairman
7 April 2008, Nanjing

Corporate Governance Report

During the reporting period, the Company has continued to improve corporate governance in accordance with the relevant laws, rules and regulations.

1. During the reporting period, the Company's relevant work has been orderly carried out in accordance of the arrangement by China Securities Regulatory Commission concerning corporate governance. Based on relevant documents issued by CSRC and Jiangsu Securities Regulatory Bureau, special leading group and implementation team were founded while working plan and schedule were decided. Strictly in light of the 100 articles in "The Notice of Enhancing Corporate Governance of Listed Companies", the Company conducted self-examination to identify problems and finished "Report of Self-Examination on Corporate Governance and Improvement Plan". Since listed on stock market, the Company standardized operation, founded modern corporate system, improved corporate governance to comply with the "Rule of Corporate Governance for Listed Companies". Through self-examination, we identified following problems: (1) The Company's Articles of Association is still not revised in accordance to "Guide to Company Article of Listed Companies (2006)" issued by CSRC; (2) The efficiency of decision making by the Board and relevant committees needs to be improved; (3) The encouraging policy for senior officers and outstanding staff needs to be improved. The Company has confirmed improving measurements and schedule to solve the problems.

Without objection from Jiangsu Securities Regulatory Bureau, the twenty-first meeting of the fifth term of the Board approved "Report of Self-Examination on Corporate Governance and Improvement Plan" and disclosed both in domestic and overseas listing market. Hotline and internet platform were set up to collect advice and suggestion on corporate governance from the public investors. On 18 October, 2007 and 5 November, 2007, SSE and Jiangsu Securities Regulatory Bureau respectively issued "Evaluation Opinion on Corporate Governance" and "Supervising Opinion Letter on Corporate Governance of Sinopec Yizheng Chemical Fibre Company Limited", confirming that the Company strictly complied itself with relevant laws, regulations and rules in the aspect of transparency, shareholder meeting, board of directors and internal control system. The documents also identified following problems: (1) The Company's Articles of Association is still not revised in accordance to "Guide to Company Article of Listed Companies (2006)" issued by CSRC; (2) "Operation Details of General Manager" is not established. Being a company listed both in domestic and overseas market, The Company's Articles of Association was made in accordance with "Necessary Terms for Company Article of Overseas Listed Companies" (hereafter called as "**Necessary Terms**"). According to CSRC explanation, the "Necessary Terms" is still effective. In case that "Necessary Terms" is inconsistent with "Guide to Company Article of Listed Companies", relevant issue should be treated in accordance with "Necessary Terms". Therefore, the Company is working on preparing works and plan to revise the Company's Articles of Association once "Necessary Terms" is confirmed. The inconsistency between "Necessary Terms" and "Guide to Company Article of Listed Companies" has been specified. The Company will finish revising works at right time. Although "Operation Details of General Manager" is not established, the appointment and dismiss of managing team, the responsibility and authorization, the meeting system, the reporting system and other issues have been specified in the Company's Articles of Association and Internal Control System of the Company. Presently, "Operation Details of General Manager" has been finished and will be submitted to the twenty-third meeting of the fifth term of the Board for approval.

The company will take this chance to enhance system building on information disclose and internal control. Furthermore, in strict light of "Company Law of the People's Republic of China", "Securities Law of the People's Republic of China", "Disclosure of Information by Public Listing Companies" and "Listing Rules of Shanghai Stock Exchange", the Company will improve internal management and control, standardize the operation of shareholder meeting and board of directors, enhance duty concept of directors (including independent director) and improve corporate governance.

2. During reporting period, "Information Disclosure System of Sinopec Yizheng Chemical Fibre Company Limited" has been approved by the sixteenth meeting of the fifth term of the Board and began to be put into effect.

3. **Information on the fulfillment of responsibilities by the Independent Directors:**

The Independent Directors are responsible and diligent and have played an important role. They protect the interests of the whole Company and legitimate rights and interests of minority shareholders. The Independent Directors have expressed their independent comments on the Company's connected transactions and share reform scheme of the Company during the reporting period.

According to the requirements of CSRC, the Company revised "Performance System of Independent Director", establishing reporting systems on annual report and correspondence. In preparing this report, through on site examination and face to face communication, the Company enhanced relevant works on reporting to independent director and providing documents. "Performance System of Independent Director" was approved by the twenty-fifth meeting of the fifth term of the Board on 7 April, 2008 and will be implemented.

During the reporting period, the Independent Directors did not propose any demurral on resolutions.

4. **Information on the fulfillment of responsibilities by special committee under the Board**

(1) During the reporting period, the Audit Committee under the fifth term of the Board held the third meeting and the fourth meeting, and reviewed the Company's 2006 Financial Statements, Interim Report for 2007, assets disposal, profit distribution, connected transaction and implementation and revision of internal control system, and formed its independent opinion by discussion with CFO, and director of financial department and auditor.

According to the requirements of CSRC, the Company revised "Performance Rules of Auditing Committee" on 7 April 2008, adding several duties and procedures on auditing committee for examining annual report. After communicating with auditors, the fifth auditing meeting was held on 16 January 2008. On the meeting, the schedule and scope of auditing works were confirmed with the auditor—KPMG Huazhen and KPMG and the financial statement 2007 was examined. At the sixth auditing meeting on 20 March 2008, the auditing committee reviewed financial statement 2007 which was examined by auditors. At the seventh auditing meeting on 7 April 2008, the financial statement 2007 and report on auditing works by auditors were approved. The proposal of re-appointing KPMG Huazhen and KPMG as the Company's domestic and overseas auditors in 2008 was also passed and will be submitted to Board of directors for approval. In the auditing committee's opinion, the financial statements for the year 2007 complied with the requirements of PRC Accounting Standards for Business Enterprises (2006) and presented fairly, in all material respects, the financial position of the Company as at 31 December 2007, and the results of operations and the cash flows of the Company for the year then ended.

In 2008, the Audit Committee will continue to perform its duties earnestly and put forward its independent opinion for the Board's decision.

(2) In 2007, the Remuneration Committee held the second meeting. Pursuant to the resolution regarding the remuneration of the fifth term directors and supervisors approved by the extraordinary general meeting, Directors' service contracts, Supervisors' service contracts and the resolution regarding the remuneration of the senior management, and with reference to the operating of the Company in 2007 and the Company's appraisal and assessment system, the Remuneration Committee considered and passed proposals relating to the remuneration of the Directors, Supervisors and Senior Management in the year 2007 and be submitted to the thirteenth meeting of the fifth term of the Board for approval.

In 2008, the Remuneration Committee will further put attention to establish and improve evaluation criteria and a stimulating and binding mechanism for senior management.

5. **The relationship between controlling shareholders and the Company:** the controlling shareholders exercise their legal rights as investors via the shareholders' general meetings legally and do not interfere directly or indirectly in the decision-making or operating activities of the Company. The controlling shareholders did not use the Company's fund or request the Company to guarantee themselves or other parties. The Company has independent procurement and sales system and senior management and staff are full-time employees and remunerated. The Company's assets are fairly stated and with clear ownership. Independent finance department and independent accounting & financial system have been set up. The Board, the Supervisory Committee and the internal departments of the Company are operating independently according to the relevant laws. The Company is independent of its controlling shareholders in terms of personnel, assets, finance, organisations and operation.

6. Regarding the performance evaluation, stimulating and binding mechanism:

Under the guidance of the annual operation and management target set by the Board, Remuneration and Assessment Committee of the Company effectively appraised the performance of senior management. The Company has been working hard to establish and perfect evaluation criteria and a stimulating and binding mechanism for senior management.

7. During the reporting period, the details which the Company complies with the Code of Corporate Governance are as follows:

A.1 The Board

1. The Board meets regularly to fulfill their responsibilities. The Board held four regular meetings and six meetings by written resolutions.

The Directors' attendance of the Board Meetings

Name	Times in person	Times by Proxies	Absence
Qian Heng-ge	13	–	–
Sun Zhi-hong	13	–	–
Xiao Wei-zhen	13	–	–
Long Xing-ping	13	–	–
Zhang Hong	10	3	–
Guan Diao-sheng	11	2	–
Shen Xi-jun	13	–	–
Li Zhong-he*	12	1	–
Wang Hua-cheng*	11	2	–
Yi Ren-ping*	12	1	–
Qian Zhi-hong*	12	1	–

* *Independent Director*

2. All Directors can raise matters in the agenda for the Board meetings.

3. The notice of 14 days has been given for regular meetings and usually the notice of 10 days for the other Board meetings.

4. The Company Secretary provides sustainable service for and reminds of all Directors with a view to ensuring them to follow all applicable rules and regulations.

Areas of deviation-nil

A.2 Chairman and Chief Executive Officer

1. Mr. Qian Heng-ge was elected as Chairman of the Company by the Board. Nominated by Chairman of the Company, Mr. Xiao Wei-zhen was appointed as General Manager of the Company by the Board. The clear division of responsibilities between Chairman and General Manager are set out in the Articles of Association.

2. Chairman of the Company at least holds meetings once a year with Independent Directors only.

Areas of deviation-nil

A.3 The Board composition

1. The Directors have extensive experience in enterprise management, industry administration, finance and bank fields. They have abilities and skills required by the Company's business.

2. The Board includes four Independent Directors, of which two Independent Directors are certified public accountants in the PRC. The four Independent Directors have confirmed their independence of the Company to the Stock Exchange.

3. The names and profiles are set forth on the page 33 to page 35 in this annual report.

Areas of deviation-nil

A.4 Appointment, re-election and removal

1. All Directors are elected by shareholders' general meetings for a term of not more than 3 years. A Director may serve consecutive terms if re-elected upon the expiration of the term. The Board has no right of appointing temporary directors.

2. The term of office of Independent Directors shall not be more than 6 years.

Areas of deviation-nil

A.5 Responsibilities of Directors

1. Every newly elected Director has received a comprehensive induction on the first occasion of his appointment from the legal advisors of the PRC and Hong Kong of the Company, to ensure that he can be aware of his responsibilities of being a director.

2. The detailed responsibilities of Independent Directors are set forth in the Articles of Association.

3. Directors shall abstain from voting at the Board meeting due to interests conflicts.

4. After having specifically inquired from all the Directors, the Company confirms that all Directors have fully complied with the standards as set forth in the Model Code. Pursuant to the requirements of the Code of Corporate Governance, the Company also passed the code for relevant employees in respect of their dealings in the securities of the Company in 2005.

Areas of deviation-nil

A.6 Supply of and access to information

1. The Company provides information relating to business operation of the Company regularly, to help Directors to understand the Company's operation.

2. All Directors acquire adequate information that can help them to make accurate decisions 3 working days prior to the convening of the Board meetings usually.

3. The Company Secretary provides sustainable services for all Directors who can consult the Board documents and relevant information when necessary.

Areas of deviation-nil

B. Remuneration of Directors and Senior Management

1. The Remuneration Committee under the Board has been set up with specific written terms of authority and duties, consisting of one external Director Ms. Sun Zhi-hong, three Independent Directors – MS. Li Zhong-he, Ms. Yi Ren-ping and Ms. Qian Zhi-hong and one Supervisor Mr. Tao Chun-sheng who represents the Company Staff, of which Ms. Sun Zhi-hong is the head of the Remuneration Committee.

2. Pursuant to the principles approved by the shareholders' general meeting, the Service Contract which was entered into between the Company and each Director or Supervisor, the proposal raised by the Remuneration Committee and with reference to the operating results, the Board considered and passed the remuneration of the Directors, Supervisors and Senior Management. The details of the remuneration of the Directors during the reporting period is set out page 38 of this Annual Report.

3. The members of Remuneration Committee can consult independent professionals and the Company shall pay such expenses.

Information on the fulfillment of responsibilities by the Remuneration Committee is set forth on the page 46 in the Annual Report during the reporting period.

Areas of deviation-nil

C.1 Financial reporting

1. The Company assures that the Senior Management has provided adequate financial information to the Board and the Audit Committee.

2. The Directors are responsible for preparing the accounts for every fiscal year, which can give a view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year. The Directors has selected the appropriate accounting policies to be carried out, made prudent and reasonable judges and estimates on a going concern basis.

3. Required under the Listing Rules, the Company announces and publishes the annual reports, interim reports, quarterly reports and other share price-sensitive affairs timely and accurately.

Areas of deviation-nil

C.2 Internal control

1. The Company has set up internal control system to guard on the operational, financial and rule-abiding risks.

2. According to the operating state, the Company has modified the internal control system. During the year, the Board has reviewed the effectiveness of the internal control system.

3. The internal audit department has been set up and been adequately resourced to carry out internal audit function.

Areas of deviation-nil

C.3 The Audit Committee

1. The Audit Committee consists of four Independent Directors – Mr. Wang Hua-cheng, Ms. Li Zhong-he, Ms. Yi Ren-ping and Ms. Qian Zhi-hong, one external Director Mr. Zhang Hong and one Independent Supervisor Mr. Shi Gang, of which there are three certified public accountants of the PRC. Mr. Wang Hua-cheng is the head of the Audit Committee.

2. The Company Secretary holds the concurrent post of the Secretary of the Audit Committee and provides sustainable services for the members of the Audit Committee.

3. Required under the revised Listing Rules, the Company amended and added the authority and duties of the Audit Committee, mainly includes the appointment proposal of the external auditor, the review of annual report, interim report and procedures of internal control system. The Company revised "Performance Rules of Auditing Committee" on 7 April 2008, adding several duties and procedures on auditing committee for examining annual report 2007.

4. The members of the Audit Committee can consult independent professionals and the Company shall pay such expenses.

Information on the fulfillment of responsibilities by the Audit Committee is set forth on the page 46 in the Annual Report during the reporting period.

Areas of deviation-nil

D. Delegation by the Board

1. The Strategy and Investment Committee, the Audit Committee and the Remuneration Committee under the Board have the specific authority and duties delegated by the Board, and should report to the Board.

2. The Board, the Senior Management and each committees under the Board have specific authority and duties, which are set forth the Articles of Association, the Rules and Procedures for shareholders' general meeting and the Rules and Procedures for the Board.

3. Set below is the attendance record of the Board's Committee meeting.

The Audit Committee

Name	Times in Person	Times by Proxies	Absence
Wang Hua-cheng	1	1	–
Yi Ren-ping	1	1	–
Li Zhong-he	1	1	–
Qian Zhi-hong	2	–	–
Zhang hong	–	2	–
Shi Gang	2	–	–

The Remuneration Committee

Name	Times in Person	Times by Proxies	Absence
Sun Zhi-hong	1	–	–
Li Zhong-he	1	–	–
Yi Ren-ping	1	–	–
Qian Zhi-hong	1	–	–
Tao Chun-sheng	1	–	–

Areas of deviation-nil

E. Communication with shareholders

1. In respect of each substantially separate issue at a shareholders' general meeting, a separate resolution should be proposed by the Chairman of that meeting.

2. The circulars to the shareholders of the Company set forth in detail the rights of the shareholders who are entitled to attend the shareholders' general meetings, the agenda and the voting procedures.

3. The members of the Board, the Senior Management attend the shareholders' general meetings to respond to the inquiries from the shareholders.

Areas of deviation-nil

The Board has not established Nomination Committee. In the reporting period, the Company did not nominate the Director candidates.

Pursuant to the Articles of Association of the Company, the candidates for independent directorship may be nominated by the Board, the Supervisory Committee, or one or more shareholders holding in aggregate more than one per cent of the issued shares of the Company. The candidates for the remaining directorship shall be nominated by the Board, the Supervisory Committee, or one or more shareholders holding in aggregate more than five per cent of the issued shares of the Company. All candidates should be elected by the shareholders' general meeting of the Company.

An analysis of remuneration in respect of audit services is set forth in item 16 of the "Significant Events" section.

Summary of Shareholders' Meetings

The 2006 AGM was held at the Conference Centre of Yijing Peninsula Hotel of the Company in Yizheng City, Jiangsu Province, PRC on 29 June 2007.

The resolution announcement of the 2006 AGM was disclosed in China Securities, Shanghai Securities News, Securities Times and the website of HKSE on 2 July 2007.

Significant Events

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

2. In accordance with the Articles of Association of the Company, the Board resolved that no interim dividend was paid for the time ended 31 December 2007. In order to make up the losses of previous years, the Board proposed no final dividend to be paid for the year ended 31 December 2007 according to the Company Law and the Articles of Association of the Company.

3. According relative laws or regulations of "Several Opinions of the State Council on Promoting the Reform, Opening-up and Stable Development of the Capital Market" (No. 3, 2004 of the State Council) and "Guidance Opinions on the Share Reform of Listed Companies" jointly promulgated by CSRC, State-Owned Assets Supervision and Administration Commission of the State Council, Ministry of Finance, People's Bank of China and Ministry of Commerce, the Company's non-circulating shareholders brought forward the proposal of share reform on 30 November 2007. After performing the operation process of share reform, the "Share Reform Scheme of Sinopec Yizheng Chemical Fibre Company Limited" was not passed by the shareholders' meeting of A share market relating to the share reform scheme held on 15 January 2008.

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

4. During the reporting period, the Company (including subsidiaries) did not have any material litigation or arbitration.

5. During the reporting period, the Group did not have any acquisition and disposal of assets as well as merger and acquisition.

6. Information on connected transactions

   The Group's material connected transactions entered into during the year ended 31 December 2007 were as follows:

   (a) The followings are the significant connected transactions relating to ordinary operation during the reporting period.

Type of transaction	**Transaction parties**	**Amount of transaction** Rmb'000	**Proportion of the same type of transaction** (%)
Purchase of raw materials	Sinopec and its subsidiaries	8,970,018	62.7
	Of which: Sinopec Yangzi Petrochemical Company Limited	3,829,354	26.8
	China Petroleum & Chemical Corporation, Zhenhai Branch	3,825,511	26.7

   The Group is of the opinion that the above-mentioned connected transactions and related connected parties were necessary and continuous, and that the agreement governing these transactions were fitted with the requirements of business operation and market situation. Meanwhile, The Company is of the opinion that purchasing of goods from the above related parties ensures a steady and secured supply of raw materials. Therefore, these connected transactions are beneficial to the Group. These transactions were negotiated at market price. The above transactions have no adverse effect on the profit and independency of the Company.

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

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

The Board believed that the above transactions were entered into the ordinary course of business and in normal commercial terms or in accordance with the terms of agreements governing these transactions. For details of connected transactions entered into by the Company during the reporting period, please refer to note 37 of the financial statements prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006). Independent directors have reviewed the above-mentioned connected transactions according to the regulations as stipulated in the Listing Rules, and made necessary confirmation in a letter submitted to the Board on 7 April 2008. Auditors of the Company have reviewed the above-mentioned connected transactions and provided a letter to the Board on 7 April 2008.

7. The Company did not have any asset leased or contracted out or held on trust for other companies. Furthermore, the Company did not lease or contract any asset from other companies and did not have assets held by other companies.

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

9. As at 31 December 2007, the Group did not have any designated deposits with any financial institutions or any difficulties in collecting deposits upon maturity. The Group had no trusted financial matters during the reporting period.

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

11. The changes of board directors, Supervisors and Senior Management during the reporting period are set forth in the section on “Directors, Supervisors and Senior Management.

12. As reported in the Group’s interim report for the six months ended 30 June 2007, the State Administration of Taxation issued a tax circular “Enterprise Income Tax Issues relating to Nine Companies Listed Overseas” (Guoshuihan [2007] No. 664) (“**the Notice**”) in June 2007, stating that the Enterprise Income Tax (“**EIT**”) preferential policy has expired for the first batch of H-share companies. The Company is one of the nine listed companies mentioned above and has applied the preferential EIT rate of 15% till the year 2006. The Notice stated that the expired concessionary tax policy should be rectified immediately and the difference in EIT arising from the expired preferential rate and the applicable rate should be settled according to the provisions of “Law on the Administration of Tax Collection”.

    The Company communicated with the relevant tax authority to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. As a result, the charge for PRC income tax for the year is calculated at the rate of 33% on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. However, up until now the Company has not been requested to pay additional EIT in respect of any prior years. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

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

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

    Presently, the above projects are implemented on schedule.

14. In order to refine the core business and further strengthen competitiveness, the Company implemented the divestiture of part of the employees of the overhaul and maintenance centre, approved by the 18th meeting of the fifth term held on 26 July 2007. The Company has terminated the employment agreements of 1,089. According to relevant policy of the PRC, severance payments are to be made and the total amounts were Rmb89,239,000. The said payments will be accounted for in the income statement for 2007.

15. In order to refine the core business, during the year ended 31 December 2007, Yihua Kangqi disposed of its thirteen subsidiaries in order to streamline the Group's operational and organisational structure. Yihua Kangqi sold its entire equity interest in six of the subsidiaries to minority interests and liquidated its remaining seven subsidiaries. As at 31 December 2007, the disposal has been completed. A disposal income of Rmb2,771,000 has been recognised and is included in the income statement.

16. As approved in the 2006 AGM, KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors for 2007, and the Board was authorized to approve their remunerations.

    The amounts of remuneration paid to the domestic and international auditors for the two years ended 31 December 2007 are as follows:

	2007	2006
KPMG Huazhen Audit fee	**Rmb1,500,000 (of which Rmb1,328,125 has been paid)**	Rmb1,613,000 (paid)
KPMG Audit fee	**Rmb3,300,000 (of which Rmb2,921,875 has been paid)**	Rmb3,548,000 (paid)

Note: The fees include the business trip allowance.

    KPMG Huazhen and KPMG have provided audit services to the Company for 15 years.

17. According to "Protocol on the Accession of the PRC" and the related legal documents, the PRC government must reduce the import tariff rates on the polyester products and major polyester raw materials from 1 January 2008 in accordance with the progressive table below:

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

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

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

18. The Company and its shareholders who hold more than 5 per cent of the Company's shares did not have any undertaking, which required disclosures.

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

Report of the International Auditors

Independent auditors' report 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 consolidated financial statements of Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**") set out on pages 57 to 100, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirement of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

7 April 2008

Consolidated Income Statement

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)

	Note	2007 RMB'000	2006 RMB'000 (restated)
Turnover	5	**17,175,656**	17,307,636
Cost of sales		**(16,555,142)**	(16,755,008)
Gross profit		**620,514**	552,628
Other income		**19,189**	63,981
Selling expenses		**(193,918)**	(194,861)
Administrative expenses		**(295,838)**	(264,411)
Other expenses	6	**(40,386)**	(49,878)
Employee reduction expenses	7	**(101,719)**	(10,404)
Operating profit before net finance income		**7,842**	97,055
Financial income	8(a)	**36,340**	19,475
Financial expenses	8(a)	**(8,289)**	(13,858)
Net finance income	8(a)	**28,051**	5,617
Share of loss of jointly controlled entity	18	**(24,527)**	(38,339)
Profit before taxation	8	**11,366**	64,333
Income tax credit/(expense)	9(b)	**11,890**	(23,450)
Profit for the year	11	**23,256**	40,883
Attributable to:			
Equity shareholders of the Company	26	**22,312**	40,468
Minority interests		**944**	415
Profit for the year		**23,256**	40,883
Basic and diluted earnings per share (in RMB)	13	**0.006**	0.010

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007
(Prepared under International Financial Reporting Standards)

	Note	2007 RMB'000	2006 RMB'000 (restated)
Non-current assets			
Property, plant and equipment	14(a)	**4,953,561**	5,508,765
Construction in progress	15	**89,566**	114,037
Lease prepayments	16	**126,430**	116,647
Interest in jointly controlled entity	18	**156,184**	180,711
Deferred tax assets	9(c)	**137,932**	99,889
		5,463,673	6,020,049
Current assets			
Inventories	19	**1,257,187**	1,355,900
Trade and other receivables	20	**2,176,377**	1,619,009
Deposits with banks and other financial institutions	21	**575,000**	118,000
Cash and cash equivalents	22	**459,747**	933,153
		4,468,311	4,026,062
Current liabilities			
Trade and other payables	23	**1,764,126**	1,864,551
Income tax payable		**9**	8,356
		1,764,135	1,872,907
Net current assets		**2,704,176**	2,153,155
Total assets less current liabilities		**8,167,849**	8,173,204
Net assets		**8,167,849**	8,173,204
Equity			
Share capital	24	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	25	**1,279,928**	1,259,943
Retained profits	26	**369,088**	346,776
Total equity attributable to equity shareholders of the Company		**8,167,849**	8,125,552
Minority interests		**–**	47,652
Total equity		**8,167,849**	8,173,204

Approved and authorised for issue by the Board of Directors on 7 April 2008.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 100 form part of these financial statements.

Balance Sheet

As at 31 December 2007
(Prepared under International Financial Reporting Standards)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14(b)	**4,951,087**	5,491,628
Construction in progress	15	**89,566**	114,037
Lease prepayments	16	**126,430**	116,647
Interest in subsidiary	17	**60,456**	60,456
Interest in jointly controlled entity	18	**199,463**	241,836
Deferred tax assets	9(c)	**137,932**	99,889
		5,564,934	6,124,493
Current assets			
Inventories	19	**1,257,187**	1,321,150
Trade and other receivables	20	**2,147,547**	1,521,953
Deposits with banks and other financial institutions	21	**552,000**	70,000
Cash and cash equivalents	22	**394,953**	840,845
		4,351,687	3,753,948
Current liabilities			
Trade and other payables	23	**1,863,289**	1,855,330
		1,863,289	1,855,330
Net current assets		**2,488,398**	1,898,618
Total assets less current liabilities		**8,053,332**	8,023,111
Net assets		**8,053,332**	8,023,111
Equity			
Share capital	24	**4,000,000**	4,000,000
Share premium		**2,518,833**	2,518,833
Reserves	25	**1,279,928**	1,259,943
Retained profits	26	**254,571**	244,335
Total equity		**8,053,332**	8,023,111

Approved and authorised for issue by the Board of Directors on 7 April 2008.

Qian Heng-ge
Director

Xiao Wei-zhen
Director

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)

		Attributable to equity shareholders of the Company						
		Share capital	**Share premium**	**Reserves**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2006		4,000,000	2,518,833	1,246,672	306,308	8,071,813	52,104	8,123,917
Income recognised directly in equity – others		–	–	13,271	–	13,271	–	13,271
Profit for the year		–	–	–	40,468	40,468	415	40,883
Total recognised income for the year		–	–	13,271	40,468	53,739	415	54,154
Acquisitions of minority interests in subsidiaries		–	–	–	–	–	(2,604)	(2,604)
Dividends paid to minority shareholders		–	–	–	–	–	(2,263)	(2,263)
As at 31 December 2006		4,000,000	2,518,833	1,259,943	346,776	8,125,552	47,652	8,173,204
Income recognised directly in equity – adjustment of deferred tax on land use rights due to change in income tax rate	*9(a)*	–	–	19,985	–	19,985	–	19,985
Profit for the year		–	–	–	22,312	22,312	944	23,256
Total recognised income for the year		–	–	19,985	22,312	42,297	944	43,241
Dividends paid to minority shareholders		–	–	–	–	–	(239)	(239)
Disposal of subsidiaries	*17*	–	–	–	–	–	(48,357)	(48,357)
As at 31 December 2007		**4,000,000**	**2,518,833**	**1,279,928**	**369,088**	**8,167,849**	**–**	**8,167,849**

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)

	2007	2006
	RMB'000	*RMB'000*
		(restated)
Operating activities		
Profit before taxation	**11,366**	64,333
Adjustments for:		
Depreciation charge	**643,525**	659,851
Amortisation of lease prepayments	**3,009**	3,495
Interest income	**(33,152)**	(17,479)
Interest expense	**6,243**	11,864
Gain on disposal of available-for-sale equity securities	**–**	(19,500)
Share of loss of jointly controlled entity	**24,527**	38,339
Gain on disposal of investments	**–**	(655)
Gain on disposal of subsidiaries	**(2,771)**	–
Loss on acquisition of investments	**–**	3,196
Impairment losses of assets held for sale	**–**	13,863
Impairment losses of property, plant and equipment	**2,912**	–
Net loss on disposal of property, plant and equipment	**22,337**	19,396
Gain on disposal of lease prepayments	**(8,486)**	–
Operating profit before changes in working capital	**669,510**	776,703
Decrease/ (increase) in inventories	**56,390**	(142,770)
Increase in trade and other receivables	**(703,619)**	(399,353)
(Decrease)/increase in trade and other payables	**(69,872)**	583,193
Cash (used in)/generated from operations	**(47,591)**	817,773
Interest paid	**(6,243)**	(11,864)
Income tax paid	**(14,515)**	(14,577)
Net cash (used in)/generated from operating activities	**(68,349)**	791,332

The notes on pages 64 to 100 form part of these financial statements.

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)

	Note	2007 RMB'000	2006 RMB'000 (restated)
Investing activities			
Capital expenditure		**(102,732)**	(87,211)
Proceeds from disposal of subsidiaries	*(a)*	**96,952**	9,626
Proceeds from sale of available-for-sale equity securities		**–**	82,000
Proceeds from sale of investments		**–**	1,505
Proceeds from disposal of property, plant and equipment		**16,324**	20,898
Proceeds from disposal of lease prepayments		**8,486**	–
Interest received		**33,152**	17,479
Increase in deposits with banks and other financial institutions		**(457,000)**	(92,002)
Net cash used in investing activities		**(404,818)**	(47,705)
Financing activities			
Proceeds from bank loans		**329,000**	119,609
Repayment of bank loans		**(329,000)**	(294,700)
Dividends paid to minority shareholders		**(239)**	(2,263)
Net cash used in financing activities		**(239)**	(177,354)
Net (decrease)/increase in cash and cash equivalents		**(473,406)**	566,273
Cash and cash equivalents at 1 January		**933,153**	366,880
Cash and cash equivalents at 31 December	*22*	**459,747**	933,153

The notes on pages 64 to 100 form part of these financial statements.

Notes to the Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Prepared under International Financial Reporting Standards)

(a) Proceeds from disposal of subsidiaries:

	2007	2006
	RMB'000	*RMB'000*
Cash consideration	**146,812**	23,050
Cash held by subsidiaries disposed of	**(49,860)**	(13,424)
Proceeds from disposal of subsidiaries	**96,952**	9,626

The notes on pages 64 to 100 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 and its subsidiary (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 Standards for Business Enterprises (2006) ("**ASBE (2006)**"). Significant differences between the financial statements prepared in accordance with IFRSs and ASBE (2006) are summarised in the supplementary information to the financial statements in the 2007 annual report.

The IASB has issued certain new and revised IFRSs and IASs ("**new IFRSs**") that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiary, and the Group's interest in jointly controlled entity.

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.

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 31.

2. SIGNIFICANT ACCOUNTING POLICIES

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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 within 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).

(ii) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and one or more of the other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see accounting policy v). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year.

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

(ii) Jointly controlled entities (Continued)

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (see accounting policy s), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see accounting policy v).

(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.

Exchange gain and loss on foreign currency translation, except for the exchange gain and loss directly relating to the construction of property, plant and equipment (see accounting policy j), are dealt with in the income statement.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and time deposits with banks and other financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of 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 allowance for impairment of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation (see note 14(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 items of property, plant and equipment 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.

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 disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions and contingent liabilities

Provisions are recognised for other 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

Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(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.

(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 is recognised as it accrues using the effective interest method.

(o) Net finance income

Net finance income comprise interest expense on borrowings, interest expense on discounting bills, interest income from 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 27.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets

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

Investments in equity securities (other than investments in subsidiaries and jointly controlled entity: see accounting policy c) and other current receivables that are stated at cost or amortised 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities 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 equity securities are not reversed.

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments; and

– investments in subsidiary and jointly controlled entity (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)) (see accounting policy v).

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and 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).

– Recognition of impairment losses

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. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

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

Current tax is the expected tax payable 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 assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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.

(y) Segment reporting

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

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.

3. CHANGES IN ACCOUNTING POLICIES

(a) Change in basis of consolidation

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

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

	The Group, as previously reported	**Effect of accounting for interest in jointly controlled entity under equity method**	**The Group, as restated**
	RMB'000	*RMB'000*	*RMB'000*
Consolidated income statement items for the year 2006:			
Turnover	17,027,846	279,790	17,307,636
Gross profit	549,425	3,203	552,628
Operating profit before net finance income	61,610	35,445	97,055
Share of loss of jointly controlled entity	–	(38,339)	(38,339)
Profit before taxation	64,333	–	64,333
Profit for the year	40,883	–	40,883
Profit attributable to equity shareholders of the Company	40,468	–	40,468
Consolidated balance sheet items as at 31 December 2006:			
Non-current assets	6,090,850	(70,801)	6,020,049
Interest in jointly controlled entity	–	180,711	180,711
Current assets	4,064,589	(38,527)	4,026,062
Current liabilities	1,982,235	(109,328)	1,872,907
Net current assets	2,082,354	70,801	2,153,155
Net assets	8,173,204	–	8,173,204
Total equity attributable to equity shareholders of the Company	8,125,552	–	8,125,552
Total equity	8,173,204	–	8,173,204

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(b) Initial application of new IFRSs:

The IASB has issued a number of new and revised IFRSs and Interpretations that are effective for accounting periods beginning on or after 1 January 2007.

The accounting policies of the Group and the Company after the adoption of these new IFRSs have been summarised in note 2. As a result of the adoption of IFRS 7, *Financial instruments: Disclosures* and the amendment to IAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 30.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 24.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 32).

4. 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.

5. 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.

6. OTHER EXPENSES

	2007	2006
	RMB'000	*RMB'000*
Net loss on disposal of property, plant and equipment	**22,337**	19,396
Impairment losses of property, plant and equipment	**2,912**	–
Impairment losses of assets held for sale	**–**	13,863
Others	**15,137**	16,619
Other expenses	**40,386**	49,878

7. EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2007, the Group recognised employee reduction expenses of RMB101,719,000 (2006: RMB10,404,000) in respect of the reduction of 1,351 (2006: 170) employees, including lump sum severance payments of RMB89,239,000 made to 1,089 employees of the repairs and maintenance department in May 2007.

8. PROFIT BEFORE TAXATION

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

(a) Net finance income:

	2007 RMB'000	2006 RMB'000
Interest income	**(33,152)**	(17,479)
Net foreign exchange gain	**(3,188)**	(1,996)
Financial income	**(36,340)**	(19,475)
Interest on borrowings	**624**	6,441
Interest on discounting bills	**5,619**	5,423
Interest expense	**6,243**	11,864
Others	**2,046**	1,994
Financial expenses	**8,289**	13,858
Net finance income	**(28,051)**	(5,617)

(b) Other items:

	2007 RMB'000	2006 RMB'000
Cost of inventories #	**16,555,142**	16,755,008
Staff costs:		
– wages and salaries, welfare and other costs	**357,397**	493,381
– contributions to defined contribution schemes	**65,250**	87,150
Total staff costs #	**422,647**	580,531
Depreciation #	**643,525**	659,851
Repairs and maintenance expenses #	**279,587**	201,837
Research and development expenses	**28,611**	29,352
Auditors' remuneration – audit services	**4,800**	5,161
Impairment losses of trade and other receivables	**10,146**	2,954
Gain on disposal of lease prepayments	**(8,486)**	–
Amortisation of lease prepayments	**3,009**	3,495
Gain on disposal of subsidiaries	**(2,771)**	–
Gain on disposal of investments	**–**	(655)
Gain on disposal of available-for-sale equity securities	**–**	(19,500)

Cost of inventories includes RMB1,175,896,000 (2006: RMB1,213,448,000) relating to staff costs, depreciation and repairs and maintenance expenses which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

9. INCOME TAX

(a) The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in enterprise income tax ("**EIT**") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. As a result, the charge for PRC income tax for the year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations.

Up until now the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

The enterprise income tax rates applicable to the Company's principal subsidiaries in the PRC are 33% (2006: 15% to 33%). The Group did not carry on business overseas and therefore does not incur overseas income taxes.

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

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled. As a result, RMB40,659,000 and RMB19,985,000 have been adjusted in the income statement and equity respectively due to the change in tax rate on deferred tax.

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

	2007	2006
	RMB'000	*RMB'000*
Current tax		
– Provision for the year	**3,231**	10,970
– Under-provision in respect of prior years	**2,937**	2,178
	6,168	13,148
(Origination)/reversal of deferred tax assets *(note (c))*	**(18,058)**	10,302
	(11,890)	23,450

9. INCOME TAX

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

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

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**11,366**	64,333
Expected income tax using the Company's tax rate of 33% (2006: 15%)	**3,751**	9,650
Differential tax rate of subsidiaries	**–**	5,805
Tax effect of unused tax losses not recognised	**–**	4,054
Under-provision of income tax in prior years	**2,937**	2,178
Tax effect of non-deductible expenses	**17,674**	5,751
Tax effect of deductible expenses not recorded in profit or loss	**(7,432)**	(3,988)
Write-off of deferred tax assets in respect of prior year	**11,839**	–
Effect of change in tax rate on deferred tax	**(40,659)**	–
Actual income tax	**(11,890)**	23,450

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

	The Group and the Company					
	Balance at 1 January 2006	**Recognised in income statement**	**Balance at 31 December 2006**	**Recognised in income statement**	**Recognised in reserves**	**Balance at 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (note 25)	***RMB'000***
Current						
Provisions, primarily for receivables and inventories	10,054	(334)	9,720	(5,738)	–	**3,982**
Non-current						
Land use rights	29,964	(792)	29,172	(2,214)	19,985	**46,943**
Property, plant and equipment	5,638	2,190	7,828	4,583	–	**12,411**
Tax losses	64,535	(11,366)	53,169	21,427	–	**74,596**
	110,191	(10,302)	99,889	18,058	19,985	**137,932**

The Group assessed the future taxable profits that would allow the deferred tax assets to be recovered. Based on the assessment, the Group wrote off the deferred tax assets arising from tax losses in prior years amounting to RMB11,839,000.

The Group has not recognised deferred tax assets in respect of cumulative unutilised tax losses amounting to RMB138,301,000 (2006: RMB102,425,000). Except for this, there is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Fees		Basic salaries, allowance and bonus		Retirement scheme contributions		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Directors:								
Qian Heng-ge	**–**	–	**238**	238	**11**	11	**249**	249
Xu Zheng-ning	**–**	–	**–**	238	**–**	11	**–**	249
Sun Zhi-hong	**–**	–	**238**	238	**11**	11	**249**	249
Xiao Wei-zhen	**–**	–	**238**	238	**11**	11	**249**	249
Long Xing-ping	**–**	–	**199**	199	**11**	11	**210**	210
Zhang Hong	**–**	–	**199**	199	**11**	11	**210**	210
Shen Xi-jun	**–**	–	**199**	199	**11**	11	**210**	210
Li Zhen-feng	**–**	–	**–**	199	**–**	11	**–**	210
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:								
Cao Yong	**–**	–	**199**	199	**11**	11	**210**	210
Zhou Wen-fei	**–**	–	**–**	199	**–**	11	**–**	210
Tao Chun-sheng	**–**	–	**127**	127	**11**	11	**138**	138
Chen Jian	**–**	–	**199**	199	**11**	11	**210**	210
Shi Gang	**30**	30	**–**	–	**–**	–	**30**	30
Wang Bing	**30**	30	**–**	–	**–**	–	**30**	30
Senior management:								
Zhang Zhong-an	**–**	–	**199**	199	**11**	11	**210**	210
Li Jian-xin	**–**	–	**199**	–	**11**	–	**210**	–
Li Jian-ping	**–**	–	**199**	17	**11**	1	**210**	18
Wu Chao-yang	**–**	–	**130**	130	**11**	11	**141**	141
	220	220	**2,563**	2,818	**143**	155	**2,926**	3,193

For the years ended 31 December 2007 and 2006, 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 2007 and 2006 were all executive directors whose total emoluments have been shown above.

11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB10,236,000 (2006: RMB62,877,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

No final dividend was proposed after the balance sheet date in respect of the years ended 31 December 2007 and 2006.

13. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB22,312,000 (2006: RMB40,468,000) and the weighted average number of ordinary shares of 4,000,000,000 (2006: 4,000,000,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2007 and 2006.

14. 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 2006	1,779,879	10,458,520	510,749	12,749,148
Additions	–	3,398	10,009	13,407
Transfer from construction in progress *(note 15)*	8,794	131,563	30,146	170,503
Disposals	(21,576)	(63,721)	(74,106)	(159,403)
Reclassifications	190,557	(503,052)	312,495	–
At 31 December 2006	1,957,654	10,026,708	789,293	12,773,655
Representing:				
Cost	45,983	243,218	55,391	344,592
Valuation – 2004	1,911,671	9,783,490	733,902	12,429,063
	1,957,654	10,026,708	789,293	12,773,655
At 1 January 2007	1,957,654	10,026,708	789,293	12,773,655
Additions	3,748	511	1,054	5,313
Transfer from construction in progress *(note 15)*	8,761	108,233	18,045	135,039
Disposals	(19,018)	(144,820)	(60,367)	(224,205)
At 31 December 2007	**1,951,145**	**9,990,632**	**748,025**	**12,689,802**

14. 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	58,492	351,962	73,928	484,382
Valuation – 2004	1,892,653	9,638,670	674,097	12,205,420
	1,951,145	9,990,632	748,025	12,689,802
Accumulated depreciation and impairment losses:				
At 1 January 2006	669,274	5,560,593	492,118	6,721,985
Depreciation charge for the year	81,515	515,615	62,721	659,851
Written back on disposal	(6,656)	(53,032)	(57,258)	(116,946)
Reclassifications	16,980	(80,013)	63,033	–
At 31 December 2006	761,113	5,943,163	560,614	7,264,890
At 1 January 2007	761,113	5,943,163	560,614	7,264,890
Depreciation charge for the year	69,787	528,193	45,545	643,525
Impairment loss *(note 6)*	1,140	1,714	58	2,912
Written back on disposal	(6,056)	(115,698)	(53,332)	(175,086)
At 31 December 2007	**825,984**	**6,357,372**	**552,885**	**7,736,241**
Net book value:				
At 31 December 2006	1,196,541	4,083,545	228,679	5,508,765
At 31 December 2007	**1,125,161**	**3,633,260**	**195,140**	**4,953,561**

14. 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 2006	1,744,909	10,442,758	492,142	12,679,809
Additions	–	–	9,796	9,796
Transfer from construction in progress *(note 15)*	8,794	131,563	30,146	170,503
Disposals	(5,031)	(46,335)	(65,627)	(116,993)
Reclassifications	190,557	(503,052)	312,495	–
At 31 December 2006	1,939,229	10,024,934	778,952	12,743,115
Representing:				
Cost	45,983	243,218	55,178	344,379
Valuation – 2004	1,893,246	9,781,716	723,774	12,398,736
	1,939,229	10,024,934	778,952	12,743,115
At 1 January 2007	1,939,229	10,024,934	778,952	12,743,115
Additions	3,748	511	1,054	5,313
Transfer from construction in progress *(note 15)*	8,761	108,039	17,696	134,496
Disposals	(4,924)	(143,124)	(49,677)	(197,725)
At 31 December 2007	**1,946,814**	**9,990,360**	**748,025**	**12,685,199**
Representing:				
Cost	58,492	351,768	73,928	484,188
Valuation – 2004	1,888,322	9,638,592	674,097	12,201,011
	1,946,814	9,990,360	748,025	12,685,199

14. 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 2006	660,169	5,542,230	484,809	6,687,208
Depreciation charge for the year	80,945	514,950	61,932	657,827
Written back on disposal	(1,472)	(35,347)	(56,729)	(93,548)
Reclassifications	16,980	(80,013)	63,033	–
At 31 December 2006	756,622	5,941,820	553,045	7,251,487
At 1 January 2007	756,622	5,941,820	553,045	7,251,487
Depreciation charge for the year	69,442	528,063	45,180	642,685
Impairment loss	247	1,714	58	2,019
Written back on disposal	(2,356)	(114,325)	(45,398)	(162,079)
At 31 December 2007	**823,955**	**6,357,272**	**552,885**	**7,734,112**
Net book value:				
At 31 December 2006	1,182,607	4,083,114	225,907	5,491,628
At 31 December 2007	**1,122,859**	**3,633,088**	**195,140**	**4,951,087**

(c) The Company was established in the PRC on 31 December 1993 as a joint stock limited company as part of the restructuring of Sinopec Asset and Management Corporation Yizheng Branch (formerly as "Yihua Group Corporation") ("**Yihua**"). On the same date, the principal business 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 2007.

(d) All of the Group's buildings are located in the PRC.

15. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balance at 1 January	**114,037**	275,871	**114,037**	275,871
Additions	**116,652**	8,669	**116,109**	8,669
Transfer to property, plant and equipment *(note 14)*	**(135,039)**	(170,503)	**(134,496)**	(170,503)
Disposals	**(6,084)**	–	**(6,084)**	–
Balance at 31 December	**89,566**	114,037	**89,566**	114,037

16. LEASE PREPAYMENTS

	The Group and the Company Land use rights	
	2007	2006
	RMB'000	*RMB'000*
Cost:		
At 1 January	**131,398**	131,398
Additions	**12,792**	–
At 31 December	**144,190**	131,398
Accumulated amortisation:		
At 1 January	**(14,751)**	(11,256)
Charge for the year	**(3,009)**	(3,495)
At 31 December	**(17,760)**	(14,751)
Net book value		
At 31 December	**126,430**	116,647

The amortisation charge for the year is included in "Administrative expenses" in the consolidated income statement.

All the land is located in the PRC. Land use rights were granted in 1995, 2001 and 2007 for a period of 50 years, 44 years and 50 years respectively from the respective dates of grant.

17. INTEREST IN SUBSIDIARY

	The Company	
	2007	2006
	RMB'000	*RMB'000*
Unlisted shares, at cost	**60,456**	60,456

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

Name of company	**Place of incorporation and operation**	**Registered capital** *(in thousand)*	**Percentage of equity held by the Company**	**Type of legal entity**	**Principal activity**
Yihua Kangqi Chemical Fibre Company Limited ("**Yihua Kangqi**")	PRC	RMB60,000	100%	Limited company	Investment holding and trading of polyester chips and polyester fibre

During the year ended 31 December 2007, Yihua Kangqi disposed of its thirteen subsidiaries in order to streamline the Group's operational and organisational structure. Six of these subsidiaries' equity interests were sold to their minority shareholders and the other seven subsidiaries were liquidated. As of 31 December 2007, all the disposals were completed. Gain on disposal of RMB2,771,000 has been recognised and is included in "Other income" of the consolidated income statement.

The assets, liabilities and minority interest disposed of were stated at the lower of their carrying amounts and their fair values less costs to sell as follows:

	RMB'000
Cash and cash equivalents	49,860
Assets other than cash and cash equivalents	199,032
Liabilities	(56,494)
Minority interests	(48,357)
Net assets	144,041
Satisfied by:	
Cash consideration	146,812
Gain on disposal of subsidiaries	(2,771)

18. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted shares, at cost	**–**	–	**241,836**	241,836
Share of net assets	**156,184**	180,711	**–**	–
Less: Impairment loss	**–**	–	**(42,373)**	–
	156,184	180,711	**199,463**	241,836

The Company assessed the present value of estimated future cash flows generated by the jointly controlled entity. Based on the assessment, the carrying amount of the Company's interest in the jointly controlled entity was written down by RMB42,373,000.

(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$60,000	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 service

18. INTEREST IN JOINTLY CONTROLLED ENTITY (Continued)

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

	2007 RMB'000	2006 RMB'000
Non-current assets	**238,653**	251,512
Current assets	**71,855**	44,669
Current liabilities	**(154,324)**	(115,470)
Net assets	**156,184**	180,711
Income	**529,945**	493,602
Expenses	**(554,472)**	(531,941)
Loss for the year	**(24,527)**	(38,339)

19. INVENTORIES

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials	**516,955**	526,595	**516,955**	526,595
Work in progress	**138,956**	97,650	**138,956**	97,650
Finished goods	**319,046**	271,228	**319,046**	236,478
Goods in transit	**163,307**	326,972	**163,307**	326,972
	1,138,264	1,222,445	**1,138,264**	1,187,695
Spare parts and consumables	**118,923**	133,455	**118,923**	133,455
	1,257,187	1,355,900	**1,257,187**	1,321,150
Inventories stated at net realisable value	**118,923**	649,050	**118,923**	649,050

(b) The analysis of the amount of inventories recognised as an expense is as follows:

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB16,555,142,000 for the year ended 31 December 2007 (2006: RMB16,755,008,000), including a write-down of inventories amounting to RMB nil (2006: RMB1,799,000).

20. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**196,038**	301,152	**195,250**	274,624
Bills receivable	**1,583,804**	979,417	**1,555,479**	904,599
Amounts due from parent company and fellow subsidiaries – trade	**73,255**	86,103	**73,255**	81,754
Amounts due from jointly controlled entity – trade	**30,561**	3,379	**30,561**	333
	1,883,658	1,370,051	**1,854,545**	1,261,310
Less: Allowance for doubtful debts	**(1,258)**	(21,756)	**(470)**	(489)
	1,882,400	1,348,295	**1,854,075**	1,260,821
Amounts due from parent company and fellow subsidiaries – non-trade	**273**	451	**273**	451
Amounts due from jointly controlled entity – non-trade	**480**	2,929	**480**	2,929
Amounts due from subsidiary – non-trade	**–**	–	**–**	48,602
Other receivables, deposits and prepayments	**300,477**	288,555	**299,972**	278,973
	301,230	291,935	**300,725**	330,955
Less: Allowance for doubtful debts	**(7,253)**	(21,221)	**(7,253)**	(69,823)
	293,977	270,714	**293,472**	261,132
	2,176,377	1,619,009	**2,147,547**	1,521,953

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

(a) Ageing analysis

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current	**1,880,420**	1,337,974	**1,852,095**	1,251,770
Less than 12 months past due	**1,980**	10,321	**1,980**	9,051
	1,882,400	1,348,295	**1,854,075**	1,260,821

Trade receivables, amounts due from the parent company and fellow subsidiaries – trade and amounts due from the jointly controlled entity – trade are due within 2 months to 12 months from the date of billing. Bills receivable are due within 6 months from the date of billing.

20. TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(s)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**42,977**	51,067	**70,312**	70,905
Impairment losses recognised	**10,146**	2,954	**10,317**	1,652
Uncollectible amounts written off	**(44,612)**	(11,044)	**(72,906)**	(2,245)
At 31 December	**8,511**	42,977	**7,723**	70,312

At 31 December 2007, the Group's and the Company's trade and other receivables of RMB8,511,000 and RMB7,723,000 were individually determined to be impaired.

At 31 December 2006, the Group's and the Company's trade and other receivables of RMB42,977,000 and RMB70,312,000 were individually determined to be impaired.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade receivables, bills receivable, amounts due from the parent company and fellow subsidiaries – trade and amounts due from the jointly controlled entity – trade that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**1,880,420**	1,337,974	**1,852,095**	1,251,770
Less than 12 months past due	**1,980**	10,321	**1,980**	9,051
	1,882,400	1,348,295	**1,854,075**	1,260,821

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Balances with banks and other financial institutions, which are related parties				
– Sinopec Finance Company Limited ("**Sinopec Finance**")	**50,328**	48,017	**50,328**	48,017
– China CITIC Bank	**56,135**	7,775	**38,854**	7,767
– Stated-controlled banks in the PRC (excluding China CITIC Bank)	**928,278**	995,336	**857,765**	855,045
	1,034,741	1,051,128	**946,947**	910,829
Less: Balances with banks and other financial institutions with an initial term of less than three months *(note 22)*	**(459,741)**	(933,128)	**(394,947)**	(840,829)
	575,000	118,000	**552,000**	70,000

Maturity analysis of deposits with banks and other financial institutions is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within three months	**315,000**	70,000	**302,000**	70,000
Due after three months but within six months	**10,000**	32,000	**–**	–
Due after six months but within one year	**250,000**	16,000	**250,000**	–
	575,000	118,000	**552,000**	70,000

The above deposits with banks and other financial institutions are with an initial term of more than three months and bear fixed interest rates ranging from 3.33% to 3.87% per annum (2006: 2.25% to 2.52% per annum).

22. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**6**	25	**6**	16
Balances with banks and other financial institutions with an initial term of less than three months *(note 21)*	**459,741**	933,128	**394,947**	840,829
Cash and cash equivalents in the consolidated cash flow statement	**459,747**	933,153	**394,953**	840,845

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade payables	**1,255,775**	1,374,545	**1,255,727**	1,314,544
Amounts due to parent company and fellow subsidiaries – trade	**133,478**	83,851	**133,478**	83,851
Amounts due to jointly controlled entity – trade	**11,067**	6,307	**11,067**	6,307
Amounts due to subsidiaries – trade	**–**	–	**–**	71,312
	1,400,320	1,464,703	**1,400,272**	1,476,014
Amounts due to parent company and fellow subsidiaries – non-trade	**4,908**	6,657	**4,908**	6,657
Amounts due to subsidiary – non-trade	**–**	–	**100,360**	–
Other payables and accrued expenses	**358,898**	393,191	**357,749**	372,659
	1,764,126	1,864,551	**1,863,289**	1,855,330

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due within 1 month or on demand	**1,387,693**	1,454,005	**1,387,645**	1,465,316
Due after 1 month but within 12 months	**12,627**	10,698	**12,627**	10,698
	1,400,320	1,464,703	**1,400,272**	1,476,014

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

24. SHARE CAPITAL

	The Group and the Company	
	2007	2006
	RMB'000	*RMB'000*
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of RMB1 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of RMB1 each	**200,000**	200,000
1,400,000,000 "H" shares of RMB1 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.

Capital management

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends payable to shareholders, issue new shares, adjust the capital expenditure plan or sell assets to reduce liabilities. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans by the total of equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered reasonable by management. As at 31 December 2007, the debt-to-equity ratio and the liability-to-asset ratio of the Group were nil (2006: nil) and 17.7% (2006: 18.6%) respectively.

The schedule of the capital commitments is disclosed in note 29.

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

25. RESERVES

	The Group and the Company					
	Capital reserve RMB'000	Excess over share capital RMB'000 (note (a))	Statutory surplus reserve RMB'000 (note (b), (d))	Statutory public welfare fund RMB'000 (note (c), (d))	Discretionary surplus reserve RMB'000 (note (e))	Total RMB'000
At 1 January 2006	15,068	(224,400)	513,046	348,411	594,547	1,246,672
Others	13,271	–	348,411	(348,411)	–	13,271
At 31 December 2006	28,339	(224,400)	861,457	–	594,547	1,259,943
Adjustment of deferred tax on land use rights due to change in income tax rate *(note 9(c))*	–	19,985	–	–	–	19,985
At 31 December 2007	**28,339**	**(204,415)**	**861,457**	**–**	**594,547**	**1,279,928**

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 is 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.

(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 (2006: RMB nil) to the statutory public welfare fund.

(d) According to the Company Law of the PRC which was revised on 27 October 2005, the Company and its subsidiaries are no longer required to make profit appropriations to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No.67" issued by the Ministry of Finance on 15 March 2006, the balance of this fund as at 1 January 2006 was transferred to the statutory surplus reserve.

(e) 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 its subsidiary has proposed to transfer any of its profit after taxation to discretionary surplus reserve in respect of the financial year 2007 (2006: RMB nil).

26. RETAINED PROFITS

	The Group	The Company
	RMB'000	*RMB'000*
At 1 January 2006	306,308	181,458
Profit attributable to equity shareholders	40,468	62,877
At 31 December 2006	346,776	244,335
Profit attributable to equity shareholders	22,312	10,236
At 31 December 2007	**369,088**	**254,571**

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 ASBE (2006) and the amount determined in accordance with IFRSs. As at 31 December 2007, the amount of accumulated losses, which was the amount determined in accordance with the ASBE (2006), was RMB412,287,000 (2006: RMB430,912,000). No dividend (2006: RMB nil) in respect of the financial year 2007 was proposed after the balance sheet date.

27. RETIREMENT BENEFITS

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

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

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2007 was 9% (2006: 9%).

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

28. 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**"), China Petroleum & Chemical Corporation, Zhenhai Branch ("**Zhenhai**"), Sinopec Finance, China CITIC Bank, Sinopec International Company Limited, Sinopec Chemicals Sales Branch 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.

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

	2007	2006
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchases of raw materials	**8,970,018**	8,431,148
Including: Yangzi	**3,829,354**	4,608,171
Zhenhai	**3,825,511**	3,005,402
Service charges for the purchase of raw materials	**25,225**	23,971
Yihua and its subsidiaries		
Sales	**243,571**	260,491
Miscellaneous service fee charges (see note below)	**12,050**	11,654
Acquisition of lease prepayments	**12,792**	–
Loss on acquisition of investment in Yihua Kangqi	**–**	3,196

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

	2007	2006
	RMB'000	*RMB'000*
Sinopec Finance		
Interest income	**16,059**	872
CPC and its subsidiaries (excluding Yihua and its subsidiaries, Sinopec Corp and its subsidiaries and Sinopec Finance)		
Insurance premium	**17,716**	18,765
Gain on disposal of available-for-sale equity securities	**–**	19,500

28. RELATED PARTY TRANSACTIONS (Continued)

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

	2007 RMB'000	2006 RMB'000
China CITIC Bank		
Interest income	**1,330**	1,384
Interest expense	**301**	433
Bills custody fee	**150**	123
Yihua Unifi		
Sales of finished goods	**923,147**	828,356
Purchases of finished goods	**–**	202,558

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

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

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

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

– depositing money;

– discounting bills; and

– borrowing loans.

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

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

	2007 RMB'000	2006 RMB'000
Interest income	**29,499**	15,223
Interest expense	**5,942**	11,431

28. RELATED PARTY TRANSACTIONS (Continued)

(c) Key management personnel compensation

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

	2007	2006
	RMB'000	*RMB'000*
Short-term employee benefits	**2,783**	3,038
Retirement scheme contributions	**143**	155

(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 27.

29. 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 2007 not provided for in the financial statements as follows:

	The Group and the Company	
	2007	2006
	RMB'000	*RMB'000*
Authorised but not contracted for	**3,743,753**	81,590

30. FINANCIAL INSTRUMENTS

(a) Overview

Financial assets of the Group include cash and cash equivalents, deposits with banks and other financial institutions and trade and other receivables. Financial liabilities of the Group include trade and other payables. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2007 and 2006.

The Group has exposure to the following risks from its use of financial instruments:

– credit risk;

– liquidity risk; and

– market risk

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

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

30. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of cash and cash equivalents, deposits with banks and other financial institutions and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade and other receivables relate to sales of chemical fibre products to related parties and third parties operating in the consumer products industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade debtors. The Group maintains an impairment loss for doubtful debts and actual losses have been within management's expectations.

At 31 December 2007, the Group had a certain concentration of credit risk, as 50.6% (2006: 44.5%) of the total trade receivables was due from the Group's five largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

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

(c) Liquidity risk

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

The maturity analysis of trade and other payables is disclosed in note 23. Trade and other payables are normally expected to be settled within one year after receipt of goods or services.

(d) Interest rate risk

Except for deposits with banks and other financial institutions with a fixed interest rate (note 21), the Group has no other significant interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate a significant impact on interest-bearing assets because the interest rates of deposits with banks and other financial institutions are not expected to change significantly.

The maturity analysis of deposits with banks and other financial institutions is disclosed in note 21.

(e) Currency risk

The revenue-generating operations and financing of the Group are mainly transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China ("**PBOC**"). However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

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

30. FINANCIAL INSTRUMENTS (Continued)

(e) Currency risk (Continued)

The Group has no hedging policy on foreign currency balances, but principally reduces the currency risk by monitoring the level of foreign currency assets and liabilities.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk relating principally to its trade and other receivables, cash and cash equivalents and trade and other payables denominated in foreign currencies, mainly United States Dollars ("**US $**") and Hong Kong Dollars ("**HK $**"):

	The Group and the Company			
	2007		2006	
	US$'000	***HK$'000***	*US$'000*	*HK$'000*
Trade receivables	**22,467**	**–**	30,381	–
Cash and cash equivalents	**290**	**6**	1,086	631
Trade payables	**(139,547)**	**–**	(87,287)	–
	(116,790)	**6**	(55,820)	631

A five percent strengthening of Renminbi against the following currencies at the balance sheet date would have increased profit for the year and retained profits of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group had significant exposure as stated in the preceding paragraph, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	2007	2006
	RMB'000	*RMB'000*
US$	**42,655**	21,794
HK$	**–**	32

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

Other than the amounts as disclosed above, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of the Group.

(f) Fair value

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

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

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.

31. 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.

Allowance for diminution in value of inventories

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

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2007 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
IFRS 8, Operating segments	1 January 2009
Revised IAS 23, Borrowing costs	1 January 2009
Revised IAS 1, Presentation of financial statements	1 January 2009
IFRIC 11, IFRS 2 – Group and treasury share transactions	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRS 8, IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 are not applicable to any of the Group's operations and that the adoption of the remainder of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

33. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2007, the directors consider the immediate parent and the ultimate controlling party of the Group to be Sinopec Corp and CPC respectively, which are established in the PRC. The immediate parent produces financial statements available for public use.

34. COMPARATIVE FIGURES

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

Report of the PRC Auditors

KPMG Huazhen

All Shareholders of Sinopec Yizheng Chemical Fibre Company Limited ("the Company"):

We have audited the accompanying financial statements of the Company set out on pages 102 to 168, which comprise the consolidated balance sheet and balance sheet as at 31 December 2007, the consolidated income statement and income statement, the consolidated statement of changes in equity and statement of changes in equity, the consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the consolidated financial position and financial position of the Company as at 31 December 2007, and the consolidated results of operations and results of operations and the consolidated cash flows and cash flows of the Company for the year then ended.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

Hu Qiong

Beijing, the People's Republic of China

Yu Xiaojun

7 April 2008

Consolidated Balance Sheet

As at 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Assets			
Current assets			
Cash at bank and on hand	7	**1,034,747**	1,051,153
Bills receivable	8	**1,612,417**	979,417
Accounts receivable	9	**199,910**	301,849
Prepayments	10	**72,674**	67,243
Other receivables	11	**91,325**	81,955
Inventories	12	**1,257,187**	1,355,900
Total current assets		**4,268,260**	3,837,517
Non-current assets			
Long-term equity investments	13	**156,184**	180,711
Fixed assets	14	**4,831,660**	5,361,789
Construction in progress	15	**89,566**	114,037
Intangible assets	16	**436,102**	458,103
Deferred tax assets	17	**95,449**	73,646
Total non-current assets		**5,608,961**	6,188,286
Total assets		**9,877,221**	10,025,803

The notes on pages 114 to 168 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	*19*	**1,279,510**	1,141,420
Advances from customers	*19*	**109,743**	316,976
Employee benefits payable	*20*	**136,101**	222,315
Taxes payable	*5(3)*	**(187,840)**	(159,543)
Other payables	*19*	**226,570**	163,194
Total current liabilities		**1,564,084**	1,684,362
Non-current liabilities			
Deferred tax liabilities	*17*	**4,460**	2,929
Total non-current liabilities		**4,460**	2,929
Total liabilities		**1,568,544**	1,687,291
Shareholders' equity			
Share capital	*21*	**4,000,000**	4,000,000
Capital reserve	*22*	**3,107,164**	3,107,164
Surplus reserve	*23*	**1,456,004**	1,456,004
Accumulated losses		**(254,491)**	(272,308)
Total equity attributable to equity shareholders of the Company		**8,308,677**	8,290,860
Minority interests		**–**	47,652
Total equity		**8,308,677**	8,338,512
Total liabilities and shareholders' equity		**9,877,221**	10,025,803

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Balance Sheet

As at 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Assets			
Current assets			
Cash at bank and on hand	7	**946,953**	910,845
Bills receivable	8	**1,584,092**	904,599
Accounts receivable	9	**199,910**	296,588
Prepayments	10	**72,674**	62,233
Other receivables	11	**90,835**	69,988
Inventories	12	**1,257,187**	1,321,150
Total current assets		**4,151,651**	3,565,403
Non-current assets			
Long-term equity investments	13	**216,640**	246,129
Fixed assets	14	**4,829,186**	5,344,652
Construction in progress	15	**89,566**	114,037
Intangible assets	16	**436,102**	458,103
Deferred tax assets	17	**95,449**	73,646
Total non-current assets		**5,666,943**	6,236,567
Total assets		**9,818,594**	9,801,970

The notes on pages 114 to 168 form part of these financial statements.

Balance Sheet

As at 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	*19*	**1,279,510**	1,141,057
Advances from customers	*19*	**109,695**	328,650
Employee benefits payable	*20*	**136,101**	206,969
Taxes payable	*5(3)*	**(187,849)**	(172,659)
Other payables	*19*	**325,796**	162,768
Total current liabilities		**1,663,253**	1,666,785
Non-current liabilities			
Deferred tax liabilities	*17*	**4,460**	2,929
Total non-current liabilities		**4,460**	2,929
Total liabilities		**1,667,713**	1,669,714
Shareholders' equity			
Share capital	*21*	**4,000,000**	4,000,000
Capital reserve	*22*	**3,107,164**	3,107,164
Surplus reserve	*23*	**1,456,004**	1,456,004
Accumulated losses		**(412,287)**	(430,912)
Total equity		**8,150,881**	8,132,256
Total liabilities and shareholders' equity		**9,818,594**	9,801,970

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Operating income	*24*	**17,175,656**	17,307,636
Less: Operating costs	*25*	**16,275,270**	16,579,178
Business taxes and surcharges	*26*	**44,141**	31,170
Selling and distribution expenses		**198,558**	194,881
General and administrative expenses		**632,856**	431,925
Net financial income	*27*	**(28,051)**	(5,617)
Impairment loss	*28*	**3,935**	4,753
Add: Investment loss	*29*	**(21,756)**	(23,300)
(Including: Loss from investment in jointly controlled entity)		**(24,527)**	(38,339)
Operating profit		**27,191**	48,046
Add: Non-operating income	*30*	**20,371**	53,093
Less: Non-operating expenses	*31*	**42,905**	42,086
(Including: Loss from disposal of non-current assets)		**27,768**	25,467
Profit before income tax		**4,657**	59,053
Less: Income tax expenses	*32*	**(14,104)**	22,658
Net profit for the year		**18,761**	36,395
Attributable to:			
Equity shareholders of the Company		**17,817**	35,980
Minority shareholders		**944**	415
Earnings per share			
Basic and diluted earnings per share (in RMB)	*41(1)*	**0.004**	0.009

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Income Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Operating income	24	**16,951,183**	16,539,146
Less: Operating costs	25	**16,086,397**	15,876,497
Business taxes and surcharges	26	**43,492**	29,859
Selling and distribution expenses		**178,751**	156,212
General and administrative expenses		**624,067**	415,426
Net financial income	27	**(30,470)**	(7,463)
Impairment loss	28	**3,213**	14,607
Add: Investment loss	29	**(24,527)**	(25,875)
(Including: Loss from investment in jointly controlled entity)		**(24,527)**	(38,339)
Operating profit		**21,206**	28,133
Add: Non-operating income	30	**17,980**	35,666
Less: Non-operating expenses	31	**40,833**	34,240
(Including: Loss from disposal of non-current assets)		**26,442**	18,439
(Loss)/profit before income tax		**(1,647)**	29,559
Less: Income tax expenses	32	**(20,272)**	9,510
Net profit for the year		**18,625**	20,049

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**19,371,103**	20,598,430
Refund of taxes		**2,177**	1,697
Other cash received relating to operating activities		**7,932**	32,946
Sub-total of cash inflows		**19,381,212**	20,633,073
Cash paid for goods and services		**(17,745,678)**	(18,112,804)
Cash paid to and for employees		**(610,580)**	(631,192)
Cash paid for all types of taxes		**(786,445)**	(719,665)
Other cash paid relating to operating activities		**(300,615)**	(366,216)
Sub-total of cash outflows		**(19,443,318)**	(19,829,877)
Net cash (outflow)/inflow from operating activities	*33(1)*	**(62,106)**	803,196
Cash flows from investing activities:			
Net cash received from disposal of fixed assets and intangible assets		**24,810**	20,898
Cash received from disposal of subsidiaries	*33(3)*	**96,952**	9,626
Cash received from disposal of long-term investments		**–**	83,505
Other cash received relating to investing activities		**33,152**	17,479
Sub-total of cash inflows		**154,914**	131,508
Cash paid for acquisition of fixed assets and intangible assets		**(102,732)**	(87,211)
Sub-total of cash outflows		**(102,732)**	(87,211)
Net cash inflow from investing activities		**52,182**	44,297

The notes on pages 114 to 168 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Cash flows from financing activities:			
Cash received from borrowings		**329,000**	119,609
Sub-total of cash inflows		**329,000**	119,609
Cash repayments of borrowings		**(329,000)**	(294,700)
Cash paid for dividends, profits distribution or interest		**(6,482)**	(14,127)
(Including: Profits paid to minority shareholders by subsidiaries)		**(239)**	(2,263)
Sub-total of cash outflows		**(335,482)**	(308,827)
Net cash outflow from financing activities		**(6,482)**	(189,218)
Net (decrease)/increase in cash and cash equivalents	*33(1)*	**(16,406)**	658,275
Add: Cash and cash equivalents at the beginning of the year		**1,051,153**	392,878
Cash and cash equivalents at the end of the year		**1,034,747**	1,051,153

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**18,845,432**	18,911,968
Refund of taxes		**2,177**	1,697
Other cash received relating to operating activities		**7,119**	29,595
Sub-total of cash inflows		**18,854,728**	18,943,260
Cash paid for goods and services		**(17,224,610)**	(16,764,738)
Cash paid to and for employees		**(581,801)**	(611,982)
Cash paid for all types of taxes		**(751,676)**	(689,328)
Other cash paid relating to operating activities		**(209,117)**	(145,447)
Sub-total of cash outflows		**(18,767,204)**	(18,211,495)
Net cash inflow from operating activities	*33(1)*	**87,524**	731,765
Cash flows from investing activities:			
Cash received from disposal of long-term investments		**–**	82,000
Cash received from disposal of subsidiaries		**–**	23,050
Net cash received from disposal of fixed assets and intangible assets		**21,543**	8,583
Other cash received relating to investing activities		**30,877**	14,935
Sub-total of cash inflows		**52,420**	128,568
Cash paid for acquisition of fixed assets and intangible assets		**(102,189)**	(83,269)
Sub-total of cash outflows		**(102,189)**	(83,269)
Net cash (outflow)/inflow from investing activities		**(49,769)**	45,299

The notes on pages 114 to 168 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

	Note	2007	2006
Cash flows from financing activities:			
Cash received from borrowings		**329,000**	117,000
Sub-total of cash inflows		**329,000**	117,000
Cash repayments of borrowings		**(329,000)**	(257,000)
Cash paid for interest		**(1,647)**	(8,166)
Sub-total of cash outflows		**(330,647)**	(265,166)
Net cash outflow from financing activities		**(1,647)**	(148,166)
Net increase in cash and cash equivalents	*33(1)*	**36,108**	628,898
Add: Cash and cash equivalents at the beginning of the year		**910,845**	281,947
Cash and cash equivalents at the end of the year		**946,953**	910,845

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

		2007							2006						
		Attributable to equity shareholders of the Company							Attributable to equity shareholders of the Company						
	Note	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Subtotal	Minority interests	Total
As at the end of last year		4,000,000	3,116,808	1,456,004	(298,551)	8,274,261	–	8,274,261	4,000,000	3,103,537	1,456,004	(335,966)	8,223,575	–	8,223,575
Changes in accounting policies	4	–	(9,644)	–	26,243	16,599	47,652	64,251	–	(9,644)	–	27,678	18,034	52,104	70,138
As at the beginning of the year		4,000,000	3,107,164	1,456,004	(272,308)	8,290,860	47,652	8,338,512	4,000,000	3,093,893	1,456,004	(308,288)	8,241,609	52,104	8,293,713
Changes in equity for the year															
1. Net profit for the year		–	–	–	17,817	17,817	944	18,761	–	–	–	35,980	35,980	415	36,395
2. Gain and loss recognised directly in equity															
– Others		–	–	–	–	–	–	–	–	13,271	–	–	13,271	–	13,271
3. Shareholders' contributions and decrease of capital															
– Acquisitions of minority interests in subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	(2,604)	(2,604)
– Disposal of its subsidiaries by the Company's subsidiary	6	–	–	–	–	–	(48,357)	(48,357)	–	–	–	–	–	–	–
4. Appropriation of profits															
– Distributions to minority shareholders		–	–	–	–	–	(239)	(239)	–	–	–	–	–	(2,263)	(2,263)
As at the end of the year		**4,000,000**	**3,107,164**	**1,456,004**	**(254,491)**	**8,308,677**	**–**	**8,308,677**	4,000,000	3,107,164	1,456,004	(272,308)	8,290,860	47,652	8,338,512

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

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

The notes on pages 114 to 168 form part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2007
(Expressed in thousands of Renminbi yuan)

		2007					2006				
	Note	**Share capital**	**Capital reserve**	**Surplus reserve**	**Accumulated losses**	**Total**	Share capital	Capital reserve	Surplus reserve	Accumulated losses	Total
As at the end of last year		4,000,000	3,126,453	1,456,004	(300,226)	8,282,231	4,000,000	3,113,182	1,456,004	(331,931)	8,237,255
Changes in accounting policies	4	–	(19,289)	–	(130,686)	(149,975)	–	(19,289)	–	(119,030)	(138,319)
As at the beginning of the year		4,000,000	3,107,164	1,456,004	(430,912)	8,132,256	4,000,000	3,093,893	1,456,004	(450,961)	8,098,936
Changes in equity for the year											
1. Net profit for the year		–	–	–	18,625	18,625	–	–	–	20,049	20,049
2. Gain and loss recognised directly in equity											
– Others		–	–	–	–	–	–	13,271	–	–	13,271
As at the end of the year		**4,000,000**	**3,107,164**	**1,456,004**	**(412,287)**	**8,150,881**	4,000,000	3,107,164	1,456,004	(430,912)	8,132,256

These financial statements have been approved by the Board of Directors of the Company on 7 April 2008.

Qian Heng-ge
Legal Representative

Xiao Wei-zhen
General Manager

Li Jian-ping
Chief Financial Officer

Xu Xiu-yun
Supervisor of the Asset and Accounting Department

The notes on pages 114 to 168 form part of these financial statements.

1. COMPANY STATUS

Sinopec Yizheng Chemical Fibre Company Limited (the "**Company**"), headquartered in Yizheng, Jiangsu Province, was established in the People's Republic of China ("**PRC**") on 31 December 1993 as a joint stock limited company as part of the restructuring of Sinopec Asset and Management Corporation Yizheng Branch (formerly as "Yihua Group Corporation") ("**Yihua**").

On the same date, the principal business undertakings of Yihua together with the relevant assets and liabilities were taken over by the Company.

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

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

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

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

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

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

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

2. BASIS OF PREPARATION

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

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

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

2. BASIS OF PREPARATION (Continued)

(2) Accounting year

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

(3) Measurement basis

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

(4) Functional currency and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Business combination and consolidated financial statements

(a) Business combination involving entities under common control

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

(b) Business combinations involving entities not under common control

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(1) Business combination and consolidated financial statements (Continued)

(c) Consolidated financial statements

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

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

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

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

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

(2) Translation of foreign currencies

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

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

Monetary items denominated in foreign currencies are translated to renminbi at the spot exchange at the balance sheet date. The resulting exchange differences are recognised in profit or loss, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction of qualifying assets (see Note 3(14)). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to renminbi using the foreign exchange rate at the transaction date.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(3) Cash and cash equivalents

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

(4) Inventories

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

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

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

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

The Company and the Group maintain a perpetual inventory system.

(5) Long-term equity investments

(a) *Investments in subsidiaries*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Long-term equity investments (Continued)

(b) Investments in jointly controlled entities

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Long-term equity investments (Continued)

(b) Investments in jointly controlled entities (Continued)

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

(c) Other long-term equity investments

Other long-term equity investments refer to investments for which the Company and the Group do not have the right to control, have joint control or exercise significant influence over the investees, and for which the investments are not quoted in an active market and their fair value cannot be reliably measured.

Such investments are initially recognised at the cost determined in accordance with the same principles as those for jointly controlled entities, and then accounted for using the cost method. At year-end the Company and the Group make provision for impairment losses on such investments (see Note 3(8)).

(6) Fixed assets and construction in progress

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

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

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs (see Note 3(14)), and any other costs directly attributable to bringing the asset to working condition for its intended use.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) Fixed assets and construction in progress (Continued)

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

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

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

(7) Intangible assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

– fixed assets

– construction in progress

– intangible assets with finite useful lives

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

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

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

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

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

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

An impairment loss is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments

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

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

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

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

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

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

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

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

– Receivables

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

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

– Held-to-maturity investments

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

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

– Available-for-sale financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

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

– Available-for-sale financial assets (Continued)

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

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

– Other financial liabilities

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

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

(b) *Impairment of financial assets*

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

– Receivables

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

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

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

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

– Other long-term equity investments

Other long-term equity investments are assessed for impairment on an individual basis.

For other long-term equity investments (see Note 3(5)(c)), the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(c) Determination of fair values

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

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

(d) Derecognition of financial assets and financial liabilities

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

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

– carrying amount of the financial asset transferred

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

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

(e) Equity instrument

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

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

(10) Employee benefits

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

(a) Retirement benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(10) Employee benefits (Continued)

(b) Housing fund and other social insurance

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

(c) Termination benefits

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

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

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

(11) Income tax

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Provisions and contingent liabilities

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

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

(13) Revenue recognition

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

(a) Sale of goods

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

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

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

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

(b) Rendering of services

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

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

(c) Interest income

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Borrowing costs

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

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

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

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

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

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

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

(15) Dividends appropriated to investors

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Related parties

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

(a) the Company's parent;

(b) the Company's subsidiaries;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Segment reporting

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

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

(18) Significant accounting estimates and judgments

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

Notes 20 and 35 contain information about the assumptions and their risk factors relating to termination benefits and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) *Impairment of receivables*

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

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

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

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

(c) *Depreciation and amortisation*

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

3. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Significant accounting estimates and judgments (Continued)

(d) Provision for diminution in value of inventories

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

4. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES

(1) Changes in accounting policies and their effects

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

The Company has issued H-shares. The financial statements in prior years were reported by using the applicable PRC accounting regulations and the International Financial Reporting Standards ("**IFRSs**"). Pursuant to the requirements of the "Q&A No. 1 in China Accounting Standards Bulletin No. 1" ("**CAS Bulletin 1**") issued by the MOF in November 2007, the Company and the Group, at the date of first-time adoption, made retrospective adjustments based on the following principles.

Where the principles stipulated in ASBE (2006) differ from those of the applicable PRC accounting regulations, and these principles in ASBE (2006) are the same as those adopted by the Company and the Group in preparing the financial statements in accordance with the IFRSs in prior years, the Company and the Group made retrospective adjustments to those items affected by the changes in accounting policies due to the first-time adoption of ASBE (2006), based on the information used in preparing the financial statements in accordance with IFRSs. In addition, the Company and the Group made retrospective adjustments to other items in accordance with the related requirements of "ASBE No. 38 – First-time Adoption of ASBE" ("**ASBE 38**") and CAS Bulletin 1.

Except for the retrospective adjustments described in item (a), (b), (c), (d) and (e) which were made in accordance with the requirements of CAS Bulletin 1 and ASBE 38, no other retrospective adjustments resulted from the changes in accounting policies.

Upon the adoption of ASBE (2006), the Company's and the Group's significant accounting policies changed as follows:

(a) Borrowing costs

Before 1 January 2007, borrowing costs on funds borrowed for general purposes and used for the acquisition or construction of fixed assets, and borrowing costs on parts of the funds borrowed specifically for the acquisition or construction of fixed assets which have not been put into use (less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset), were recognised in profit or loss when incurred. As of 1 January 2007, such borrowing costs are now capitalised as part of the cost of assets, when certain conditions are satisfied.

The Company and the Group made retrospective adjustments to borrowing costs in accordance with the current accounting polices, based on the information used in preparing the financial statements in accordance with IFRSs in prior years.

4. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES (Continued)

(1) Changes in accounting policies and their effects (Continued)

(b) *Income tax*

Due to the retrospective adjustments made to item (a) above, the Company and the Group adjusted the relevant deferred tax in prior years.

(c) *Minority interests*

Before 1 January 2007, minority interests are presented separately from liabilities and shareholders' equity in the consolidated balance sheet. Minority interests in the results of the Group are presented separately as an allocation of the net profit in the consolidated income statement. As of 1 January 2007, minority interests are presented in the total shareholders' equity, separately from the shareholders' equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented separately on the face of the consolidated income statement.

(d) *Investments in subsidiaries*

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

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

(e) *Investments in jointly controlled entities*

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

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

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

The Company and the Group made retrospective adjustments to investments in jointly controlled entities in accordance with the current accounting policies, based on the information used in preparing the financial statements in accordance with IFRSs in prior years. As the above changes in accounting policies relate to the transactions incurred before 2006, such retrospective adjustments have no effect on the net profit of 2006.

Investments in jointly controlled entities were accounted for on a proportionate consolidation basis in the consolidated financial statements. Such investments are now accounted for using the equity method before 1 January 2007.

4. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES (Continued)

(2) Effects of the above changes in accounting policies on the Group's and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows:

			The Group	
		2006	2006	2006
			Closing balance of shareholders'	Opening balance of shareholders'
		Net profit	equity	equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Net profit and shareholders' equity before adjustments		37,415	8,274,261	8,223,575
Capitalisation of general borrowing costs	*(1)(a)*	(1,689)	19,528	21,217
Income tax	*(1)(b)*	254	(2,929)	(3,183)
Minority interests	*(1)(c)*	415	47,652	52,104
Total		(1,020)	64,251	70,138
Net profit and shareholders' equity after adjustments		36,395	8,338,512	8,293,713

			The Company	
		2006	2006	2006
			Closing balance of shareholders'	Opening balance of shareholders'
		Net profit	equity	equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Net profit and shareholders' equity before adjustments		31,705	8,282,231	8,237,255
Capitalisation of general borrowing costs	*(1)(a)*	(1,689)	19,528	21,217
Income tax	*(1)(b)*	254	(2,929)	(3,183)
Investment in a jointly controlled entity	*(1)(e)*	–	(11,305)	(11,305)
Investments in subsidiaries	*(1)(d)*	(10,221)	(155,269)	(145,048)
Total		(11,656)	(149,975)	(138,319)
Net profit and shareholders' equity after adjustments		20,049	8,132,256	8,098,936

4. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES (Continued)

(2) Effects of the above changes in accounting policies on the Group's and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: (Continued)

Affected assets and liabilities items in the balance sheet as at 31 December 2006:

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

		The Company		
	Note	Before adjustments *RMB'000*	Adjustments *RMB'000*	After adjustments *RMB'000*
Long-term equity investments	*(1)(d), (1)(e)*	412,703	(166,574)	246,129
Fixed assets	*(1)(a), (i)*	5,636,251	(291,599)	5,344,652
Intangible assets	*(i)*	146,976	311,127	458,103
Accrued payroll	*(i)*	(145,992)	145,992	–
Staff welfare payable	*(i)*	(51,926)	51,926	–
Employee benefits payable	*(i)*	–	(206,969)	(206,969)
Taxes payable	*(i)*	174,509	(1,850)	172,659
Other creditors	*(i)*	(10,901)	10,901	–
Deferred tax liabilities	*(1)(b)*	–	(2,929)	(2,929)
Total		6,161,620	(149,975)	6,011,645

4. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES (Continued)

(2) Effects of the above changes in accounting policies on the Group's and the Company's net profits and shareholders' equity for 2006 and prior years are summarised as follows: (Continued)

Affected income and expenses items in the income statement for the year ended 31 December 2006:

		The Group		
	Note	Before adjustments *RMB'000*	Adjustments *RMB'000*	After adjustments *RMB'000*
Sales from principal activities	*(1)(e), (i)*	(17,027,846)	17,027,846	–
Cost of sales from principal activities	*(1)(e), (i)*	16,450,738	(16,450,738)	–
Other operating loss	*(1)(e), (i)*	1,323	(1,323)	–
Operating income	*(1)(e), (i)*	–	(17,307,636)	(17,307,636)
Operating costs	*(1)(a), (1)(e), (i)*	–	16,579,178	16,579,178
Operating expenses	*(1)(e), (i)*	200,936	(200,936)	–
Selling and distribution expenses	*(i)*	–	194,881	194,881
General and administrative expenses	*(1)(e), (i)*	300,868	131,057	431,925
Net financial income	*(1)(e)*	(2,723)	(2,894)	(5,617)
Impairment loss	*(i)*	–	4,753	4,753
Investment (income)/loss	*(1)(e)*	(15,039)	38,339	23,300
Non-operating income	*(1)(e)*	(53,095)	2	(53,093)
Non-operating expenses	*(1)(e)*	52,926	(10,840)	42,086
Income tax expenses	*(1)(b)*	22,912	(254)	22,658
Total		(69,000)	1,435	(67,565)

Affected income and expenses items in the income statement for the year ended 31 December 2006:

		The Company		
	Note	Before adjustments *RMB'000*	Adjustments *RMB'000*	After adjustments *RMB'000*
Sales from principal activities	*(i)*	(16,287,590)	16,287,590	–
Cost of sales from principal activities	*(i)*	15,762,953	(15,762,953)	–
Other operating loss	*(i)*	(4,597)	4,597	–
Operating income	*(i)*	–	(16,539,146)	(16,539,146)
Operating costs	*(1)(a), (i)*	–	15,876,497	15,876,497
Operating expenses	*(i)*	156,212	(156,212)	–
Selling and distribution expenses	*(i)*	–	156,212	156,212
General and administrative expenses	*(i)*	271,570	143,856	415,426
Impairment loss	*(i)*	–	14,607	14,607
Investment loss	*(1)(d), (i)*	28,609	(2,734)	25,875
Non-operating expenses	*(i)*	44,644	(10,404)	34,240
Income tax expenses	*(1)(b)*	9,764	(254)	9,510
Total		(18,435)	11,656	(6,779)

(i) Apart from the retrospective adjustments made on relevant items in the balance sheet as at 31 December 2006 and the income statement for the year then ended 31 December 2006 described in Note 4(1), certain items in the comparative figures of 2006 have been reclassified to conform to the requirements of ASBE 38.

5. TAXATION

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

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

(2) Income tax

The State Administration of Taxation issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorised by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing was still being applied. The notice stated that the difference in enterprise income tax ("**EIT**") arising from the expired preferential rate and the applicable rate should be settled according to the provisions of "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential EIT rate of 15% in prior years. The Company communicated with the relevant tax authorities to assess the situation and was informed that the EIT rate for the Company would be adjusted from the original 15% to 33% from 2007. As a result, the charge for PRC income tax for the year is calculated at the rate of 33% (2006: 15%) on the estimated assessable income of the period determined in accordance with relevant tax rules and regulations. Up till now, the Company has not been requested to pay additional EIT in respect of any prior year. The directors of the Company consider that the relevant tax authorities are not likely to request additional EIT from the Company. Consequently, no provision has been made in these financial statements in respect of the EIT differences arising from prior years.

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

The Group has no subsidiaries which were granted with tax concession for the year. The applicable tax rate of the Group's subsidiary – Yizheng Chemical Fibre Xiamen Kangqi Co., Ltd., which enjoyed tax concession in 2006, was adjusted from 15% to 33% in 2007.

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

As the EIT rate applicable to the Company will be changed from 33% in 2007 to 25% in 2008, deferred tax recognised as at 31 December 2007 is based on the corresponding tax rate that are expected to apply to the period when the asset is realised or the liability is settled.

5. TAXATION (Continued)

(3) Taxes payable

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepaid VAT	**(196,190)**	(185,420)	**(196,175)**	(188,545)
City development tax (prepaid)/payable	**(3,861)**	5,841	**(3,861)**	5,463
Income tax payable	**9**	8,356	**–**	–
Education surcharge payable	**1,834**	2,962	**1,834**	1,850
Others	**10,368**	8,718	**10,353**	8,573
Total	**(187,840)**	(159,543)	**(187,849)**	(172,659)

6. BUSINESS COMBINATIONS AND THE CONSOLIDATED FINANCIAL STATEMENTS

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

Subsidiary established not through business combinations:

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

During the year, Yihua Kangqi disposed of all its thirteen non-wholly-owned subsidiaries. Six of these subsidiaries' equity interests were sold to their minority shareholders and the other seven subsidiaries were liquidated. Procedures for all these disposals were completed during the year. The minority interests of the Group were decreased by RMB48,357,000. As at 31 December 2007, the Group had no minority interests. Please see Notes 29(1) and 33(3) for other related information.

7. CASH AT BANK AND ON HAND

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

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

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

7. CASH AT BANK AND ON HAND (Continued)

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

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

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

8. BILLS RECEIVABLE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank acceptance bills	**1,583,804**	979,417	**1,555,479**	904,599
Commercial acceptance bills *(Note 37(c))*	**28,613**	–	**28,613**	–
Total	**1,612,417**	979,417	**1,584,092**	904,599

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

As at 31 December 2007, the Group and the Company had no outstanding discounted bills with recourse. The Group's and the Company's outstanding endorsed bills with recourse amounted to RMB215,835,000.

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

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

9. ACCOUNTS RECEIVABLE

(1) Accounts receivable by customer type:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from related parties	**5,130**	22,453	**5,130**	22,453
Amounts due from other customers	**196,038**	301,152	**195,250**	274,624
Subtotal	**201,168**	323,605	**200,380**	297,077
Less: Provision for bad and doubtful debts	**1,258**	21,756	**470**	489
Total	**199,910**	301,849	**199,910**	296,588

The Group's accounts receivable due from related parties amounted to RMB5,130,000 (2006: RMB22,453,000), 2.55% (2006: 6.94%) of the total accounts receivable.

The Company's accounts receivable due from related parties amounted to RMB5,130,000 (2006: RMB22,453,000), 2.56% (2006: 7.56%) of the total accounts receivable.

Except for the balances disclosed in Note 37, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of accounts receivable.

9. ACCOUNTS RECEIVABLE (Continued)

(1) Accounts receivable by customer type: (Continued)

As at 31 December 2007, the total amounts of accounts receivable due from the Group's and Company's biggest five debtors were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
Amounts *(RMB'000)*	**101,805**	144,149	**101,805**	144,149
Ageing	**within one year**	within one year	**within one year**	within one year
Proportion over the total accounts receivable	**50.61%**	44.54%	**50.81%**	48.52%

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year (inclusive)	**197,641**	300,306	**197,641**	296,315
1 and 2 years (inclusive)	**3,241**	2,138	**2,453**	437
2 and 3 years (inclusive)	**–**	16,621	**–**	46
Over 3 years	**286**	4,540	**286**	279
Subtotal	**201,168**	323,605	**200,380**	297,077
Less: Provision for bad and doubtful debts	**1,258**	21,756	**470**	489
Total	**199,910**	301,849	**199,910**	296,588

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

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

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

	The Group							
	As at 31 December 2007				As at 31 December 2006			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	RMB'000	**%**	***RMB'000***	**%**	*RMB'000*	%	*RMB'000*	%
Individually significant	**–**	**–**	**–**	**–**	15,940	4.93	15,940	100.00
Other immaterial item	**201,168**	**100.00**	**1,258**	**0.63**	307,665	95.07	5,816	1.89

9. ACCOUNTS RECEIVABLE (Continued)

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

	The Company							
	As at 31 December 2007				As at 31 December 2006			
	Amount	**Percentage of total accounts receivable**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total accounts receivable	Bad debts provision	Rate of provision
	RMB'000	**%**	***RMB'000***	**%**	*RMB'000*	*%*	*RMB'000*	*%*
Other immaterial item	**200,380**	**100.00**	**470**	**0.23**	297,077	100.00	489	0.16

During the year ended 31 December 2007, the Group and the Company had no individually significant accounts receivable been fully or substantially provided for. The Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years. As at 31 December 2007, the Group and the Company had no individually significant accounts receivable due over 3 years.

During the year ended 31 December 2007, the Group wrote off bad debts, which had been fully provided for in prior years, amounting to RMB20,327,000 as certain third-party debtors were declared bankrupt by the courts.

During the year ended 31 December 2007, the Company wrote off bad debts, which had been fully provided for in prior years, amounting to RMB19,000 as certain third-party debtors were declared bankrupt by the courts.

10. PREPAYMENTS

The ageing analysis of prepayments is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year (inclusive)	**71,950**	66,343	**71,950**	61,509
1 and 2 years (inclusive)	**–**	544	**–**	544
2 and 3 years (inclusive)	**544**	112	**544**	112
Over 3 years	**180**	244	**180**	68
Total	**72,674**	67,243	**72,674**	62,233

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

The Group had prepayments due from related parties amounting to RMB70,073,000 (2006: RMB67,029,000), 96.42% of the total prepayments (2006: 99.68%).

The Company had prepayments due from related parties amounting to RMB70,073,000 (2006: RMB59,634,000), 96.42% of the total prepayments (2006: 95.82%).

Except for the balances disclosed in Note 37, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of prepayments.

10. PREPAYMENTS (Continued)

As at 31 December 2007, an analysis of individual prepayments that are 30% or more of the total amount is as follows:

Debtors	Reasons for prepayment	Balance	Percentage of total year-end balance
		RMB'000	
Sinopec Chemicals Sales Branch	Purchases of raw materials	70,073	96.42%

11. OTHER RECEIVABLES

(1) Other receivables by customer type:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Amounts due from related parties	**753**	3,380	**753**	51,982
Amounts due from other customers	**97,825**	99,796	**97,335**	87,829
Subtotal	**98,578**	103,176	**98,088**	139,811
Less: Provision for bad and doubtful debts	**7,253**	21,221	**7,253**	69,823
Total	**91,325**	81,955	**90,835**	69,988

The Group had other receivables due from related parties amounting to RMB753,000 (2006: RMB3,380,000), 0.76% of the total other receivables (2006: 3.28%).

The Company had other receivables due from related parties amounting to RMB753,000 (2006: RMB51,982,000), 0.76% of the total other receivables (2006: 37.18%).

Except for the balances disclosed in Note 37, no amount due from shareholders who hold 5% or more of the voting rights of the Company is included in the above balance of other receivables.

As at 31 December 2007, the total amounts of other receivables due from the Group's and Company's biggest five debtors were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
Amounts *(RMB'000)*	**86,161**	70,502	**86,161**	70,502
Ageing	**within one year**	within one year	**within one year**	within one year
Percentage of other receivables	**87.40%**	68.33%	**87.84%**	50.43%

11. OTHER RECEIVABLES (Continued)

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year (inclusive)	**91,330**	71,746	**90,840**	69,666
1 and 2 years (inclusive)	**2,539**	4,740	**2,539**	235
2 and 3 years (inclusive)	**2,353**	87	**2,353**	87
Over 3 years	**2,356**	26,603	**2,356**	69,823
Subtotal	**98,578**	103,176	**98,088**	139,811
Less: Provision for bad and doubtful debts	**7,253**	21,221	**7,253**	69,823
Total	**91,325**	81,955	**90,835**	69,988

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

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

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

The Group

	As at 31 December 2007				As at 31 December 2006			
	Amount	**Percentage of total other receivables**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total other receivables	Bad debts provision	Rate of provision
	RMB'000	*%*	***RMB'000***	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Other immaterial item	**98,578**	**100.00**	**7,253**	**7.36**	103,176	100.00	21,221	20.57

The Company

	As at 31 December 2007				As at 31 December 2006			
	Amount	**Percentage of total other receivables**	**Bad debts provision**	**Rate of provision**	Amount	Percentage of total other receivables	Bad debts provision	Rate of provision
	RMB'000	*%*	***RMB'000***	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Individually significant	**–**	**–**	**–**	**–**	48,602	34.76	48,602	100.00
Other immaterial item	**98,088**	**100.00**	**7,253**	**7.39**	91,209	65.24	21,221	23.27

During the year ended 31 December 2007, the Group and the Company made a full provision of RMB10,317,000 against the irrecoverable compensation receivable in relation to the bills loss.

During the year ended 31 December 2007, the Group and the Company had no individually significant recovery of bad debts which were fully or substantially provided for in prior years.

11. OTHER RECEIVABLES (Continued)

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

During the year ended 31 December 2007, the Group wrote off certain amounts due from third-party customers totalling RMB13,968,000, which had been fully provided for in prior years, due to the liquidation of these entities.

During the year ended 31 December 2007, the Company wrote off certain amounts due from a subsidiary – Forerunner International Trading (Hong Kong) Limited and certain third-party customers totalling RMB62,570,000, which had been fully provided for in prior years, due to the liquidation of these entities.

12. INVENTORIES

(1) An analysis of the movements of inventories for the year is as follows:

The Group

	Opening balance at the beginning of the year *RMB'000*	**Closing balance at the end of the year** *RMB'000*
Raw materials	858,167	680,262
Work in progress	97,650	138,956
Finished goods	275,751	319,046
Spare parts and consumables	182,195	131,522
Subtotal	1,413,763	1,269,786
Less: Provision for diminution in value of inventories	57,863	12,599
Total	1,355,900	1,257,187

The Company

	Opening balance at the beginning of the year *RMB'000*	**Closing balance at the end of the year** *RMB'000*
Raw materials	858,167	680,262
Work in progress	97,650	138,956
Finished goods	241,001	319,046
Spare parts and consumables	182,195	131,522
Subtotal	1,379,013	1,269,786
Less: Provision for diminution in value of inventories	57,863	12,599
Total	1,321,150	1,257,187

All the above inventories are purchased or self-manufactured.

As at 31 December 2007 and 31 December 2006 no borrowing costs of the Group were capitalised in the closing balance of inventories.

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

12. INVENTORIES (Continued)

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

	Opening balance at the beginning of the year *RMB'000*	Sold/disposal during the year *RMB'000*	Closing balance at the end of the year *RMB'000*
The Group and the Company			
Raw materials	4,600	(4,600)	–
Finished goods	4,523	(4,523)	–
Spare parts and consumables	48,740	(36,141)	12,599
Total	57,863	(45,264)	12,599

(3) The Group recognised the cost of inventories as costs and expenses amounting to RMB16,266,147,000 (2006: RMB16,580,977,000).

The Company recognised the cost of inventories as costs and expenses amounting to RMB16,077,274,000 (2006: RMB15,876,497,000).

13. LONG-TERM EQUITY INVESTMENTS

	The Group		The Company	
	2007 ***RMB'000***	2006 *RMB'000*	**2007** ***RMB'000***	2006 *RMB'000*
Investment in subsidiaries	**–**	–	**60,456**	65,418
Investment in a jointly controlled entity	**156,184**	180,711	**156,184**	180,711
Total	**156,184**	180,711	**216,640**	246,129

(1) As at 31 December 2007, the Company's investment in a subsidiary is as follows:

	Yihua Kangqi *RMB'000*
Initial investment cost	60,456
Carrying amount at the beginning and at the end of the year	60,456

For detailed information about the subsidiaries, refer to Note 6.

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

13. LONG-TERM EQUITY INVESTMENTS (Continued)

(2) As at 31 December 2007, the Group's and the Company's investment in a jointly controlled entity is as follows:

	The Group and The Company *RMB'000*
Initial investment cost	241,836
Movement of investment cost	
Balance at the beginning of the year	180,711
Less: Adjustments under equity method *(Note 29)*	24,527
Carrying amount at the end of the year	156,184

Details of the jointly controlled entity are as follows:

Name of investee	Organisation code	Registered place	Business nature	Registered capital *('000)*	The Company's shareholding percentage and voting rights	Total assets at the end of the year *('000)*	Total liabilities at the end of the year *('000)*	Total revenue of the year *('000)*	Net loss for the year *('000)*
Yihua Unifi Industry Fibre Company Limited ("Yihua Unifi")	77644167-1	Jiangsu province, PRC	Manufacturing, processing and selling of differentiated polyester textile filament products	USD 60,000	50%	RMB643,626	RMB308,650	RMB1,059,900	RMB49,054

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

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

14. FIXED ASSETS

	The Group			
	Plant and buildings	Machinery and equipment	Motor vehicles and other fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:				
As at the beginning of the year	1,957,657	9,675,284	789,386	12,422,327
Additions	3,748	511	1,054	5,313
Transfer from construction in progress *(Note 15)*	8,761	108,233	18,045	135,039
Disposals	(19,018)	(144,820)	(60,367)	(224,205)
As at the end of the year	1,951,148	9,639,208	748,118	12,338,474
Accumulated depreciation:				
As at the beginning of the year	761,115	5,715,197	558,864	7,035,176
Charge for the year	69,787	503,118	45,545	618,450
Written back on disposals	(6,056)	(99,893)	(53,165)	(159,114)
As at the end of the year	824,846	6,118,422	551,244	7,494,512
Provision for impairment:				
As at the beginning of the year	–	24,631	731	25,362
Charge for the year	1,140	1,714	58	2,912
Written back on disposals	–	(15,805)	(167)	(15,972)
As at the end of the year	1,140	10,540	622	12,302
Net book value:				
As at the end of the year	**1,125,162**	**3,510,246**	**196,252**	**4,831,660**
As at the beginning of the year	1,196,542	3,935,456	229,791	5,361,789

14. FIXED ASSETS (Continued)

	The Company			
	Plant and buildings	Machinery and equipment	Motor vehicles and other fixed assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:				
As at the beginning of the year	1,939,229	9,673,605	778,952	12,391,786
Additions	3,748	511	1,054	5,313
Transfer from construction in progress *(Note 15)*	8,761	108,039	17,696	134,496
Disposals	(4,924)	(143,124)	(49,677)	(197,725)
As at the end of the year	**1,946,814**	**9,639,031**	**748,025**	**12,333,870**
Accumulated depreciation:				
As at the beginning of the year	756,622	5,712,836	552,314	7,021,772
Charge for the year	69,442	502,988	45,180	617,610
Written back on disposals	(2,356)	(98,520)	(45,231)	(146,107)
As at the end of the year	**823,708**	**6,117,304**	**552,263**	**7,493,275**
Provision for impairment:				
As at the beginning of the year	–	24,631	731	25,362
Charge for the year	247	1,714	58	2,019
Written back on disposals	–	(15,805)	(167)	(15,972)
As at the end of the year	**247**	**10,540**	**622**	**11,409**
Net book value:				
As at the end of the year	**1,122,859**	**3,511,187**	**195,140**	**4,829,186**
As at the beginning of the year	1,182,607	3,936,138	225,907	5,344,652

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

(2) As at 31 December 2007, there were no significant fixed assets to be disposed of.

(3) As at 31 December 2007, the original cost of fully depreciated fixed assets in use was RMB2,754,429,000 (2006: RMB1,773,866,000).

15. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost				
Balance at the beginning of the year	**114,037**	270,963	**114,037**	269,215
Additions during the year	**116,652**	37,746	**116,109**	37,746
Transfer out due to disposals	**(6,084)**	(1,748)	**(6,084)**	–
Transfer to fixed assets *(Note 14)*	**(135,039)**	(192,924)	**(134,496)**	(192,924)
Balance at the end of the year	**89,566**	114,037	**89,566**	114,037

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

As at 31 December 2007, the Group's and the Company's major construction in progress were as follows:

Project	**Budget**	**Balance at the beginning of the year**	**Additions**	**Transfer to fixed assets**	**Transfer out due to disposals**	**Balance at the end of the year**	**Percentage of input to budget**	**Sources of funds**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	
1,000,000-tonne/year PTA project	3,700,000	–	37,800	–	–	**37,800**	1	Own fund
Improvements of stove desulphurization of thermoelectricity center	17,170	–	16,070	(16,070)	–	**–**	94	Own fund
Upgrade of heat coal stove	9,928	7,999	1,578	(9,577)	–	**–**	96	Own fund
Optimisation of supply chain	12,000	8,270	–	(2,186)	(6,084)	**–**	69	Own fund
Improvements of existing plants and equipment	192,655	97,768	60,661	(106,663)	–	**51,766**	82	Own fund
Total for the Company		114,037	116,109	(134,496)	(6,084)	**89,566**		
Miscellaneous projects of the subsidiary		–	543	(543)	–	**–**		Own fund
Total for the Group		114,037	116,652	(135,039)	(6,084)	**89,566**		

16. INTANGIBLE ASSETS

	The Group and the Company			
	Land use rights	Technology right	Patent right	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost				
Balance at the beginning of the year	395,398	208,893	142,435	746,726
Additions for the year	12,792	–	–	12,792
Decreases for the year	(2,024)	–	–	(2,024)
Balance at the end of the year	406,166	208,893	142,435	757,494
Less: Accumulated amortisation				
Balance at the beginning of the year	84,271	67,891	136,461	288,623
Charge for the year	8,240	23,933	1,142	33,315
Written back on disposals	(546)	–	–	(546)
Balance at the end of the year	91,965	91,824	137,603	321,392
Carrying amounts				
At the end of the year	**314,201**	**117,069**	**4,832**	**436,102**
At the beginning of the year	311,127	141,002	5,974	458,103

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

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

The Group and the Company obtained land use rights through purchase from third parties and contribution from its investors. Their average remaining amortisation period is 38 years.

The Company acquired technology right to operate the 450,000-tonne PTA plant from third parties in 2004, and their average remaining amortisation period is 6 years.

The Company acquired patent right from third parties in 2001 and 2005 respectively and their average remaining amortisation period is 3 years.

17. DEFERRED TAX ASSETS AND LIABILITIES

The analysis of deferred tax assets is as follows:

	The Group and the Company			
	2007		2006	
	Deductible temporary difference	**Deferred tax assets**	Deductible temporary difference	Deferred tax assets
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Provision for bad and doubtful debts	**3,327**	**832**	6,944	1,041
Provision for diminution in value of inventories	**12,599**	**3,150**	57,863	8,679
Provision for impairment of fixed assets	**11,409**	**2,852**	25,362	3,804
Differences in depreciation arising between accounting and tax policy	**56,076**	**14,019**	46,355	6,953
Tax losses	**298,384**	**74,596**	354,460	53,169
Total	**381,795**	**95,449**	490,984	73,646

The analysis of deferred tax liabilities is as follows:

	The Group and the Company			
	2007		2006	
	Taxable temporary difference	**Deferred tax liabilities**	Taxable temporary difference	Deferred tax liabilities
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Capitalisation of general borrowing costs	**17,840**	**4,460**	19,527	2,929

In accordance with the accounting policy set out in Note 3(11), the Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB138,301,000 (2006: RMB102,425,000). The deductible tax losses expire in 2010 under current tax law.

18. PROVISION FOR IMPAIRMENT

As at 31 December 2007, the provision for impairment of the Group was set out as follows:

Item	Notes	**Balance at the beginning of the year**	**Charge for the year**	**Decrease during the year**		**Balance at the end of the year**
				Reversal	**Sold/disposal**	
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Provision for bad and doubtful debts						
– Accounts receivable	*9*	21,756	–	(171)	(20,327)	**1,258**
– Other receivables	*11*	21,221	10,317	–	(24,285)	**7,253**
Provision for diminution in value of inventories	*12*	57,863	–	–	(45,264)	**12,599**
Provision for impairment of fixed assets	*14*	25,362	2,912	–	(15,972)	**12,302**
Total		126,202	13,229	(171)	(105,848)	**33,412**

18. PROVISION FOR IMPAIRMENT (Continued)

As at 31 December 2007, the provision for impairment losses of the Company was set out below:

Item	Notes	Balance at the beginning of the year *RMB'000*	Charge for the year *RMB'000*	Sold/ disposal during the year *RMB'000*	**Balance at the end of the year** ***RMB'000***
Provision for bad and doubtful debts					
– Accounts receivable	*9*	489	–	(19)	**470**
– Other receivables	*11*	69,823	10,317	(72,887)	**7,253**
Provision for diminution in value of inventories	*12*	57,863	–	(45,264)	**12,599**
Provision for impairment of fixed assets	*14*	25,362	2,019	(15,972)	**11,409**
Total		153,537	12,336	(134,142)	**31,731**

19. ACCOUNTS PAYABLE, ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

As at 31 December 2007, there were no individually significant balances aged over one year included in the Group's and the Company's accounts payable, advances from customers and other payables.

Except for the balance disclosed in Note 37, no amount due to shareholders who hold 5% or more of the voting rights of the Company is include in the balances of accounts payable, advances from customers and other payables.

20. EMPLOYEE BENEFITS PAYABLE

	The Group			
	Balance at the beginning of the year *RMB'000*	Accrued during the year *RMB'000*	Paid during the year *RMB'000*	**Balance at the end of the year** ***RMB'000***
Salaries, bonuses and allowances	151,173	331,508	(347,349)	**135,332**
Staff welfare fees	59,971	(4,651)	(55,320)	**–**
Social insurances				
– Basic old age insurance premium	8,335	57,988	(66,323)	**–**
– Unemployment insurance premium	867	5,333	(6,200)	**–**
– Staff and workers' injury insurance premium	93	1,929	(2,022)	**–**
Housing fund	–	20,363	(20,363)	**–**
Labour union fee, staff and workers' education fee	1,876	10,177	(11,284)	**769**
Termination benefits	–	101,719	(101,719)	**–**
Total	222,315	524,366	(610,580)	**136,101**

20. EMPLOYEE BENEFITS PAYABLE (Continued)

	The Company			
	Balance at the beginning of the year	**Accrued during the year**	**Paid during the year**	**Balance at the end of the year**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Salaries, bonuses and allowances	145,992	324,048	(334,708)	**135,332**
Staff welfare fees	51,682	(4,956)	(46,726)	**–**
Social insurances				
– Basic old age insurance premium	8,335	57,135	(65,470)	**–**
– Unemployment insurance premium	867	5,317	(6,184)	**–**
– Staff and workers' injury insurance premium	93	1,923	(2,016)	**–**
Housing fund	–	20,255	(20,255)	**–**
Labour union fee, staff and workers' education fee	–	10,132	(9,363)	**769**
Termination benefits	–	97,079	(97,079)	**–**
Total	206,969	510,933	(581,801)	**136,101**

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

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

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

In addition to the above, pursuant to a document "Lao Bu Fa [1995] No. 464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement scheme for its employees. Assets of the scheme are held separately from those of the Company in an independent fund administered by representatives from the Company. The scheme is funded by contributions from the Company which are calculated at a rate based on the basic salaries of its employees. The contribution rate for 2007 was 9% (2006: 9%).

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

During the year ended 31 December 2007, in accordance with the Group's employee reduction plans, the Group incurred RMB101,719,000 (2006: RMB10,404,000) on the reduction of 1,351 (2006: 164) employees, which were mainly included in "General and administrative expenses".

During the year ended 31 December 2007, in accordance with the Company's employee reduction plans, the Company incurred RMB97,079,000 (2006: RMB10,404,000) on the reduction of 1,259 (2006: 164) employees, which were mainly included in "General and administrative expenses".

21. SHARE CAPITAL

The Company's share capital status at 31 December is as follows:

	2007 **RMB'000**	2006 RMB'000
Registered, issued and paid up capital:		
2,400,000,000 "Domestic non-public legal person A" shares of RMB1.00 each	**2,400,000**	2,400,000
200,000,000 "Social public A" shares of RMB1.00 each	**200,000**	200,000
1,400,000,000 "H" shares of RMB1.00 each	**1,400,000**	1,400,000
Total	**4,000,000**	4,000,000

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

22. CAPITAL RESERVE

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

23. SURPLUS RESERVE

	The Group and the Company		
	Statutory surplus reserve *RMB'000*	**Discretionary surplus reserve** *RMB'000*	**Total** *RMB'000*
As at 1 January 2007 and 31 December 2007	861,457	594,547	1,456,004

24. OPERATING INCOME

	The Group		**The Company**	
	2007 ***RMB'000***	2006 *RMB'000*	**2007** ***RMB'000***	2006 *RMB'000*
Operating income from principal activities	**17,042,590**	17,139,337	**16,816,657**	16,396,362
Other operating income	**133,066**	168,299	**134,526**	142,784
Total	**17,175,656**	17,307,636	**16,951,183**	16,539,146

24. OPERATING INCOME (Continued)

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

During the year ended 31 December 2007, the Group's sales to the top five customers amounted to RMB2,282,441,000 (2006: RMB1,418,982,000), which accounted for 13.29% (2006: 8.20%) of the total operating income of the Group.

During the year ended 31 December 2007, the Company's sales to the top five customers amounted to RMB2,282,441,000 (2006: RMB1,418,982,000), which accounted for 13.46% (2006: 8.58%) of the total operating income of the Company.

25. OPERATING COSTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Operating costs from principal activities	**16,165,464**	16,440,991	**15,975,131**	15,738,310
Other operating costs	**109,806**	138,187	**111,266**	138,187
Total	**16,275,270**	16,579,178	**16,086,397**	15,876,497

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

26. BUSINESS TAXES AND SURCHARGES

		The Group		The Company	
	Taxation basis and rates	**2007**	2006	**2007**	2006
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Business tax	3% or 5% of taxable income	**243**	–	**243**	–
City development tax	7% VAT and business tax paid	**27,935**	19,835	**27,522**	19,001
Education surcharge	4% VAT and business tax paid	**15,963**	11,335	**15,727**	10,858
Total		**44,141**	31,170	**43,492**	29,859

27. NET FINANCIAL INCOME

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest expenses for loans and discounting bills	**6,243**	11,864	**1,647**	7,887
Less: Borrowing costs capitalised	**–**	–	**–**	–
Net interest expenses	**6,243**	11,864	**1,647**	7,887
Interest income from deposits	**(33,152)**	(17,479)	**(30,877)**	(14,935)
Net exchange gains	**(3,188)**	(1,996)	**(3,188)**	(2,063)
Other financial expenses	**2,046**	1,994	**1,948**	1,648
Total	**(28,051)**	(5,617)	**(30,470)**	(7,463)

28. IMPAIRMENT LOSS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provision for bad and doubtful debts	**10,146**	2,954	**10,317**	1,652
(Reversal of losses)/losses of diminution in value of inventories	**(9,123)**	1,799	**(9,123)**	–
Provision for impairment of fixed assets	**2,912**	–	**2,019**	–
Provision for impairment of long-term equity investments	**–**	–	**–**	12,955
Total	**3,935**	4,753	**3,213**	14,607

29. INVESTMENT LOSS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Long-term equity investments				
– accounted for under the equity method *(Note 13(2))*	**24,527**	38,339	**24,527**	38,339
(Gain)/loss of disposal of subsidiaries	**(2,771)**	1,920	**–**	–
Loss on acquisition of investment	**–**	3,196	**–**	3,196
Net gain on disposal of long-term investments	**–**	(20,155)	**–**	(15,660)
Total	**21,756**	23,300	**24,527**	25,875

(1) As set out in Note 6, during the year ended 31 December 2007, Yihua Kangqi, the wholly-owned subsidiary of the Company, disposed of all its thirteen non-wholly-owned subsidiaries. A disposal income of RMB2,771,000 has been recognised.

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

30. NON-OPERATING INCOME

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Gains on disposal of fixed assets	**5,431**	6,071	**3,853**	6,071
Gains on disposal of intangible assets	**7,008**	–	**7,008**	–
Total gains on disposal of non-current assets	**12,439**	6,071	**10,861**	6,071
Forfeited deposit	**61**	14,950	**61**	14,950
Written back of employee reduction expenses over-accrued in prior year	**–**	14,076	**–**	–
Others	**7,871**	17,996	**7,058**	14,645
Total	**20,371**	53,093	**17,980**	35,666

31. NON-OPERATING EXPENSES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Losses on disposal of fixed assets	**27,768**	25,467	**26,442**	18,439
Flood prevention fees	**2,000**	2,808	**2,000**	2,000
Others	**13,137**	13,811	**12,391**	13,801
Total	**42,905**	42,086	**40,833**	34,240

32. INCOME TAX

(1) Income tax expenses for the year represent:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current income tax expenses for the year	**3,231**	10,970	**–**	–
Under-provision for income tax in respect of prior year	**2,937**	2,178	**–**	–
Deferred taxation	**(20,272)**	9,510	**(20,272)**	9,510
Total	**(14,104)**	22,658	**(20,272)**	9,510

(2) Reconciliation between income tax expenses and accounting profits is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit/(loss) before taxation	**4,657**	59,053	**(1,647)**	29,559
Tax rate	**33%**	15%	**33%**	15%
Expected income tax expenses	**1,537**	8,858	**(544)**	4,434
Differential tax rate of subsidiaries	**–**	5,805	**–**	–
Write-off of deferred tax assets in respect of prior years	**11,839**	–	**11,839**	–
Tax effect of unused tax losses not recognised	**–**	4,054	**–**	3,313
Tax effect of non-deductible expenses	**17,674**	5,751	**16,524**	5,751
Effect of change in tax rate on deferred tax	**(40,659)**	–	**(40,659)**	–
Under-provision of income tax in prior years	**2,937**	2,178	**–**	–
Tax effect of deductible expenses not recorded in profit or loss	**(7,432)**	(3,988)	**(7,432)**	(3,988)
Income tax expenses	**(14,104)**	22,658	**(20,272)**	9,510

33. SUPPLEMENT TO CASH FLOW STATEMENT

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

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Net profit	**18,761**	36,395	**18,625**	20,049
Add: Impairment loss	**3,935**	4,753	**3,213**	14,607
Depreciation of fixed assets	**618,450**	665,526	**617,610**	651,559
Amortisation of intangible assets	**33,315**	15,043	**33,315**	15,043
Net losses on disposal of fixed assets and intangible assets	**15,329**	19,396	**15,581**	12,368
Financial income	**(26,909)**	(5,615)	**(29,230)**	(7,048)
Losses arising from investments	**21,756**	23,300	**24,527**	25,875
(Increase)/decrease in deferred tax assets	**(21,803)**	9,764	**(21,803)**	9,764
Increase/(decrease) in deferred tax liabilities	**1,531**	(254)	**1,531**	(254)
Decrease/(increase) in gross inventories	**65,513**	(144,569)	**73,086**	(163,252)
Increase in operating receivables	**(702,259)**	(213,762)	**(619,458)**	(227,252)
(Decrease)/increase in operating payables	**(89,725)**	393,219	**(29,473)**	380,306
Net cash (outflow)/inflow from operating activities	**(62,106)**	803,196	**87,524**	731,765

(b) Changes in cash and cash equivalents:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and cash equivalents at the end of the year	**1,034,747**	1,051,153	**946,953**	910,845
Less: Cash and cash equivalents at the beginning of the year	**1,051,153**	392,878	**910,845**	281,947
Net (decrease)/increase in cash and cash equivalents	**(16,406)**	658,275	**36,108**	628,898

33. SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
– Cash on hand	**6**	25	**6**	16
– Bank deposits available on demand	**1,034,741**	1,051,128	**946,947**	910,829
Closing balance of cash and cash equivalents available on demand	**1,034,747**	1,051,153	**946,953**	910,845

(3) Information on disposal of subsidiaries during the current year:

	The Group
	RMB'000
Consideration of disposal	146,812
Cash received from disposal of subsidiaries	146,812
Less: Cash held by subsidiaries	49,860
Net cash received from disposal of subsidiaries	96,952
Non-cash assets and liabilities held by the disposed subsidiaries	
Current assets	188,574
Non-current assets	10,458
Current liabilities	(56,494)

34. SEGMENT REPORTING

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

35. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS

Overview

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

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

– credit risk;

– liquidity risk; and

– market risk

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

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

(1) Credit risk

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

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

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

Ageing	**The Group**		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Past due 1 year (inclusive)	**1,980**	10,321	**1,980**	9,051

As at the balance sheet date, the Group had a certain concentration of credit risk, as 50.61% (2006: 44.54%) of the total accounts receivables was due from the Group's five largest customers. The Company had a certain concentration of credit risk, as 50.81% (2006: 48.52%) of the total accounts receivables was due from the Company's five largest customers.

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

35. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS (Continued)

(2) Liquidity risk

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

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

(3) Market risk

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

(a) Interest rate risk

As at 31 December 2007, the Company and the Group had no bank borrowings. Therefore, no interest rate risk arose.

(b) Currency risk

The revenue-generating operations of the Company and the Group are mainly transacted in renminbi, which is not fully convertible into foreign currencies. All foreign exchange transactions to take place either through the People's Bank of China ("PBOC") or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

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

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

	The Group and the Company			
	2007		2006	
	US$'000	***HK$'000***	*US$'000*	*HK$'000*
Cash at bank and on hand	**290**	**6**	1,086	631
Accounts receivable	**22,467**	**–**	30,381	–
Accounts payable	**(139,547)**	**–**	(87,287)	–
	(116,790)	**6**	(55,820)	631

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

35. RISK ANALYSIS, SENSITIVITY ANALYSIS, AND DETERMINATION OF FAIR VALUES FOR FINANCIAL INSTRUMENTS (Continued)

(3) Market risk (Continued)

(b) Currency risk (Continued)

A five percent strengthening of renminbi against the following currencies at 31 December would have increased profit for the year and equity of the Company and the Group by the amounts shown below.

	2007	2006
	RMB'000	*RMB'000*
US Dollars	**42,655**	21,794
HK Dollars	**–**	32

A five percent weakening of renminbi against the above currencies at 31 December would have had the equal but opposite effect to the above, on the basis that all other variables remain constant.

This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Company's and the Group's all derivatives and non-derivative financial assets. The analysis is performed on the same basis for year 2006.

(4) Capital management

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

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

(5) Fair value

As at 31 December 2007 and 2006, the fair values of the Group's and the Company's financial assets and liabilities were not materially different from their carrying amounts.

36. CAPITAL COMMITMENTS

As at 31 December, capital commitments of the Group and the Company were summarised as follows:

	2007		2006	
	Book value	**Fair value**	Book value	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Authorised but not contracted for	**3,743,753**	**3,743,753**	81,590	81,590

37. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information on the parent of the Company is listed as follows:

Name of company:	China Petroleum & Chemical Corporation
Registered address:	No. 6 Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Principal activities:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research, development and application of new technologies and information
Relationship with the Company:	The immediate holding company
Types of legal entity:	Joint stock limited company
Legal representative	Su Shu-lin
Registered capital:	RMB86.7 billion (2006: RMB86.7 billion)
Percentage of equity interest:	42%
Percentage of voting interest:	42%

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

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

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

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

	The Group and the Company	
	2007	2006
	RMB'000	*RMB'000*
Remuneration of key management personnel	**2,783**	3,038
Retirement scheme contributions	**143**	155

37. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

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

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

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

(b) Transactions with other related parties:

	The Group	
	2007	2006
	Amounts	Amounts
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**8,970,018**	8,431,148
Including: Yangzi	**3,829,354**	4,608,171
Zhenhai	**3,825,511**	3,005,402
Service charges for the purchase of raw materials	**25,225**	23,971
Yihua and its subsidiaries ("Yihua Group")		
Sales	**243,571**	260,491
Miscellaneous service fee charges (see note below)	**12,050**	11,654
Acquisition of land use rights	**12,792**	–
Loss on acquisition of investment	**–**	3,196
Sinopec Finance		
Interest income	**16,059**	872
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Yihua Group and Sinopec Finance)		
Insurance premium	**17,716**	18,765
Investment income	**–**	19,500
China CITIC Bank		
Interest income	**1,330**	1,384
Interest expense	**301**	433
Bills custody fee	**150**	123
Yihua Unifi		
Sales of finished goods	**923,147**	828,356
Purchase of finished goods	**–**	202,558

37. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

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

	The Company	
	2007	2006
	Amounts	Amounts
	RMB'000	*RMB'000*
Sinopec Corp and its subsidiaries		
Purchase of raw materials	**8,850,011**	8,213,328
Including: Yangzi	**3,829,354**	4,608,171
Zhenhai	**3,825,511**	3,005,402
Service charges for the purchase of raw materials	**25,225**	23,971
Yihua Group		
Sales	**243,571**	260,491
Miscellaneous service fee charges (see note below)	**12,050**	11,654
Acquisition of land use rights	**12,792**	–
Loss on acquisition of investment	**–**	3,196
Sinopec Finance		
Interest income	**16,059**	872
CPC and its subsidiaries (excluding Sinopec Corp and its subsidiaries, Yihua Group and Sinopec Finance)		
Insurance premium	**17,716**	18,765
Investment income	**–**	19,500
China CITIC Bank		
Interest income	**1,007**	1,318
Interest expense	**301**	433
Bills custody fee	**150**	123
Yihua Unifi		
Sales of finished goods	**923,147**	828,356
Yihua Kangqi		
Sales of finished goods	**1,685,642**	3,917,313
Temporary receipts	**100,360**	–

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

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

37. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

(c) The balances of transactions with related parties:

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**–**	18,416	**–**	18,416
Prepayments	**70,073**	63,983	**70,073**	59,634
Other receivables	**228**	431	**228**	431
Accounts payable	**(131,025)**	(76,457)	**(131,025)**	(76,457)
Other payables	**(4,519)**	(1,612)	**(4,519)**	(1,612)
Advances from customers	**(2,453)**	(161)	**(2,453)**	(161)
	(67,696)	4,600	**(67,696)**	251

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**3,182**	3,704	**3,182**	3,704
Other receivables	**45**	20	**45**	20
Advances from customers	**–**	(7,233)	**–**	(7,233)
Other payables	**(389)**	(5,045)	**(389)**	(5,045)
	2,838	(8,554)	**2,838**	(8,554)

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**1,948**	333	**1,948**	333
Bill receivable	**28,613**	–	**28,613**	–
Other receivables	**480**	2,929	**480**	2,929
Prepayments	**–**	3,046	**–**	–
Other payables	**(11,067)**	(6,307)	**(11,067)**	(6,307)
	(19,974)	1	**(19,974)**	(3,045)

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

	The Company	
	2007	2006
	RMB'000	*RMB'000*
Other receivables	**–**	48,602
Advances from customers	**–**	(71,312)
Other payables	**(100,360)**	–
	(100,360)	(22,710)

38. COMPARATIVE FIGURES

The Group and the Company adopted the ASBE (2006) on 1 January 2007; relevant adjustments of comparative figures are disclosed in Note 4.

39. EXTRAORDINARY GAIN AND LOSS

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

	2007	2006
	RMB'000	*RMB'000*
Extraordinary gain and loss for the year:		
Net losses on disposal of long-term equity investment, fixed assets and intangible assets	**12,558**	1,161
Employee reduction expenses	**101,719**	10,404
Written back of employee reduction expenses over-accrued in prior year	**–**	(14,076)
Forfeited deposit	**–**	(14,950)
Exempt liabilities	**–**	(6,110)
Effect of change in tax rate on deferred tax	**(40,659)**	–
Other non-operating expenses (excluding losses on disposal of fixed assets)	**15,137**	16,619
Other non-operating income (excluding forfeited deposit, written back of employee reduction expenses over-accrued in prior year, exempt liabilities and gains on disposal of fixed assets and intangible assets)	**(7,932)**	(11,886)
Sub-total	**80,823**	(18,838)
Less: Tax effect on above items	**40,089**	(2,017)
Total	**40,734**	(16,821)
Attributable to:		
Equity shareholders of the Company	**40,757**	(16,544)
Minority interests	**(23)**	(277)

Note: The above figures for 2006 have been adjusted. These retrospective adjustments were made as a result of first-time adoption of ASBE (2006) in this year (detailed in Note 4).

40. EARNINGS PER SHARE AND RETURN ON NET ASSETS

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Public Shares, No. 9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2007 Revised), the Group's return on net assets and earnings per share are summarised as follows:

(1) The Group's earnings per share

		2007	2006
(a)	Earnings per share inclusive of extraordinary gain and loss *(in RMB)*	**0.004**	0.009
	– Profit attributable to the Company's ordinary equity shareholders *(RMB'000)*	**17,817**	35,980
	– Weighted average number of ordinary shares	**4,000,000,000**	4,000,000,000
(b)	Earnings per share net of extraordinary gain and loss *(in RMB)*	**0.015**	0.005
	– Profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders *(RMB'000)*	**58,574**	19,436
	– Weighted average number of the Company's ordinary shares	**4,000,000,000**	4,000,000,000

During the year ended 31 December 2007, there were no dilutive potential ordinary shares in existence.

(2) Return on net assets of the Group

		2007		2006	
		Fully diluted	Weighted average	Fully diluted	Weighted average
(a)	Return on net assets inclusive of extraordinary gain and loss	**0.214%**	**0.215%**	0.434%	0.435%
	– Net profit attributable to the Company's ordinary equity shareholders *(RMB'000)*	**17,817**	**17,817**	35,980	35,980
	– Year-end equity attributable to the Company's ordinary equity shareholders *(RMB'000)*	**8,308,677**	**8,308,677**	8,290,860	8,290,860
	– Weighted average of equity attributable to the Company's ordinary equity shareholders *(RMB'000)*	**8,299,769**	**8,299,769**	8,266,235	8,266,235
(b)	Return on net assets net of extraordinary gain and loss	**0.705%**	**0.706%**	0.234%	0.235%
	– Net profit deducted extraordinary gain and loss attributable to the Company's ordinary equity shareholders *(RMB'000)*	**58,574**	**58,574**	19,436	19,436
	– Year-end equity attributable to the Company's ordinary equity shareholders *(RMB'000)*	**8,308,677**	**8,308,677**	8,290,860	8,290,860
	– Weighted average of equity attributable to the Company's ordinary equity shareholders *(RMB'000)*	**8,299,769**	**8,299,769**	8,266,235	8,266,235

Supplementary information to the financial statements

1. Reconciliation statement of net profit in the pro forma income statement for 2006

In accordance with the requirements of "Questions and Answers on the Preparation of Information Disclosures of Companies Issuing Public Shares No.7 – the Preparation and Disclosure of Comparative Figures in the Transitional Period of the Adoption of ASBE (2006)" ("Q&A No.7") issued on 15 February 2007 by the CSRC, the Group is assumed to have fully adopted ASBE (2006) as of 1 January 2006, and on the basis of the assumption prepared pro forma income statement for 2006, the difference between net profit in the pro forma income statement and net profit in the income statement is set out as follows:

	2006 *RMB'000*
Net profit in the income statement	36,395
Adjustments assuming ASBE (2006) was effective from 1 January 2006:	–
Net profit in the pro forma income statement	36,395

2. Comparison of differences in consolidated shareholders' equity between the new and old PRC accounting standards in the reconciliation statements

According to the requirements of "Notice on the Preparation of Information Disclosures related to the Adoption of ASBE (2006) by Listed Companies and Companies Applying for Listing", the Group prepared the reconciliation statement of differences in consolidated shareholders' equity between the new and old PRC accounting standards as at 31 December 2006 and 1 January 2007 ("the reconciliation statement") on 30 March 2007. The reconciliation statement has been reviewed by KPMG Huazhen and disclosed in the 2006 annual report.

After the publication of the 2006 annual report, further interpretations on ASBE (2006), (including CAS Bulletin 1 and Opinions on the Implementation of ASBE (2006) from the Professional Working Group of the China Accounting Standards Committee) were issued in succession. The Group reviewed the shareholders' equity as at 1 January 2007 in accordance with these further interpretations during the preparation of the 2007 annual financial statements. There is no difference between the shareholders' equity after review and those disclosed in the previous reconciliation statement.

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

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

		The Group	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Net profit attributable to equity shareholders of the Company under ASBE (2006)		**17,817**	35,980
Adjustments:			
Reversal of amortisation of revaluation surplus of land use rights	*(a)*	**6,709**	5,280
Effects of the above adjustments on taxation		**(2,214)**	(792)
Total		**4,495**	4,488
Net profit attributable to equity shareholders of the Company under IFRSs		**22,312**	40,468

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

		The Group	
		As at 31 December 2007	As at 31 December 2006
	Note	***RMB'000***	*RMB'000*
Total equity attributable to equity shareholders of the Company under ASBE (2006)		**8,308,677**	8,338,512
Adjustments:			
Revaluation surplus of land use rights	*(a)*	**(187,771)**	(194,480)
Effects of the above adjustments on taxation		**46,943**	29,172
Total		**(140,828)**	(165,308)
Total equity attributable to equity shareholders of the Company under IFRSs		**8,167,849**	8,173,204

Note:

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

Other Corporate Information

FIRST REGISTRATION DATE AND PLACE OF THE COMPANY

The Company was registered on 31 December 1993. Its legal address is: Yizheng City, Jiangsu Province, PRC.

CHANGES TO THE REGISTRATION DATE, PLACE AND OTHER ITEMS DURING THE PERIOD UNDER REVIEW

There was no change in the items above during the reporting period.

Business registration number	**Taxation registration number**
Qi Gu Su Zong Zi No. 000344	321081625908297

ORGANISATION TRUSTED WITH NON-CIRCULATING SHARES OF THE COMPANY

China Securities Registration and Clearing Corporation Limited Shanghai Branch

PRINCIPAL UNDERWRITERS OF SHARE OFFERS

"H" Share "A" Share

– UBS Warburg (Asia) Limited
  Address: 52/F, Two International Finance Centre
  Central, Hong Kong

– Shenyin & Wanguo Securities Corporation Ltd.
  Address: 99 East Nanjing Road, Shanghai 8 Finance Street

AUDITORS

Domestic

– KPMG Huazhen
  Certified Public Accountants, Registered in the PRC
  8th Floor, Office Tower E2
  Oriental Plaza
  No. 7, East Chang An Avenue
  Beijing, the PRC

International

– KPMG
  Certified Public Accountants, Hong Kong
  8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

LEGAL ADVISOR

As to Hong Kong law

– Woo, Kwan, Lee & Lo
  Address: 26/F, Jardine House, 1 Connaught Place Central, Hong Kong

As to the PRC law

– Haiwen & Partners
  Address: Silver Tower, No. 2 North Road, East San Huan, Chaoyang District, Beijing

Other Corporate Information

SHARE REGISTRARS AND TRANSFER OFFICE

"H" Share

– Hong Kong Registrars Limited
  Address: Rooms 1901-5, 19th Floor, Hopewell Centre
  183 Queen's Roads East,
  Hong Kong

"A" Share

– China Securities Registration and Clearing Corporation Limited Shanghai Branch
  Address: 36th Floor, China Insurance Building,
  166 Lujiazui Eastern Road,
  Pudong New District, Shanghai

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Jiangsu Branch

Industrial and Commercial Bank of China, Jiangsu Branch, Xupu Sub-Branch

Bank of China, Jiangsu Branch

Bank of China, Jiangsu Branch, Yizheng Sub-branch

China Construction Bank, Jiangsu Branch, Yizheng Sub-Branch

CITIC Bank

Documents for inspection

The following documents are available for inspection at the legal address of the Company from 8 April 2007 (Tuesday) upon requests by related supervisory institute and shareholders in accordance with the Articles of Association of the Company and relevant regulations:

1. The original copy of the annual report signed by the Chairman and the General Manager of the Company;

2. The financial statements signed by the Chairman, General Manager, Chief Financial Officer and the Head of the Accounting Department;

3. The original reports of the auditors and the accounts prepared in accordance with the PRC Accounting Standards for Business Enterprises (2006) signed by the Certified Public Accountants, registered the PRC under the seal of KPMG Huazhen;

   The original reports of the auditors and the financial statements prepared in accordance with IFRSs signed by KPMG;

4. Documents and Announcements disclosed in the report period;

5. The Article of Associations of the Company;

6. Copies of the Annual Reports and Interim Reports from 1993 to 2007 and the First Quarter Report and the Third Quarter Report from 2002 to 2007 of the Company.

This annual report has been drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial statements prepared in accordance with IAS and the auditors' report thereon, the Chinese version is considered to be more accurate.